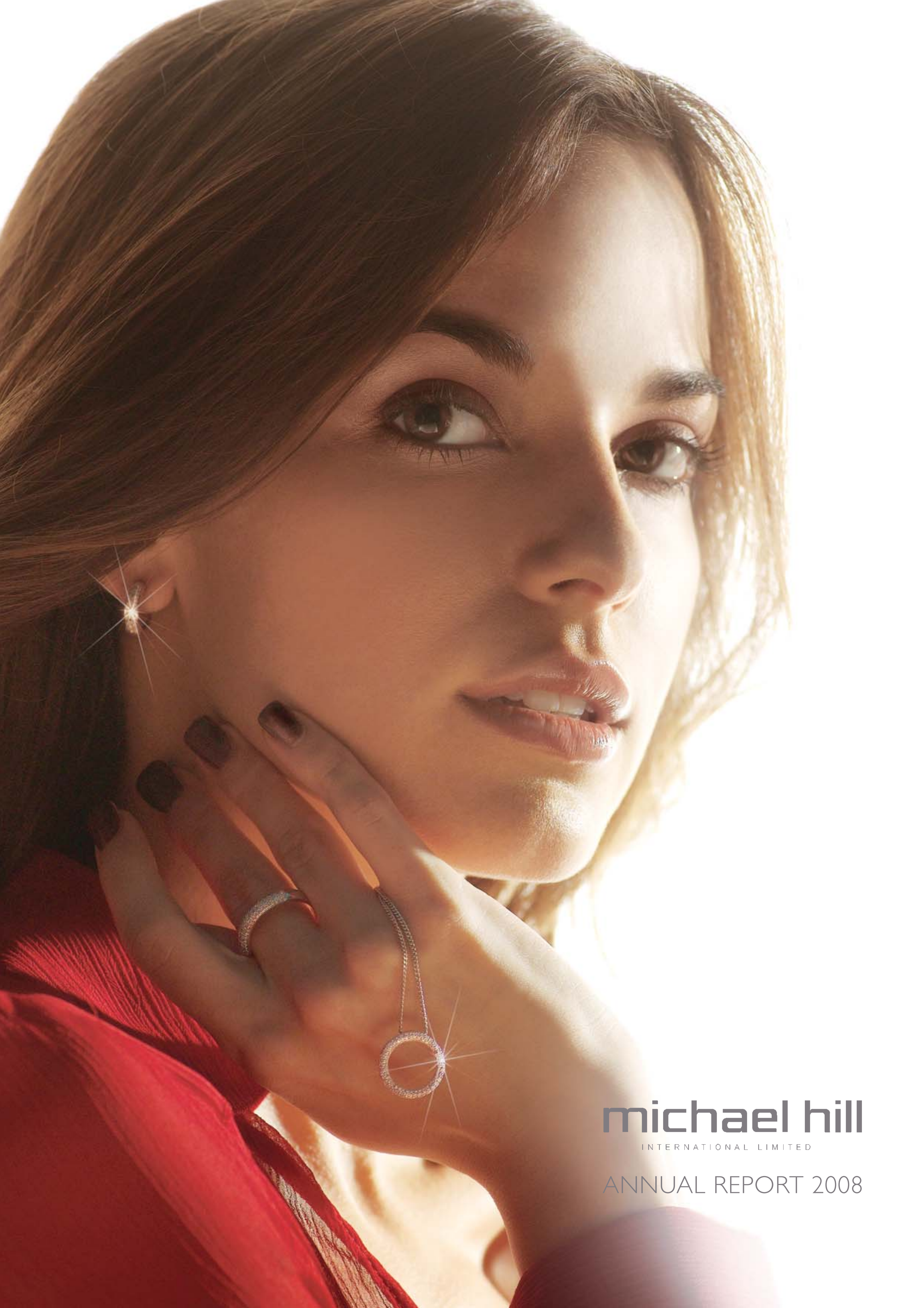


michael hill

INTERNATIONAL LIMITED

ANNUAL REPORT 2008

The directors are pleased to present the annual report of Michael Hill International Limited for the year 30 June 2008.
What's inside:

michael hill

COMPANY PROFILE

Michael Hill International owns and operates the brand "Michael Hill" and operates a retail jewellery chain of 210 stores in Australia, New Zealand and Canada as at 30 June 2008.

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

A unique retail jewellery formula that included dramatically different store designs, a product range devoted exclusively to jewellery and almost saturation levels of high impact advertising, elevated the company to national prominence.

The company grew steadily, expanding to 10 stores by 1987, the same year it listed on the New Zealand Stock Exchange. 1987 also saw expansion of Michael Hill into Australia with the opening of four stores in four weeks. In 2002, the Company expanded into Canada, opening its first stores in Vancouver. We now have a presence right across Canada in British Columbia, Alberta and Ontario.

Today the group employs over 2,000 full and part time staff in retailing, manufacturing and administration. It has approximately 3,100 shareholders and is proud of its consistently high returns to shareholders averaging over 28% in the past 5 years.

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

OUR VALUES & GUIDING PRINCIPLES

CUSTOMER SATISFACTION IS OUR PASSION, OUR LOVE AND OUR LIFE

- Care for every customer, as you would like to be cared for yourself.
- Exceed their expectations - whatever it takes!
- Remember it's not a sale. It's a celebration!
- We are all living advertisements for our brand. We create the magic.
- Create lifetime customers through the highest standards in customer service.
- Customer complaints are an opportunity to win a customer for life.

OUR PEOPLE MAKE OUR COMPANY

- Employ exceptional people for the gifts they bring us - energy, passion, willingness, intelligence and enthusiasm.
- Develop, coach and empower them to achieve their full potential.
- Create an environment that encourages excitement, fun, and open communication.
- Celebrate and reward success.
- Endeavour to promote from within.
- Our team's success ensures the company's success.

ENCOURAGE INNOVATION AND USE COMMON SENSE

- Push the limits - if there is a better way, find it!
- Keep our systems relevant and simple.
- Challenge bureaucracy and red tape.
- Innovation is often born from our mistakes and the lessons learned - have a go!
- Embrace change - it brings opportunities.
- Speak up! Constructive questioning of our methods, policies, and thinking is healthy.

TAKE OWNERSHIP OF YOUR BUSINESS

- Act and think as if this was your own business.
- Make decisions in the best interests of your customers and your team.
- Be responsible for the company's profitability and growth.
- Search for great ideas and share them across the company.
- Our systems provide the platform for successful growth so follow them strictly.

BE HONEST AND ETHICAL

- Always act honestly and ethically displaying the utmost integrity.
- Protect and enhance our brand's integrity.
- Show mutual respect in all dealings with people in and outside the company.
- Compete fairly and professionally at all times.

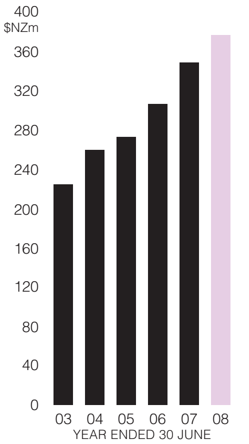
Our mission is to be the most people focused jeweller in the world

PERFORMANCE HIGHLIGHTS

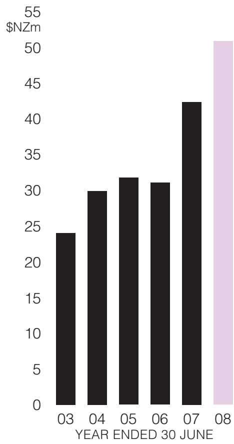
- Operating revenue of $376.664m up 8%
- EBIT of $42.277m up 20.5%
- Net profit after tax of $25.232m up 20.1%
- Return on average shareholder funds 30.9%
- West Canada operations continue to show bottom line growth
- 21 new stores opened during the twelve months
- Total of 210 stores open at 30 June 2008
- Fully imputed final dividend of 2.0 cents per share
- Total dividend for the year of 3.2 cents up 23%

michael hill

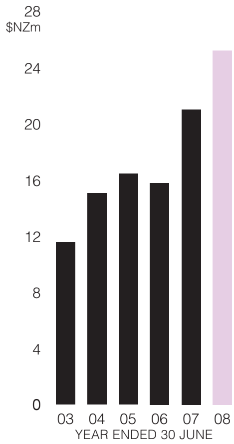
KEY FACTS



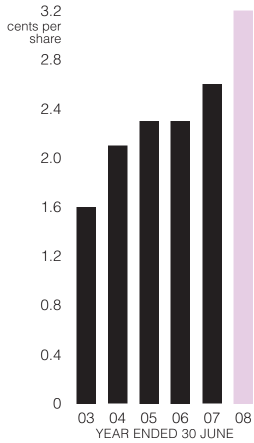
GROUP REVENUE UP 8%



PROFIT BEFORE DEPRECIATION, AMORTISATION AND INTEREST (EBITDA) UP 20%

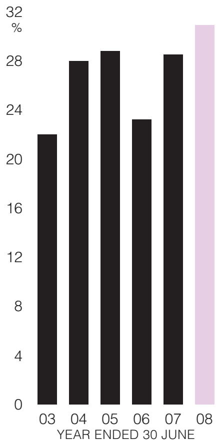


NET PROFIT AFTER TAX UP 20%

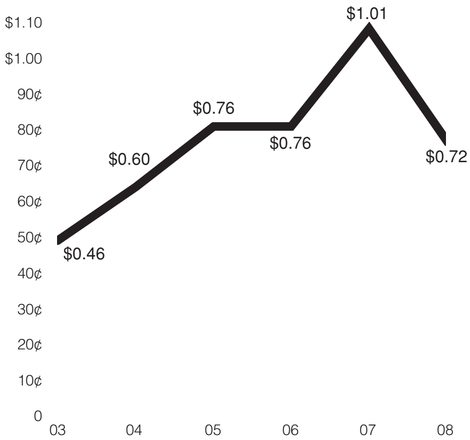


ORDINARY DIVIDEND UP 23%
10 for 1 share split Nov 2007 - prior years adjusted for comparative purposes

YEAR ENDED 30 JUNE, NZ$000's UNLESS STATED	2008	2007	% change
TRADING RESULTS			
Sales revenue	**376,664**	348,757	8.0%
Earnings before interest and tax	**42,277**	35,087	20.5%
Group surplus after tax	**25,232**	21,017	20.1%
- First half	**19,480**	15,331	27.1%
- Second half	**5,752**	5,686	1.2%
Net cash from operating activities	**7,763**	41,114	
FINANCIAL POSITION AT YEAR END			
Contributed equity 382,468,900 ordinary shares	**3,850**	4,752	-19.0%
Total equity	**91,001**	72,504	25.5%
Total assets	**205,035**	154,340	32.8%
Net debt	**64,234**	41,089	56.3%
Capital expenditure	**11,939**	10,854	10.0%
NUMBER OF STORES 30 JUNE			
New Zealand	**52**	50	
Australia	**136**	126	
Canada	**22**	16	
Total	**210**	192	
DISTRIBUTION TO SHAREHOLDERS			
Dividends - including final dividend			
- Per ordinary share	**3.2¢**	2.6¢	
- Times covered by surplus after tax	**2.06**	2.09	

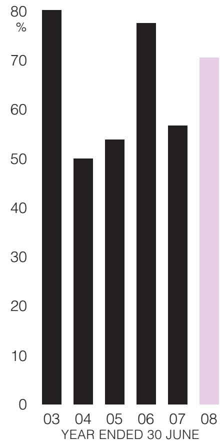


RETURN ON AVERAGE SHAREHOLDERS' FUNDS 30.9%

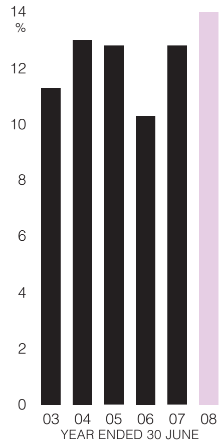


SHARE PRICE PERFORMANCE - LAST 6 YEARS

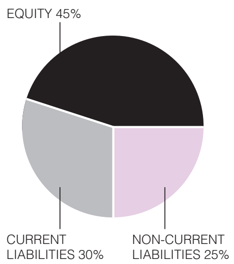
AS AT 30 JUNE NOTE: 10 for 1 share split November 2007. Prior years adjusted for comparative purposes.



GEARING RATIO 70.6%



RETURN ON AVERAGE ASSETS 14.0%



SOURCE OF FUNDING
30 JUNE 2008

YEAR ENDED 30 JUNE, NZ$000's UNLESS STATED	2008	2007
SHARE PRICE		
30 June	**$0.72**	$1.01
KEY DATA PER SHARE		
Basic earnings per share	**6.61¢**	5.39¢
Diluted earnings per share	**6.60¢**	5.35¢
KEY MEASURES		
Same store sales (in local currency)		
- New Zealand	**-2.5%**	4.6%
- Australia A$	**0.1%**	3.4%
- Canada C$	**-1.8%**	2.9%
Return on average shareholders' funds	**30.9%**	28.5%
Interest expense cover (times)	**8.4**	7.6
Equity ratio	**44.4%**	47.0%
Current ratio	**2.6:1**	1.9:1

CHAIRMAN'S REVIEW

Dear Shareholders,

Michael Hill International delivered a 20% increase in net after tax profit of $25.232m for the 2007/08 financial year. The Group's operating revenues of $376.664m were 8% up on the previous year. The profit achieved represents an excellent 30.9% return on average shareholders' funds, with our average return over the past 5 years being 28.1%.

The results achieved were very pleasing with the focus for the year being on managing our margins and control of all costs throughout the group.

We opened 21 new stores during the year (13 in Australia, 2 in New Zealand and 6 in Canada) and had 3 closures. The Group had 210 stores operating at 30 June 2008. In Canada we entered the Ontario market in the east and established a separate retail management team to manage this market. This has added some infrastructure costs to the Canadian operation in the short term but has been an effective way to establish ourselves in this large market. The stores in West Canada are now producing good profits and with our fine team of Canadian recruits trained the Michael Hill way, I see Canada as our next strong market.

The future for our company lies in creating "Michael Hill" as a brand and we have moved a long way forward over the past 18 months by creating our own "Michael Hill" watch brand. Sales of these watches are going well and they are proving to be eagerly sought after. Other products will shortly be branded "Michael Hill" and eventually a good proportion of the products we sell will be branded . Securing the NZ Golf Open on my private course "The Hills" in November 2007, helped to showcase Michael Hill watches to an estimated 222 million worldwide viewers. The Michael Hill violin competition which is mainly supported personally by me, but has company backing, is developing into one of the world's most prestigious violin competitions for young violinists. This also adds value and credibility to the brand.

Behind the scenes this year significant progress has been achieved in many areas that will transform the future for the Michael Hill brand. Most of these projects have not yet surfaced for you to be able to judge for yourselves the way we will project our brand to the world. There are changes on the way for our marketing, our store designs, and our in store stock displays. We are introducing new stock ranges and our internet web site is being upgraded to reflect our truly international status. Michael Hill is poised to become a truly international brand.

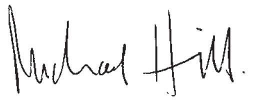
For many years the Company has been keeping a close eye on the huge American market. In August 2008, under the capable leadership of Mike Parsell and Phil Taylor, the Company purchased 17 stores in Illinois and Missouri in the United States out of the Chapter 11 bankruptcy of Whitehall Jewelers Holdings Inc. The 17 stores purchased were some of the best and most profitable sites of Whitehall's 365 stores and to have acquired 17 prime sites in Chicago and St Louis is a remarkable coup by Mike and Phil and a dream come true. The purchase price was approximately USD$5.0m (NZD$7.0m) and was attributed to the inventory purchased at an amount equal to 80 cents in the dollar on the cost price of the inventory held at the 17 locations on the settlement date. The acquisition includes Whitehall's rights with respect to store fitouts and leases for all 17 stores and all other trading assets at those locations. This grouping of stores will provide a sound launching pad to the very large US market and fits with our historical pattern of building a concentration of stores in new markets to leverage efficiencies in logistics, marketing and management supervision. The company does not expect these stores to achieve profitability for several years but the opportunity to enter the US market on such favourable terms was too good to overlook and enables us to put a stake in the ground in the USA.

The Group continues to have a sound balance sheet. Our equity ratio at 30 June 2008 was 44.4% compared to 47% in 2007 and a working capital ratio of 2.6 compared to 1.9 in 2007. On the 19th November 2007 the company performed a 10 for 1 share split.

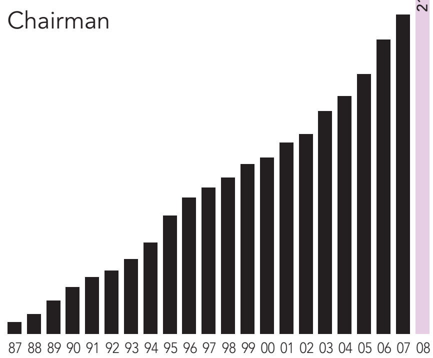
For shareholders, we have increased our dividend for the year by 23% to 3.2 cents (fully imputed and fully franked for Australian shareholders), with the final dividend of 2 cents being paid on the 13th October, 2008.

The Group will continue to expand as opportunities arise with its strategy of controlled profitable growth and the future looks very promising indeed.

Best wishes and I hope to see you at the Annual meeting on the 7th November.



Michael Hill
Chairman



YEAR ENDED 30 JUNE
TOTAL JEWELLERY STORES

Chief Executive Officer's
REVIEW OF OPERATIONS

A review of priorities from last year

Priorities		Results
To open a further twenty stores across all markets.	>	Twenty one new stores were opened during the year and three closed.
To increase our same store sales and EBIT particularly in Australia and Canada	>	Same store sales growth became difficult in the tight market we found ourselves in but we were able to lift the margin on the sales we did make and this contributed to good increases in same store EBIT in all markets..
To deliver an average return on shareholders funds in excess of 26%.	>	The result for 2007/08 represented a return on average shareholder funds of 30.9%.
To implement a merchandise planning system to improve replenishment of fast sellers.	>	We successfully implemented a merchandise planning system including a small team of merchandise planners during the year. This will enable the company to better predict the requirement of stock going forward to reduce out of stocks for fast selling lines.

OVERVIEW OF THE FINANCIAL YEAR'S RESULTS

The Group's net profit after tax of $25.232m was up on the previous year by 20.1%. This result was achieved by a continued focus on improving margins and controlling costs. In an environment where sales growth proved to be difficult, due to rising interest rates and fuel prices, this strategy paid dividends and allowed the company to grow the bottom line profit despite the difficult conditions. Overall the performance for the year was pleasing as previous year's initiatives including improved buying and supply chain processes, continued to deliver benefits.

Inventory levels surged somewhat during the year impacting on the balance sheet and reducing net operating cash flows. The lift in inventory levels was due to several reasons. There was an increase of $14 million on inventory levels due to the impact of the exchange rate on the conversion of Australian and Canadian stock levels. Secondly the addition of 17 new stores added approximately $8.5 million to last year's inventory levels. The remainder of the increased value was due to the company not reaching budgeted sales levels, especially over the high volume Christmas period, the higher gold price and the permanent increase in inventory levels on a comparative basis due to the company's increased focus on the diamond category. In the coming year we see an opportunity to finetune these levels as we gain more experience with our merchandise planning systems.

Our continued strategy to evolve Michael Hill into a brand is providing Michael Hill with increased differentiation within the industry. This has allowed the company to achieve a higher average sale and to improve margins at a time when much of the industry is still very price and discount focused. Our Michael Hill watch brand has transformed our watch category allowing us to respond to international trends, and develop our own designs, which are not comparable or available elsewhere. This has reinvigorated this category and boosted margins.

SEGMENT RESULTS

The segments reported on reflect the performance of the company's retail operations in each geographic segment and exclude non-core retail activities such as manufacturing, wholesale and distribution, as well as other general corporate expenses.

AUSTRALIA
OPERATING RESULTS

AUSTRALIA (NZ $000)	**2008**	**2007**	**2006**	**2005**	**2004**
Revenue	**247,136**	225,815	199,412	176,697	166,872
Operating surplus	**24,397**	20,723	15,677	17,707	16,530
As a % of revenue	**9.9%**	9.2%	7.9%	10.0%	9.9%
Average assets employed	**89,642**	101,173	94,107	69,843	65,414
Return on assets	**27.2%**	20.5%	16.7%	25.3%	25.3%
Number of stores	**136**	126	116	102	93
Exchange rate for profit translation	**0.85**	0.87	0.89	0.92	0.88

CEO'S REVIEW OF OPERATIONS cont.

AUSTRALIA

In Australian dollars, total sales increased 7.6% to AUD$212.095m and same store sales grew by 0.1%. The operating surplus increased 30.5% to AUD$21.053m and represented 9.9% of sales (2007 – 9.2% of sales).

Thirteen new stores were opened in Australia during the year and three stores were closed. The thirteen stores opened were:

- Winston Hills, New South Wales
- Rouse Hill, New South Wales
- Lake Macquarie, New South Wales
- Fig Tree Plaza, New South Wales
- Dapto Mall, New South Wales
- Forest Hill, Victoria
- Plenty Valley, Victoria
- Calamvale, Queensland
- Garden City, Queensland
- West Lakes, South Australia
- Gateways, Western Australia
- Armadale, Western Australia
- Joondalup, Western Australia

Three stores were closed during the period giving a total of 136 stores operating in Australia at 30 June 2008.

The company still has significant expansion opportunities left in Australia. Strong population growth particularly in states such as Queensland along with a resilient economy, and expanding infrastructure, seems to present an increasing number of opportunities every year. With this growth comes investment in new malls and the refurbishment and expansion of existing ones. After further assessment of the opportunities we feel confident that at least 170 Michael Hill stores can be operated in Australia which provides the group with excellent growth prospects in the future.

Our priority in the coming year is to continue working to lift "same store" sales while identifying and opening a further 12 locations across the country.

CANADA

OPERATING RESULTS

CANADA (NZ $000)	**2008**	**2007**	**2006**	**2005**	**2004**
Revenue	**32,131**	24,994	15,671	8,936	5,859
Operating surplus	**-44**	-5	-957	-882	-980
As a % of revenue	**-0.1%**	0%	-6.1%	-9.8%	-16.7%
Average assets employed	**15,967**	12,327	9,481	5,024	4,351
Return on assets	**NA**	NA	NA	NA	NA
Number of stores	**22**	16	12	7	4
Exchange rate for profit translation	**0.77**	0.78	0.78	0.87	0.84

Total Sales in Canadian dollars grew by 28.6% to C$24.855m and same store sales decreased by 1.8%.

There was an operating deficit of NZ$0.044m for the twelve months compared to a deficit of NZ$0.005m for the previous corresponding period. The company, however, entered the Ontario market in East Canada in July 2007 and established a separate retail management team to open this market. This has added some infrastructure and one off start up costs to the Canadian operation this year. The 5 stores opened in Ontario during the twelve months did not contribute fully for the period.

The existing West Canada operation experienced solid growth for the twelve months with an operating profit of C$0.890m compared to C$0.028m for the corresponding period last year, which was very pleasing. Many of the stores are now achieving our minimum return on investment criteria.

During the year we opened one new store in Alberta. This number was short of expectation, however, we have experienced a very tight real estate market in Canada over the past twelve months. Five new stores were opened in Ontario near and around Toronto. The six new stores opened during the period were:

- West Edmonton Mall, Alberta
- Fairview Park, Ontario
- Burlington Mall, Ontario
- Pen Centre, Ontario
- White Oaks, Ontario
- Masonville, Ontario

There were 22 stores open as at 30 June 2008.

NEW ZEALAND

OPERATING RESULTS NEW ZEALAND (NZ $000)	2008	2007	2006	2005	2004
Revenue	**97,019**	97,439	91,036	87,301	86,322
Operating surplus	**14,697**	13,570	10,180	10,044	9,879
As a % of revenue	**15.1%**	13.9%	11.1%	11.5%	11.4%
Average assets employed	**42,355**	43,564	37,332	33,945	33,682
Return on assets	**34.7%**	31.1%	27.3%	29.8%	29.3%
Number of stores	**52**	50	49	47	46

New Zealand's performance during the year was steady with total sales slightly down on last year. The operating surplus, however, was up 8.3% to $14.697m which was very pleasing. The surplus as a percentage of sales increased to 15.1% up from 13.9% last year. Two new stores opened in New Zealand during the year at Trentham, Upper Hutt and South City, Christchurch.

In 2008/09 our main objectives will be to continue to drive same store sales and improving the existing business. We plan to open one further store in NZ during the year.

ENTRY TO THE US MARKET

Recently the company announced the acquisition of 17 stores in the US from the Chapter 11 bankruptcy of Whitehall Jewelers Holdings Inc. One of the positive things about a tough period in any economic cycle is the opportunities that such a shake out creates. This case was no exception. The Whitehall acquisition was a rare chance for Michael Hill to enter the US market and assemble a small group of very prime locations, largely grouped in the greater Chicago and St Louis areas. The Whitehall model also had many similarities to Michael Hill, including the size of the stores, the fact they were typically located in malls on prime centre court locations, the size of the store teams, product mix etc. The opportunity also allowed us to assess the performance of an existing jewellery operator in these locations, thereby reducing the risk somewhat in choosing the sites. For an overall purchase price of 80% of the closing inventory value, this will provide the opportunity to test Michael Hill in the US market with relatively low risk.

We expect there will be some costs involved in establishing these stores under the Michael Hill name and given the fact we are unknown as a brand in the US, combined with the economic climate, we may incur losses for several years. However the positive side is we could not ask for a better portfolio of stores to trial our US business with.

OUR PRIORITIES

Our main priorities for the 2008-09 financial year are:

- To deliver a return on average shareholders funds in excess of 26%
- To open a further 25 stores across the established three markets
- To drive increases in same store sales and EBIT performance
- To successfully enter the US market via the recent acquisition of 17 stores.

THANKS TO AN INCREDIBLE TEAM

With a simple focus and a huge amount of dedication and hard work our team has delivered a fantastic result this year.

I would like to acknowledge each and every one of them for sharing our vision and making it a reality. I would also like to congratulate them all on an amazing effort this year and for their contribution to the continued success of the company.

Mike Parsell
Chief Executive Officer

FINANCIAL REVIEW - discussions & analysis

FINANCIAL PERFORMANCE

The Group's surplus after tax was $25.232m a 20.1% increase on last year's surplus. Total operating revenue increased from $350.184m to $377.554m, a 7.8% increase.

The New Zealand retail segment achieved a same store sales decrease of 2.5% and an increased segment result of NZ$14.697m up from NZ$13.570m the previous year.

The Australian retail segment achieved same store sales growth of 0.1% in Australian dollars and a segment result of NZ$24.397m compared to NZ$20.723m the previous year.

The Canadian same store sales decreased 1.8% for the year in Canadian dollars. Total sales increased 28.6% to NZ$32.131m, with the operating loss in Canada increasing from NZ$5,000 to NZ$44,000. However, the company entered the Ontario market in East Canada in July 2007 and the 5 stores opened in Ontario during the twelve months did not contribute fully for the period. The existing West Canada operation experienced solid growth for the twelve months with an operating profit of C$0.890m compared to C$0.019m for the corresponding period last year.

The Directors are pleased with the result for the group which was achieved with a focus on margin management and cost control.

CASH FLOW

The Group has reported net operating cash flows of $7.763m for the twelve months, compared to $41.114m for the previous year. The reduced surplus from operations, compared to last year, is a direct result of increased investment in inventory both for new stores and to fund extended diamond ranges consistent with our brand strategy.

Net cash outflow relating to investing activities was up by $0.777m to $11.638m.

Net cash inflow from financing activities was $4.610m compared to a net outflow of $25.413m last year. The increased net inflow was due to the company increasing borrowings with the bank for expansion and increased inventory ranges.

BALANCE SHEET

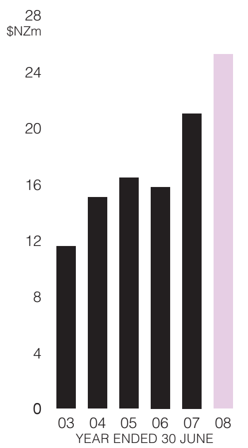
Net assets increased from $72.504m at the end of the previous year to $91.001m. Long term borrowings increased to $50.927m from $18.396m last year. The equity ratio at year end was 44.4% compared to 47.0% last year. Total assets increased from $154.340m to $205.035m due principally to inventories increasing by $42.116m. The working capital ratio increased from 1.9:1 last year to 2.6:1 at 30 June 2008.

EVENTS AFTER BALANCE DATE

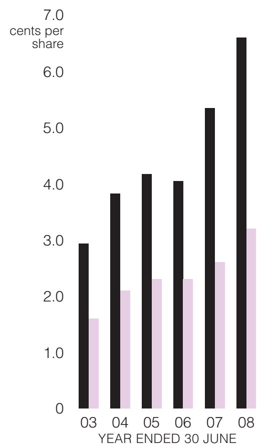
There were no events after balance sheet date requiring disclosure.

SHAREHOLDERS RETURN

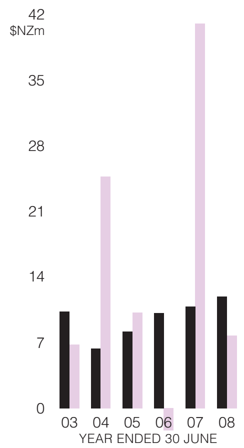
- Declared dividends total 3.2 cents per share up from 2.6 cents in 2006/07.
- Shares traded between a high of $1.22 and a low of $0.72 ending the year at $0.72.
- Return on average equity was 30.9% compared to 28.5% last year.
- Return on average total assets was 14.0% compared to 12.8% last year.



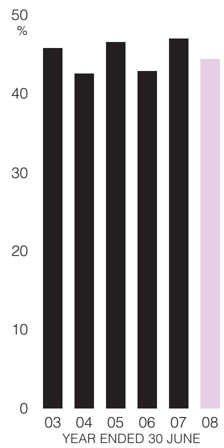
PROFIT BEFORE ABNORMALS AFTER TAX UP 20%



EARNINGS AND ORDINARY DIVIDENDS
■ EARNINGS ■ DIVIDENDS



CAPITAL EXPENDITURE AND NET OPERATING CASH FLOW
■ CAPEX ■ CASH FLOW



EQUITY RATIO 44.4%

2005 to 2008 figures are presented under NZIFRS and are not directly comparable to prior periods as these are under previous NZGAAP.

TREND STATEMENT

FINANCIAL PERFORMANCE	NZIFRS 2008 $000	NZIFRS 2007 $000	NZIFRS 2006 $000	NZIFRS restated 2005 $000	NZIFRS restated 2004 $000	GAAP 2004 $000	GAAP 2003 $000
Group revenue	**376,664**	348,757	306,374	273,151	259,777	259,777	224,802
Profit before depreciation, amortisation and interest (EBITDA)	**50,851**	42,351	31,059	31,734	29,892	29,892	24,022
Depreciation and amortisation	**8,574**	7,264	6,714	5,836	6,100	6,100	5,165
Profit before interest and tax (EBIT)	**42,277**	35,087	24,345	25,898	23,792	23,792	18,857
Net interest	**4,789**	3,943	1,834	1,632	1,729	1,729	2,220
Profit before taxation	**37,488**	31,144	22,511	24,266	22,063	22,063	16,637
Income tax expense	**12,256**	10,127	6,737	7,824	7,003	7,003	5,067
Operating profit after tax attributable to members	**25,232**	21,017	15,774	16,442	15,060	15,060	11,570
Net operating cash flow	**7,763**	41,114	(2,360)	10,221	24,779	24,779	6,789
Ordinary dividends per share paid out	**10,668**	9,427	8,926	8,796	6,944	6,944	14,266*

* includes a special dividend of $7,710

FINANCIAL POSITION	2008 $000	2007 $000	2006 $000	2005 $000	2004 $000	2004 $000	2003 $000
Cash	**10,013**	8,426	4,088	7,234	14,017	14,017	2,294
Other current assets	**151,025**	108,023	133,582	95,556	84,176	84,973	83,161
Total current assets	**161,038**	116,449	137,670	102,790	98,193	98,990	85,455
Other non-current assets	**35,291**	28,748	27,846	21,470	19,490	21,394	21,877
Deferred tax assets	**7,822**	7,938	7,285	5,087	4,117	2,225	1,598
Total tangible assets	**204,151**	153,135	172,801	129,347	121,800	122,609	108,930
Intangible assets	**884**	1,205	1,537	1,799	1,470	222	298
Total assets	**205,035**	154,340	174,338	131,146	123,270	122,831	109,228
Current interest bearing debt	**23,320**	31,119	-	-	-	-	172
Other liabilities	**38,900**	31,374	36,441	28,975	28,586	23,133	15,530
Total current liabilities	**62,220**	62,493	36,441	28,975	28,586	23,133	15,702
Term borrowings	**50,927**	18,396	62,134	40,163	40,604	40,604	42,299
Other long term liabilities	**887**	947	1,004	928	915	1,487	1,179
Total liabilities	**114,034**	81,836	99,579	70,066	70,105	65,224	59,180
Net assets	**91,001**	72,504	74,759	61,080	53,165	57,607	50,048
Reserves and retained profits	**87,151**	67,752	60,901	49,505	42,031	50,124	43,036
Paid up capital	**4,141**	5,129	14,235	12,031	11,729	8,078	7,712
Treasury stock	**(291)**	(377)	(377)	(456)	(595)	(595)	(700)
Total shareholder equity	**91,001**	72,504	74,759	61,080	53,165	57,607	50,048

Note that the company performed a share split of 10:1 in the 2008 financial year

Per ordinary share							
Basic earnings per share before abnormals	**6.61¢**	53.9¢	40.8¢	42.7¢	39.1¢	39.1¢	26.6¢
Basic earnings per share after abnormals	**6.61¢**	53.9¢	40.8¢	42.7¢	39.1¢	39.1¢	30.0¢
Diluted earnings per share	**6.60¢**	53.5¢	40.5¢	41.7¢	38.2¢	38.2¢	29.3¢
Dividends declared per share - interim	**1.2¢**	10¢	9¢	9¢	8¢	8¢	7¢
- final	**2.0¢**	16¢	14¢	14¢	13¢	13¢	10¢
Net Tangible asset backing	**$ 0.24**	$1.86	$1.87	$1.54	$1.49	$1.49	$1.29

ANALYTICAL INFORMATION	2008	2007	2006	2005	2004	2004	2003
EBITDA to sales	**13.5%**	12.1%	10.1%	11.6%	11.5%	11.5%	10.7%
EBIT to sales	**11.2%**	10.1%	7.9%	9.5%	9.2%	9.2%	8.4%
Profit after tax to sales	**6.7%**	6.0%	5.1%	6.0%	5.8%	5.8%	5.1%
EBIT to total assets	**20.6%**	22.7%	14.0%	19.7%	19.3%	19.4%	17.3%
Return on average shareholders funds	**30.9%**	28.5%	23.2%	28.8%	29.2%	28.0%	22.0%
Current assets to current liabilities	**2.6**	1.9	3.8	3.5	3.4	4.3	5.4
EBIT interest expense cover	**8.4**	7.6	7.4	9.7	8.4	13.8	8.5
Effective tax rate	**32.7%**	32.5%	29.9%	32.2%	31.7%	31.7%	30.5%
Gearing							
Net borrowings to equity	**70.6%**	56.7%	77.6%	53.9%	50.0%	46.2%	80.3%
Equity ratio	**44.4%**	47.0%	42.9%	46.6%	42.6%	-	45.8%
Other							
Shares issued at year end excl. treasury stock	**382,468,900**	38,276,070	39,232,946	38,617,164	38,537,512	38,537,512	38,419,162
Treasury and buy back stock at year end	**584,290**	1,032,530	75,654	91,436	121,088	121,088	139,438
Jewellery stores at year end	**210**	192	177	156	143	143	134
Exchange rate for translating Australian results	**0.85**	0.87	0.89	0.92	0.88	0.88	0.89
Exchange rate for translating Canadian results	**0.77**	0.78	0.78	0.87	0.84	0.84	0.80
Number of stores - New Zealand	**52**	50	49	47	46	46	46
- Australia	**136**	126	116	102	93	93	84
- Canada	**22**	16	12	7	4	4	4
Total number of stores	**210**	192	177	156	143	143	134

michael hill

Our management team

THE SUPPORT CENTRE SENIOR MANAGEMENT TEAM

Mike Parsell	Chief Executive Officer
Phil Taylor	Chief Financial Officer
Adrian Murphy	Group Supply Chain Executive
Ross McKinnon	Chief Information Officer
Sue Sylvester	Group Advertising Manager
Stewart Silk	Retail Human Resources Manager
Karen Jacklin	Human Resources Manager Support Centre
Tony Lum	Training & Communications Manager
Joseph Ko	Merchandise Planning Manager
Galina Hirtzel	Merchandise Buyer
Cliff Mason	Group Distribution Manager
Joe De Aizpurua	Group Manufacturing Manager
Lindsay Corfield	IT Development Projects Manager
Lisa Walton	Applications Support Team Leader
Dan Gilham	IT Delivery Manager
Tony Springford	IT Support Manager New Zealand
Tanya Cain	Group Finance Manager
Paul Little	Group Financial Controller
Andrew Sparrow	Senior Financial Accountant
Kandi Govender	Group Internal Audit Manager
Tom Lima	New Stores / Refit Manager

THE AUSTRALIAN RETAIL MANAGEMENT TEAM

Kevin Stock	Retail General Manager
Ahmad Karnib	New South Wales Regional Manager
Darren Hibberd	New South Wales Regional Manager
Leah Hurst	New South Wales Regional Manager
Jason Andrews	Queensland Regional Manager
Suean Buckley	Queensland Regional Manager
Patrick Sauter	Victoria West / Tasmania Regional Manager
Andy Twist	Victoria East Regional Manager
James Elliot	Western Australia Regional Manager
Greg Smith	South Australia Regional Manager

THE NEW ZEALAND RETAIL MANAGEMENT TEAM

Darcy Harkins	Retail General Manager
Shane Dance	Northern Regional Manager
Angela Mana-Tupara	Central Regional Manager
Nadine Cameron	Southern Regional Manager

THE CANADIAN RETAIL MANAGEMENT TEAM

Brenda Watson	Retail General Manager West Canada
Ifti Sahib	Regional Manager British Columbia
Tony Stark	Regional Manager British Columbia / Alberta
Brett Halliday	Retail General Manager East Canada

Community spirit

At Michael Hill we acknowledge our responsibility to give back to the community who have continued to support our business over the years. We recognise that every little bit counts and are genuinely committed to assisting worthy causes that aim to fight for a brighter future for those around us.

THE NEW ZEALAND OPEN TEES OFF IN QUEENSTOWN

In November last year, the man behind the brand, Michael Hill himself, resurrected the New Zealand Open with the tournament teeing off in his own backyard in Queenstown – the first Open to be held at a private course. The event definitely showcased the best of New Zealand and attracted crowds of 37,000 from all around the world. The event will be held at The Hills in Queenstown for the next two years and will continue to strive to put New Zealand on the map as a premium golfing destination.

EXCITING TIMES TO COME

The next Michael Hill International Violin Competition will be held in May/June 2009. The competition aims to recognise excellence and musical artistry attracting young aspiring violinists from all around the world. Applications open online from November 2008.

PINK IS JUST WHO WE ARE

Pink is not only our esteemed corporate colour but one which we proudly support each year during the month of October for Breast Cancer Week. Last year we produced an exclusive bracelet with $20 from each sale donated to the Breast Cancer Foundation. Over the last three years we have donated in excess of NZ$90,000.

A LITTLE HOPE GOES A LONG WAY

The Leukaemia Foundation is very close to the hearts of Michael Hill employees. Having lost one of our team members to Leukaemia, Michael Hill began a 'hope' campaign in honour of the late Paul Williams which has successfully run for the last 3 years. This year Michael Hill produced a limited edition bracelet with proceeds in excess of NZ$25,000 donated to the Leukaemia Foundation.

CORPORATE GOVERNANCE

The Board acknowledges the need for and continued maintenance of the highest standards of corporate governance practice and ethical conduct by all Directors and employees of Michael Hill International Limited and its subsidiaries.

The Board endorses the overall principles embodied in the New Zealand Institute of Directors' "Code of Proper Practice for Directors". The Board believes that its corporate governance policies and procedures do not materially differ from those detailed in the NZX Best Practice Code. There have been no changes made to the Corporate Governance practices since last year.

THE BOARD IS ACCOUNTABLE FOR THE PERFORMANCE OF THE GROUP

The Board is responsible to shareholders for charting the direction of the Group by participation in the setting of objectives, strategy and key policy areas. It is then responsible for monitoring management's running of the business to ensure implementation is in accordance with the agreed framework. The Board delegates the conduct of the day-to-day affairs of the Company to the Chief Executive Officer within this framework.

The workings of the Board and its code of conduct are governed by the Company's constitution and a Board Operations Manual, committed to by all Directors. This manual sets out all the functions and operating procedures of the Board, including charters for each sub-committee. The Board Operations Manual also clearly sets out those matters that only the Board can make decisions on. These include dividend payments, solvency certificates, raising new capital, major borrowings, approval of the annual accounts, provision of information to shareholders, major capital expenditure, and acquisitions.

Each year, the company produces a five year plan and an operating budget which are both reviewed and approved by the Board. Financial statements are prepared monthly and reviewed by the Board progressively through the year to monitor management's performance against the budget and five year plan.

BOARD MEMBERSHIP

The Constitution currently sets the size of the Board at a minimum of three and a maximum of eight and at least two Directors must be resident in New Zealand. The Board currently comprises seven Directors, comprising an Executive Chairman, a Chief Executive Officer, and five non-executive Directors. The Board met on five occasions in the financial year ended 30 June 2008. Profiles of the current Directors appear on page 23 of this Report. Under the Company's constitution, and the NZX Listing rules, one third of all Directors must retire every year, but can be re-elected at an annual meeting if eligible. Newly appointed Directors must seek re-election at the first annual meeting of shareholders following their appointment.

The Company has no requirement for Directors to hold shares in the company but actively encourages them to do so and all current Directors have a substantial holding in the company. Directors adhere to the Company's insider trading policy at all times.

INDEPENDENT DIRECTORS

Under the NZX Listing rules, the Company is obliged to have at least two independent directors. An independent Director has been defined in the NZX Listing rules as a "Director who is not an executive of the Issuer and who has no Disqualifying Relationship."

A Disqualifying Relationship means any direct or indirect interest or relationship that could reasonably influence, in a material way, the Director's decisions in relation to the Issuer.

The Company has determined that Gary Gwynne and Murray Doyle are independent Directors under the NZX Listing rules.

DIRECTORS' SHAREHOLDINGS - SEE PAGE 59

DIRECTORS' MEETINGS

The number of meetings held throughout the past year is detailed on page 16.

The agenda for meetings is prepared by the Company Secretary in conjunction with the Chairman and the Chief Executive Officer. Any member of the Board may request the addition of an item to the agenda. Board papers are circulated to Directors a week in advance of meetings.

The following table sets out the Board and sub-committee meetings attended by Directors during the course of the financial year.

CORPORATE GOVERNANCE cont.

	Board of Directors		Audit Committee		Remuneration Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
R.M. Hill	5	5			1	1
M.R. Parsell	5	5				
L.W. Peters	5	5	2	2	1	1
G.J. Gwynne	5	5	2	2	1	1
M.R. Doyle	5	5	2	2	1	1
A.C. Hill	5	5			1	1
E.J. Hill	5	5				

THE WORK OF DIRECTORS

Non-executive Directors normally spend around 22 days per year on board and sub-committee meetings. The length of meetings varies between one to two days. Board meetings are held in different locations in Australia and New Zealand.

BOARD REVIEW

During the course of the last financial year, the Chairman reviewed the performance of the Directors and the workings of the Board. There were no changes made to any of the Board's processes as a result of this review.

CHIEF EXECUTIVE OFFICE PERFORMANCE REVIEW

The Board regularly reviews the performance of the Chief Executive Officer. This evaluation is based on the performance of the business, the accomplishment of strategic and operational objectives and other non quantitative measures.

BOARD SUB-COMMITTEES

The Board has established a number of sub-committees to guide and assist the Board with overseeing certain aspects of corporate governance – the audit process, determination of compensation issues and the structure of the Board itself. Each sub-committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice. The provision of such advice, if required, would be arranged in consultation with the Chairman. In circumstances where a Director was to obtain separate advice from that obtained on behalf of the Group, that advice would normally be provided to all Directors.

AUDIT SUB-COMMITTEE

The Audit sub-committee, which is chaired by Murray Doyle and consists of Messrs Doyle , Peters and Gwynne , met twice during the year. The function of the Audit subcommittee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993, regarding management's accountancy practices, policies and controls relative to the Group's financial position and to review and make appropriate inquiry into the audits of the Group's financial statements by both internal and external auditors. This responsibility includes advising on the appointment of the external auditor and reviewing the scope and quality of the audit. The audit sub-committee has the responsibility of monitoring the Group's Risk Management practices and procedures to ensure that policies and processes exist to effectively identify, manage and monitor principle business risks. The Group's auditors, both internal and external, along with other relevant senior executives, attend all meetings and may discuss any matters in connection to audits, the Group's risk and control environment or any other matters relating to the Group's financial and non-financial affairs.

This committee also approves any non audit work carried out by the Company's auditors, and ensures that the lead partner in the audit firm is rotated every five years. The committee will also approve all major accounting policy changes.

At least once a year, the Chairman and non-executive Directors on this Committee meet with the external auditors privately without the presence of Company executives.

REMUNERATION SUB-COMMITTEE

This sub-committee, chaired by Wayne Peters, comprises all Directors except Mike Parsell. The function of the Remuneration sub-committee is to determine the Chief Executive's and Senior Management's remuneration. This role also includes responsibility for share option schemes, incentive performance packages, and fringe benefit policies.

The sub-committee also advises on proposals for significant company wide remuneration policies and programs. In carrying out this role, the sub-committee operates independently of Senior Management of the Company, and obtains independent advice on the appropriateness of the remuneration packages. The committee met once during the year.

This sub-committee also has the responsibility to review the performance of the Chief Executive Officer on an annual basis.

The committee has continued to structure Senior Management bonuses around a return on capital employed basis, to emphasise efficient use of capital.

NOMINATIONS SUB-COMMITTEE

This sub-committee, chaired by Michael Hill, consists of the non-executive Directors and Michael Hill. The function of the sub-committee is to make recommendations to the Board regarding the most appropriate Board structure. It also advises on the appointment of additional Directors. Board membership is reviewed periodically to ensure the Board has an appropriate mix of qualifications, skills and experience. External advisors may be used to assist this process.

Any person who is to be considered as a Director of the Company must attend three Board meetings in the capacity of a Consultant before being eligible for appointment as a Director.

SHARE TRADING BY DIRECTORS

The Directors named below have disclosed to the Board under Section 148 of the Companies Act 1993, particulars of the following acquisitions or dispositions of relevant interests in the ordinary shares of the company during the year. The relevant interest acquired or disposed of includes beneficial ownership.

	No. of shares acquired or (disposed of)	Consideration paid or (received)	Date of acquisition or (disposal)
R.M/C.A Hill	(321,210)	($3,051,495)	(27/9/07)*
	321,210	$3,051,495	27/9/07*
L.W.Peters	(12,366)	($134,694)	(12-16/10/07)
	(12,765)	($134,273)	(17-23/10/07)
	(41,150)	($432,075)	(24-26/10/07)
	(5,173)	($54,336)	(31-1/11/07)
	(41,641)	($437,231)	(7-12/11/07)
	(96,191)	($1,010,006)	(14-16/11/07)
	(62,422)	($66,443)	(21-26/11/07)
	(241,218)	($253,279)	(27-29/11/07)
G.J Gwyyne	(5,800)	($60,900)	(14/11/07)
E.J.Hill	(1,661)	($15,779)	(27/9/07)*
	1,000,000	$615,000	7/4/08**

* re-organisation of the Hill family holdings to ensure ongoing compliance with the Takeovers code

** exercise of options

NON-EXECUTIVE DIRECTORS' FEES

Fees for non-executive Directors are based on the nature of their work and their responsibilities. The Company is now a truly global company with 75% of the Group's stores in Australia and Canada. Shareholders at the Annual Meeting in November 2007 approved a maximum amount of $395,000 to be paid to Directors. Each New Zealand resident Director is currently paid $75,000 per annum and our Australian resident Director A$75,000 per annum.

No equity incentives are offered to non-executive Directors. Under the Company's constitution , shareholders are required to approve all retirement benefits for directors other than for directors who were in office on or before 1 May 2004 and who have continued to hold office. It is not the intention to pay any such retirement allowances.

SHARE PURCHASE SCHEME

The Company has a Share Purchase Scheme for Management in operation. The scheme was designed to encourage Store Managers, Regional Managers and other senior employees of the Company to purchase shares in the Company. In order to provide a pool of shares for eligible employees to purchase, the Company from time to time will buy Michael Hill International shares on the New Zealand Stock Exchange.

On the 28th September 2007, the Company sold 17,225 shares to 13 employees of the Company. The rules of the scheme provide for the Company to on sell shares to purchasing employees at a 10% discount to the weighted average price for the ordinary shares during the 10 working day period ending 2 working days immediately prior to the date on which the Company offers shares to the employees.

The discount is deemed to be "financial assistance" under the Companies Act 1993.The total discount relating to the issue of the shares was $37,000. After taking the discount into account, the purchasing employees paid $149,000 for the shares which was equivalent to an average acquisition price of $8.65 per share ($0.865 following the 10 for 1 share split).

CORPORATE GOVERNANCE cont.

The Trustees of the scheme hold the shares for a restrictive period of one year, which is to promote the concept of encouraging long-term investing in the Company. The company holds a further 584,290 shares which are held as "Treasury Stock" and will be used for the next issue of shares under the scheme expected to be in October/ November 2008.

SHARE OPTIONS

During the year, a total of 4,750,000 options were issued to executives of the company including 2,000,000 options to Mike Parsell which were approved at the Annual meeting in November 2007.

During the year a total of 2,000,000 options were exercised. There are 4,750,000 options outstanding to employees as at 30 June 2008.

Further information on options outstanding to employees are included in note 26 to the Financial Statements on page 52.

COMMUNICATION WITH SHAREHOLDERS

Michael Hill International places high importance on communication with shareholders.

A half year and annual report is published each year and posted on the MHI website.

Announcements to the New Zealand Stock Exchange and the media are also posted on the website as are copies of presentations for Analysts which are done once a year in conjunction with the release of the annual results for the year.

The Company Secretary takes primary responsibility for communications with the New Zealand Stock Exchange in relation to listing rule obligations and disclosure obligations.

Shareholders may raise matters for discussion at Annual meetings and have the ultimate control in corporate governance by voting Directors on or off the Board.

CONTINUOUS DISCLOSURE POLICY

The Board has adopted the following procedures to ensure its compliance with the NZX continuous disclosure rules:

1. At each Board meeting, a standard agenda item is now considered - " Does the Company have anything to disclose?" The Board considers the information in its possession and decides appropriately whether any information needs to be disclosed to the market.
2. Between Board meetings, management will bring to the attention of the Directors any information they believe should be disclosed to the market for their consideration.
3. The Company now discloses revenue figures for the Group to the market for the first and third quarters in advance of the earnings announcement. For the second and fourth quarters, sales figures are released with the earnings results. In the all important Christmas trading period, an announcement on sales alone for the second quarter without reference to profitability could result in misinterpretation by the market. The Board considers it sensible to combine the sales and earnings release for the second and fourth quarters in order that the market understands how sales translated into earnings.
4. In the 12 months ended June 2008, the Company has made the following disclosures to NZX under the continuous disclosure rules:

17 August 2007	Preliminary full year revenue and profit announcement to NZX for 12 months to 30 June 2007
24 August 2007	Announcement to NZX re Director nomination opening/ closing dates.
30 August 2007	Notification to NZX that share buyback program completed.
25 September 2007	Annual Report/notice of Meeting released to NZX.
11 October 2007	Release of revenue figures for 3 months ended 30 September 2007.
9 November 2007	Notice to NZX of resolutions passed at Annual Meeting on 8 November 2007 and notification of Independent Directors.
20 November 2007	Notification to NZX re 10 for 1 share split.
5 February 2008	6 months Profit Guidance to 31 December 2007 released to NZX.
22 February 2008	Preliminary half year profit announcement to NZX and interim dividend announcement.
13 March 2008	Half year report released to NZX and shareholders.
4 April 2008	Notification to NZX relating to exercise of 1,000,000 options by Emma Hill.
11 April 2008	Release of sales figures for 9 months ended 31 March 2008.
27 June 2008	Notification to NZX relating to exercise of 1,000,000 options by a senior executive.

The Company believes it has complied with the NZX Continuous disclosure rules.

EXTERNAL AUDIT INDEPENDENCE POLICY

The Group has adopted the following policy to ensure that audit independence is maintained, both in fact and appearance, such that Michael Hill International's external financial reporting is viewed as being highly reliable and credible.

The policy covers the following areas:

- Provision of non audit services by the external auditors
- Fees and billings by the auditors
- Hiring of staff from the audit firm.

PROVISION OF NON AUDIT SERVICES BY THE EXTERNAL AUDITING FIRM

Our external auditing firm should not undertake any role not permitted under IFAC (International Federation of Accountants) regulations regarding independence of auditors. Under the IFAC guidelines, the table below sets out the type of non audit work that Michael Hill International will allow its external auditing firm to perform.

BOOKKEEPING
Prohibited, other than in emergency situations. Managerial decision making prohibited.

VALUATIONS
Prohibited.

TAX SERVICES
Permitted, as not seen to threaten independence.

PROVISION OF IT SYSTEMS
Design and implementation of financial IT systems prohibited.

STAFF SECONDMENT FROM AUDITORS
These are permitted with safeguards. No management decision making. Signing agreements or discretionary authority to commit MHI is not allowed.

LITIGATION SUPPORT SERVICES
Permitted with safeguards.

LEGAL SERVICES
Permitted where immaterial to the financial statements.

EXECUTIVE SEARCH AND SELECTION
Permitted with safeguards. Making selection for MHI prohibited.

CORPORATE FINANCE
Permitted with safeguards. Promoting, dealing in or underwriting MHI Securities prohibited.

The safeguards put in place will be specific to the circumstances of each case. The general rule to be applied is whether an independent third party would consider the safeguards reasonable.

FEES AND BILLINGS

All audit and non audit fees are reported to the Audit committee annually. Non audit fees greater than $25,000 must be reviewed by the Chief Financial Officer and reported to the Audit committee for approval.

For the 2007/08 financial year audit fees amounting to $292,000 and fees for other professional services amounting to $1,150,000 were paid to PricewaterhouseCoopers.

The comparatively high level of non audit fees for 2007/08 paid to PricewaterhouseCoopers compared to the audit fees was considered by the Audit subcommittee to ensure that the "independence" aspect of the audit process had been maintained. The non audit fees for 2007/08 are unusually high due to a corporate planning project scheduled to be completed in the 2008/09 financial year. PwC was engaged to undertake the work involved as it was best placed to leverage their existing and extensive knowledge of Michael Hill International to get the best outcome for MHI and its shareholders. PwC has appropriate arrangements in place to avoid potential audit conflict and has written to the Board confirming why PwC continues to remain independent. The board of MHI is satisfied that the "independence" aspect of the external audit process has been maintained.

HIRING OF STAFF FROM THE EXTERNAL AUDITING FIRM

The hiring by Michael Hill International of any partner or audit manager must first be approved by the Chairman of the Audit committee. There are no other restrictions on the hiring of staff from the audit firm.

Risk management report

Michael Hill International Limited is committed to the management of risk throughout its operations in order to protect our employees, assets, earnings and reputation.

RISK MANAGEMENT PROCESS

The Board of Directors is responsible for Risk Management. The Risk Management process involves the annual review and approval of a strategic plan incorporating assessment of opportunities and risks associated with these opportunities.

These strategic plans are reviewed and discussed at each board meeting to ensure risks associated with the approved plans and projects are reviewed and managed.

A formal risk management workshop by the company's Group Executives is held each year to review and update the Risk Register which is included in the Audit Sub-Committee agenda.

BUSINESS CONTINUITY PLAN

The Group has an existing Business Continuity Plan which is reviewed each year and updated accordingly.

INSURANCE PROGRAM

The Group has a comprehensive global insurance program which supports the risk management process. This program is reviewed annually to ensure it reflects the groups' exposures and risk profile.

INTERNAL AUDIT

The Group has an Internal Audit function that is responsible for the development of a comprehensive continuous audit program and for performing internal audit reviews which support the Group's Risk Management process. The Internal Audit Manager has a direct communication line to the Board Audit Sub-Committee should they deem it necessary to report any matter to the Sub-Committee directly. The Internal Audit Manager attends the Audit Sub-Committee meetings where they present their report.

CODE OF ETHICS

Our Board of Directors believes that good risk management is supported by the highest standards of corporate behavior towards our employees, customers and other stakeholders. The Code of Ethics is a guide to help our Directors and employees live up to high ethical standards and responsibilities towards our fellow employees, customers and other stakeholders.

CORPORATE CODE OF ETHICS

Michael Hill International believes that outstanding business performance must be supported by the highest standards of corporate behaviour towards our employees, customers and other stakeholders. This code of ethics is a guide to help our Directors and employees live up to our high ethical standards.

Our Corporate Code of Ethics is supported by written policies and procedures on each of these standards, by providing training to employees on the details and importance of these standards, and by formal communication systems to ensure these standards are observed, discussed and reinforced. Our Directors and Management team will lead by example, demonstrating their commitment to this Code of Ethics at all times through their personal behaviour and through the guidance they provide to our staff.

In general, all Directors and employees are expected to act honestly in all their business dealings and to act in the best interests of the Company at all times.

OUR EMPLOYEES

- Respect, fairness, honesty, courtesy, and good faith will guide all relations with employees.
- Opportunity without bias will be afforded each employee in relation to demonstrated ability, initiative, and potential.
- We will strive to create and maintain a work environment that fosters honesty, personal growth, teamwork, open communications and dedication to our vision and values.
- We will strive to provide a safe workplace that at a minimum meets all health safety laws and regulations.
- The privacy of an individual's records will be respected and will not be disclosed without proper authority unless there is a legal obligation to do so.

OUR CUSTOMERS

- We support and uphold, at all times, the tradition and integrity of the jewellery industry, and conduct our business in such a manner that will reflect credit on our industry and us.
- All our marketing and advertising will be accurate and truthful.
- We are committed to providing the highest quality, service, and value to our customers. We provide a five year Guarantee for all our jewellery which contains a diamond, and a 12-month Guarantee for any jewellery item not containing a diamond. It is a guarantee of quality of workmanship and materials. We provide a 30-day Change of Mind policy that is a money back guarantee on all purchases if for any reason the customer is not completely satisfied.
- We will protect customer information that is sensitive, private, or confidential just as carefully as our own.

OUR BUSINESS PARTNERS

- Suppliers win our business based on product or service suitability, price, delivery, and quality. We also expect suppliers to have high ethical standards in their business practices.

OUR SHAREHOLDERS

- We require honest and accurate recording and reporting in order to make responsible business decisions.
- All financial records and accounts will accurately reflect transactions and events and conform both to required accounting principles and to our Company's system of internal controls. No false or artificial information will be tolerated.
- We will safeguard all sensitive information. We will not disclose inside information that has not been reported publicly.

OUR COMMUNITIES

- We wish to be good corporate citizens and wish to build positive relationships with communities where we have a presence. Our efforts focus on the arts, local schools and charities, through periodic donations, including jewellery, to good causes.

COMPANY PROPERTY AND ASSETS

- Our Directors and Employees will properly use company assets and safeguard and protect any company property under their care.

GOVERNMENTS

- In conducting business with due skill, care, and diligence, we seek always to comply with both the letter and spirit of relevant laws, rules, regulations, codes, and standards of good market practice in the countries we do business in.
- Our Company does not make political contributions and has no political affiliations.

SHARE TRADING BY DIRECTORS AND OFFICERS IN MHI SHARES

- The Company does not condone any form of insider trading by Directors or Officers.
- The Board Operations manual sets out a procedure which must be followed by Directors when trading in Michael Hill International shares. If Directors or officers possess "material information" (refer to definition below) at any time, then they must not trade in MHI securities, advise or encourage others to trade or

CORPORATE CODE OF ETHICS cont.

hold or pass on material information to others. Material Information is information that
- is not generally available to the market; and
- if it were generally available to the market, would have a material effect on the price of Michael Hill International's listed securities. Information is generally available to the market if it has been released as an NZX announcement.

- There are additional restrictions for Directors and all other senior executives who report to the CEO. These individuals are subject to "black-out" periods during which they may not trade in MHI securities unless the board of MHI provides a specific exemption. These " black-out" periods are
  - 1st December, until the half year results are released to NZX.
  - 1 June until after the full year results are released to NZX.

  Before trading in MHI shares, Directors and Officers must, in writing
  i) notify MHI's Company Secretary of their intention to trade in securities and seek consent to do so.
  ii) Confirm that they do not hold material information.
  iii) Confirm that there is no known reason to prohibit trading in MHI securities.
- From the 3rd May 2004, all Officers of the Company (as defined by the Securities Amendment Act 2003) must also disclose to the company and to the NZX within 5 days, any dealings in MHI shares.

The full Insider Trading policy of the Company is posted on the Company's website.

CONFLICTS OF INTERESTS

- Employees will not accept anything of value from a customer, vendor, or business associate which would impair or be presumed to impair their judgment in business matters.
- The acceptance of gifts and gratuities is discouraged and any over $50 must be entered in the Gifts Register held by the Financial Controllers. We may accept meals/hospitality that are not lavish and are reasonable in the context of doing business. Guidelines to use for the acceptance of any gift are: Will this influence my decision making ? Does it place me in obligation ? Could it be seen as an inducement ? How would this look if reported by the media?
- Our employees will avoid any conflict of interest professionally and personally which might prevail or appear to prevail over the interests of the Company.
- Directors' conflicts of interests are dealt with in the Board Operations Manual. At all times, a Director must be able to act in the interests of the organization as a whole. The interests of associates, individual shareholders and the personal interests of the Directors and their families must not be allowed to prevail over those of the Company and its shareholders generally.

SPEAKING UP

- Employees who know, or have genuine suspicions of any breaches of our Code of Conduct, Policies & Procedures, or any legal violation in relation to work related issues should report such matters promptly to their manager. If the employee does not feel comfortable discussing the issue with their manager, they should talk to another member of management, the Internal Auditors, or Human Resources.
- Employees will not be blamed for speaking up. The Company will make proper efforts to protect the confidentiality of employees who do raise concerns. Any attempt to deter employees raising proper concerns will be treated as a serious disciplinary action.

Failure to abide by the Code of Ethics and the law will lead to disciplinary measures appropriate to the violation.

DIRECTOR PROFILES

MICHAEL HILL
The founder of Michael Hill Jeweller in 1979. He is Chairman of the Board. He had 23 years of jewellery retailing experience before establishing his own business. He was appointed to the Board in 1987. Member of the Remuneration and Nominations subcommittees.

MIKE PARSELL
Chief Executive Officer of the Group. Mike spearheaded the Company's move into Australia in 1987. He has had extensive experience in the jewellery industry since 1976.
Mike joined the Company in 1981 and was appointed to the Board in 1989, made joint Managing Director in 1995 and CEO in 2000.

GARY GWYNNE
Non Executive & Independent Director. Gary has an extensive background in marketing, retailing and property development. He is currently a Director of Prime Retail Management, the operators of Dress Smart Factory Shopping Centres and a Director of Overland Footwear Company. He was appointed to the Board in February 1998. Member of the Audit,Remuneration and Nominations sub-committees.

WAYNE PETERS
Non Executive Director.
Wayne, who is based in Australia, has extensive retailing and investment management experience. He is Chairman and Chief Investment Officer of Peters MacGregor Capital Management Pty Ltd and Chairman of ASX listed Peters MacGregor Investments Ltd. Member of the Audit and Nominations sub-committees and Chairman of the Remuneration sub-committee, Wayne joined the board in February 1999.

MURRAY DOYLE
Non Executive and Independent Director. Murray is a Director of Aspiring Asset Management Limited and Wellington department store Kirkcaldie and Stains Limited. His previous experience was in the finance industry until 1998, when his stockbroking firm was purchased by Bankers Trust now Deutsche Bank. He is a member of the remuneration sub-committee and Chairman of the Audit sub-committee. He joined the board in February 2000.

CHRISTINE HILL
Non Executive Director.
Christine has been associated with the Company since its formation in 1979 and has been closely involved with the artistic direction of the Group's store design and interior layouts over the years. Christine is a member of the Remuneration sub-committee, and joined the Board in 2001.

EMMA HILL
Non Executive Director.
Emma has been associated with the company since its formation in 1987. Emma has a bachelor of Commerce degree and an MBA degree from Bond University in Queensland.
She has held a number of management positions in the Australian company and in 2002 led the expansion of the Group into Canada as Retail General Manager. She returned to live in New Zealand in February 2007 and was appointed a Director on 23 February 2007. Member of the Remuneration sub-committee.

STATUTORY REPORT OF THE DIRECTORS

The Directors have pleasure in submitting to shareholders the 21st Annual Report and audited accounts of the Company for the year ended 30 June 2008.

BUSINESS ACTIVITIES

The Group's business activities during the 2007/08 financial year continued to be jewellery retailing and manufacturing.

CONSOLIDATED FINANCIAL RESULTS

The Group has recorded a tax paid surplus of $25.232m for the year ended 30 June 2008 (2007 - $21.017m). This surplus was achieved on total operating revenue of $377.554m (2007 - $350.184m). The Group adopted New Zealand International Financial Reporting Standards (NZ IFRS) from 1 July 2005.

The accounts for the year ended 30 June 2008 have been presented in accordance with the accounting principles and policies detailed on pages 33 to 39 of this report.

	2008 $000	**2007** $000
Total Operating Revenue	377,554	350,184
Surplus before tax	37,488	31,144
Taxation	(12,256)	(10,127)
Surplus after tax	25,232	21,017
Dividends paid	(10,668)	(9,427)
Net surplus retained	14,564	11,590

SHAREHOLDERS' FUNDS/RESERVES

Total Shareholders' Funds of the Group now stand at $91.001m. Contributed equity decreased to $3.850m following a transfer of option reserve to contributed equity on exercise of options of $42,000, an issue of share capital on exercise of options of $1.230m an issue of share capital of $186,000 under the employee share scheme and a reduction of share capital through a share buyback of $2.360m. The Group's reserves at 30 June 2008 totaled $87.151m.

	$000
The Group's reserves at 30 June 2007 were	**67,752**
To which was added:	
Operating surplus after tax for the year	25,232
Exchange differences on translation of foreign operations	4,653
Option reserve movement	224
From which was deducted:	
Ordinary dividends paid	(10,668)
Option reserve transfer to contributed equity	(42)
Leaving reserves at 30 June 2008 at	**87,151**
These comprise:	
Retained earnings	82,965
Other reserves	4,186
	87,151

ACCOUNTING POLICIES

There have been no changes in accounting policies during the year.

DIVIDENDS

Your Directors paid an interim dividend of 1.2 cents per share, with full imputation credits and franking credits attached on the 1st April 2008. Overseas shareholders were also paid a supplementary dividend. On the 14th August 2008, your Directors declared a final dividend of 2.0 cents per share payable on the 13th October 2008. The share register will close at 5:00pm on the 3rd October 2008 for the purpose of determining entitlement to the final dividend. Overseas shareholders will also be entitled to a supplementary payment on the final dividend.

The total ordinary dividend for the year was 3.2 cents (fully imputed), (2007 - 2.6 cents). The payout represents 48.4% (2007 - 47.8%) of the tax paid profit of the group.

DIRECTORS

Leslie Wayne Peters and Christine Ann Hill retire by rotation and being eligible offer themselves for re-election.

DIRECTORS' REMUNERATION

Director's remuneration and all other benefits received, or due and receivable during the year was as follows:-

	2008 $000	2007 $000
Parent Company		
R.M. Hill *	$150	$144
M.R. Parsell *	A$898	A$723
G.J. Gwynne	$75	$60
L.W. Peters	A$75	A$60
M.R. Doyle	$75	$60
A.C. Hill	$75	$60
E.J. Hill **	$77	$15

* Executive Directors do not receive Director's fees. Executive remuneration includes salary, superannuation, bonus payments, retirement allowances and provision of a vehicle received in their capacity as employees.
** Emma Hill was appointed as a director on 23 February 2007.

REMUNERATION OF EMPLOYEES

The number of employees (not including Directors) whose remuneration exceeded $100,000 is as follows:-

$000	Aust 07/08	Aust 06/07	NZ 07/08	NZ 06/07	Canada 07/08	Canada 06/07	combined 07/08	combined 06/07
NZ$100,000 - $110,000	14	11	6	5			20	16
NZ$110,000 - $120,000	15	7	4	3			19	10
NZ$120,000 - $130,000	12	4	6	3			18	7
NZ$130,000 - $140,000	9	1		2		1	9	4
NZ$140,000 - $150,000	6	1	1				7	1
NZ$150,000 - $160,000	4	1	1	2			5	3
NZ$160,000 - $170,000	6		3	2			9	2
NZ$170,000 - $180,000	1			1			1	1
NZ$180,000 - $190,000	1	1	2	2			3	3
NZ$190,000 - $200,000	3	1					3	1
NZ$200,000 - $210,000	1			1			1	1
NZ$250,000 - $260,000			1				1	0
NZ$270,000 - $280,000						1	0	1
NZ$290,000 - $300,000			1				1	0
NZ$320,000 - $330,000					1		1	0
NZ$330,000 - $340,000	1	1					1	1
NZ$340,000 - $350,000		1					0	1
NZ$350,000 - $360,000		1			1		1	1
NZ$390,000 - $400,000	1						1	0
NZ$400,000 - $410,000	1						1	0
NZ$450,000 - $460,000		1					0	1
NZ$510,000 - $520,000	1						1	0
	76	31	25	21	2	2	103	54

Australian remuneration has been converted into New Zealand dollars at the exchange rate used for translating the Australian results into New Zealand dollars, 0.85 (2007 – 0.87). Canadian remuneration on the same basis at 0.77 (2007 – 0.78).

INFORMATION ON DIRECTORS

The qualifications and experience of the Directors are shown on page 23. The Directors are responsible for the preparation of the financial statements and other information included in this Annual Report. The financial statements have been prepared in conformity with generally accepted accounting principles to give a true and fair view of the financial position of the Company and Group and the results of their operations and cash flows.

The Company appoints independent chartered accountants to audit the Financial Statements prepared by the Directors and to express an opinion on these Financial Statements. The independent auditor's report, which sets out their opinion and the basis of that opinion is set out on page 26 of this report.

DONATIONS

The total of donations made during the year amounted to $77,252.

INTERESTS REGISTER

There were no new entries made in the Interests Register during the year.
On behalf of the Directors,

R.M. Hill M.R. Parsell

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757
Riverside Centre
123 Eagle Street
Brisbane QLD 4000
GPO Box 150
Brisbane QLD 4001
DX 77 Brisbane
Australia
Telephone +61 7 3257 5000
Facsimile +61 7 3257 5999
www.pwc.com/au

Auditors' report to the shareholders of Michael Hill International Limited

We have audited the financial statements on pages 28 to 57. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2008 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 33 to 39.

DIRECTORS' RESPONSIBILITIES

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2008 and their financial performance and cash flows for the year ended on that date.

AUDITORS' RESPONSIBILITIES

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

BASIS OF OPINION

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
(b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with, or interests in, the Company or any of its subsidiaries other than in our capacity as auditors and consultants in tax compliance, international tax consulting, transfer pricing and system review.

UNQUALIFIED OPINION

We have obtained all the information and explanations we have required. In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
(b) the financial statements on pages 28 to 57:
    (i) comply with generally accepted accounting practice in New Zealand;
    (ii) comply with International Financial Reporting Standards; and
    (iii) give a true and fair view of the financial position of the Company and Group as at 30 June 2008 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 14 August 2008 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants
Brisbane

I, Robert Roach, am currently a member of The Institute of Chartered Accountants in Australia and my membership number is 20656. PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Michael Hill International Ltd for the year ended 30 June 2008. I was responsible for the execution of the audit and delivery of our firm's auditors' report. The audit work was completed on 14 August 2008 and an unqualified opinion was issued.

R Roach

Robert Roach

Liability limited by a scheme approved under Professional Standards Legislation

michael hill

Financial statements

The Directors are pleased to present the Financial Statements of Michael Hill International Limited for the year ended 30 June 2008. The Board of Directors of Michael Hill International Limited authorised these Financial Statements for issue on 14 August 2008.

Michael Hill
Chairman of Directors

Mike Parsell
Chief Executive Officer/Director

michael hill

Income statements

for the year ended 30 June 2008

	NOTES	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Revenue from continuing operations	2	**377,554**	350,184	13,363	10,625
Other income	3	**798**	543	-	-
Cost of goods sold		**(140,459)**	(142,144)	-	-
Employee benefits expense		**(99,219)**	(89,582)	(402)	(80)
Occupancy costs	4	**(31,778)**	(26,984)	-	-
Depreciation and amortisation expense	4	**(8,574)**	(7,264)	(19)	(20)
Loss on disposal of property, plant and equipment	4	**(50)**	(524)	-	-
Other expenses		**(55,725)**	(48,497)	(2,011)	(877)
Finance costs		**(5,059)**	(4,588)	(26)	(2)
Profit before income tax		**37,488**	31,144	10,905	9,646
Income tax (expense) / benefit	5	**(12,256)**	(10,127)	801	324
Profit for the year		**25,232**	21,017	11,706	9,970
Profit attributable to members of Michael Hill International Ltd		**25,232**	21,017	11,706	9,970
Earnings per share for profit attributable to the ordinary equity holders of the Company during the year:					
Basic earnings per share	23	**6.61¢**	5.39¢		
Diluted earnings per share	23	**6.60¢**	5.35¢		

The above income statements should be read in conjunction with the Notes on pages 33 - 57 and the Audit Report on page 26.

Statements of changes in equity

for the year ended 30 June 2008

GROUP	Notes	Contributed equity $000	Reserves $000	Retained profits $000	Total equity $000
		Attributable to members of Michael Hill International Limited			
Balance at 1 July 2006		13,858	4,090	56,811	74,759
Currency translation differences arising during the year	21(a)	-	(4,745)	-	(4,745)
Option expense through share based payments reserve	21(a)	-	6	-	6
Dividends paid	22	-	-	(9,427)	(9,427)
Profit for the year		-	-	21,017	21,017
Total recognised income and expense for the year		-	(4,739)	11,590	6,851
Shares purchased through share buy-back	20(g)	(9,106)	-	-	(9,106)
Balance at 30 June 2007		4,752	(649)	68,401	72,504
Currency translation differences arising during the year	21(a)	-	4,653	-	4,653
Option expense through share based payments reserve	21(a)	-	224	-	224
Dividends paid	22	-	-	(10,668)	(10,668)
Profit for the year		-	-	25,232	25,232
Total recognised income and expense for the year		-	4,877	14,564	19,441
Issue of share capital - exercise of options	26(a)	1,230	-	-	1,230
Employee share scheme issue	26(b)	186	-	-	186
Transfer option reserve to contributed equity on exercise of options	21(a)	42	(42)	-	-
Shares purchased through share buy-back	20(g)	(2,360)	-	-	(2,360)
Balance at 30 June 2008		3,850	4,186	82,965	91,001

PARENT	Notes	Contributed equity $000	Reserves $000	Retained profits $000	Total equity $000
Balance at 1 July 2006		13,858	32	10,038	23,928
Option expense through share based payments reserve	21(a)	-	6	-	6
Dividends paid	22	-	-	(9,427)	(9,427)
Profit for the year		-	-	9,970	9,970
Total recognised income and expense for the year		-	6	543	549
Shares purchased through share buy-back	20(g)	(9,106)	-	-	(9,106)
Balance at 30 June 2007		4,752	38	10,581	15,371
Option expense through share based payments reserve	21(a)	-	224	-	224
Dividends paid	22	-	-	(10,668)	(10,668)
Profit for the year		-	-	11,706	11,706
Total recognised income and expense for the year		-	224	1,038	1,262
Issue of share capital - exercise of options	26(a)	1,230	-	-	1,230
Employee share scheme issue	26(b)	186	-	-	186
Transfer option reserve to contributed equity on exercise of options	21(a)	42	(42)	-	-
Shares purchased through share buy-back	20(g)	(2,360)	-	-	(2,360)
Balance at 30 June 2008		3,850	220	11,619	15,689

The above statements should be read in conjunction with the Notes on pages 33 - 57 and the Audit Report on page 26.

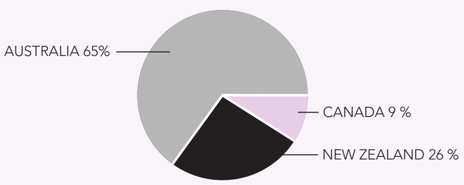
Statement of segmented results

for the year ended 30 June 2008

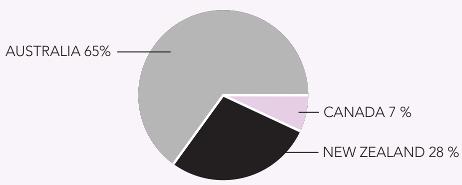
	NEW ZEALAND			AUSTRALIA			CANADA			GROUP		
	2008	**2007**		**2008**	**2007**		**2008**	**2007**		**2008**	**2007**	
	$000	$000	+/- %	$000	$000	+/- %	$000	$000	+/- %	$000	$000	+/- %
Operating revenue												
Sales to customers	**97,019**	97,439	(0.4%)	**247,136**	225,815	9.4%	**32,131**	24,994	28.6%	**376,286**	348,248	8.1%
Unallocated revenue										**378**	509	(25.7%)
Total segment revenue										**376,664**	348,757	8.0%
Segment results												
Operating surplus	**14,697**	13,570	8.3%	**24,397**	20,723	17.7%	**(44)**	(5)	(780.0%)	**39,050**	34,288	13.9%
Unallocated revenue less unallocated expenses										**(1,562)**	(3,144)	50.3%
Profit before income tax										**37,488**	31,144	20.4%
Income tax expense										**(12,256)**	(10,127)	(21.0%)
Profit for the year										**25,232**	21,017	20.1%
Segment assets	**38,605**	46,104	(16.3%)	**102,385**	76,899	33.1%	**20,429**	11,506	77.6%	**161,419**	134,509	20.0%
Unallocated										**43,616**	19,831	119.9%
Total										**205,035**	154,340	32.8%
Segment liabilities	**3,658**	4,918	(25.6%)	**9,569**	6,000	59.5%	**2,235**	1,456	53.5%	**15,462**	12,374	25.0%
Unallocated										**98,572**	69,462	41.9%
Total										**114,034**	81,836	39.3%
Segment acquisitions of property, plant & equipment and intangibles	**1,123**	1,184	(5.2%)	**5,514**	5,336	3.3%	**2,464**	1,186	107.8%	**9,101**	7,706	18.1%
Unallocated										**3,034**	3,385	(10.4%)
Total										**12,135**	11,091	9.4%
Segment depreciation and amortisation expense	**1,546**	1,526	1.3%	**4,509**	3,699	21.9%	**644**	421	53.0%	**6,699**	5,646	18.7%
Unallocated										**1,875**	1,618	15.9%
Total										**8,574**	7,264	18.0%

Notes:
1. The Company operates in 3 geographical segments; New Zealand, Australia and Canada and is managed on a global basis.
2. Michael Hill International Limited and its controlled entities operate predominantly in one business segment being the sale of jewellery and related services.
3. Inter segment pricing is at arm's length or market value.
4. Unallocated expenses include all expenses that do not relate directly to the relevant segment and include: manufacturing activities, warehouse and distribution, interest, company taxation and general corporate expenses.

OPERATING REVENUE BY COUNTRY



2008



2007

The above statement should be read in conjunction with the Notes on pages 33 - 57 and the Audit Report on page 26.

Balance sheets

as at 30 June 2008

	NOTES	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
ASSETS					
Current assets					
Cash and cash equivalents	6	**10,013**	8,426	11	5
Trade and other receivables	7	**7,317**	5,568	10,522	11,274
Inventories	8	**143,708**	101,592	-	-
Current tax receivables	9	**-**	863	2,377	1,294
Total current assets		**161,038**	116,449	12,910	12,573
Non-current assets					
Property, plant and equipment	10	**35,291**	28,748	34	52
Deferred tax assets	11	**7,822**	7,938	(1)	(3)
Intangible assets	12	**884**	1,205	-	-
Investments in subsidiaries	13	**-**	-	2,800	2,800
Total non-current assets		**43,997**	37,891	2,833	2,849
Total assets		**205,035**	154,340	15,743	15,422
LIABILITIES					
Current liabilities					
Trade and other payables	14	**36,487**	29,952	54	51
Borrowings	15	**23,320**	31,119	-	-
Current tax liabilities	16	**640**	-	-	-
Provisions	17	**1,773**	1,422	-	-
Total current liabilities		**62,220**	62,493	54	51
Non-current liabilities					
Borrowings	18	**50,927**	18,396	-	-
Provisions	19	**887**	947	-	-
Total non-current liabilities		**51,814**	19,343	-	-
Total liabilities		**114,034**	81,836	54	51
Net assets		**91,001**	72,504	15,689	15,371
EQUITY					
Contributed equity	20	**3,850**	4,752	3,850	4,752
Reserves	21(a)	**4,186**	(649)	220	38
Retained profits	21(b)	**82,965**	68,401	11,619	10,581
		91,001	72,504	15,689	15,371
Total equity		**91,001**	72,504	15,689	15,371

The above balance sheets should be read in conjunction with the Notes on pages 33 - 57 and the Audit Report on page 26.

michael hill

Cash flow statements

for the year ended 30 June 2008

	NOTES	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Cash flows from operating activities					
Receipts from customers (incl. of goods & services tax)		**414,147**	389,697	-	-
Payments to suppliers and employees (incl. of goods & services tax)		**(375,908)**	(319,345)	(2,136)	(982)
		38,239	70,352	(2,136)	(982)
Dividends received		**-**	-	13,363	10,625
Interest received		**274**	651	-	-
Other revenue		**825**	1,162	-	-
Interest paid		**(5,222)**	(4,165)	(26)	(1)
Income tax paid		**(10,046)**	(10,662)	(284)	(255)
Net goods and services tax paid		**(16,307)**	(16,224)	-	-
Net cash inflow from operating activities	28	**7,763**	41,114	10,917	9,387
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**497**	230	-	-
Payments for property, plant and equipment		**(11,939)**	(10,854)	(1)	-
Payments for intangible assets		**(196)**	(237)	-	-
Net cash (outflow) from investing activities		**(11,638)**	(10,861)	(1)	-
Cash flows from financing activities					
Proceeds from borrowings		**48,508**	21,786	-	-
Repayment of borrowings		**(32,249)**	(28,666)	-	-
Proceeds from sale of treasury stock	26	**149**	-	149	-
Payments from share options exercised	26	**1,230**	-	1,230	-
Share buy-back	20	**(2,360)**	(9,106)	(2,360)	(9,106)
Dividends paid to company's shareholders	22	**(10,668)**	(9,427)	(10,668)	(9,427)
Intercompany advance		**-**	-	752	9,151
Net cash inflow / (outflow) from financing activities		**4,610**	(25,413)	(10,897)	(9,382)
Net increase in cash and cash equivalents		**735**	4,840	19	5
Cash and cash equivalents at the beginning of the financial year		**8,426**	4,088	5	(2)
Effects of exchange rate changes on cash and cash equivalents		**852**	(502)	(13)	2
Cash and cash equivalents at end of year	6	**10,013**	8,426	11	5
Financing arrangements	18				

The above cash flow statements should be read in conjunction with the Notes on pages 33 - 57 and the Audit Report on page 26.

Notes to the financial statements

for the year ended 30 June 2008

NOTE 1 Summary of significant accounting policies

(a) BASIS OF PREPARATION

The financial statements for the year ended 30 June 2008 have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit orientated entities.

Compliance with IFRS

New Zealand Accounting Standards include New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Compliance with NZ IFRS ensures that the consolidated financial statements and notes of Michael Hill International Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in NZ-IAS 32 Financial Instruments: Presentation.

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

Entities reporting

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

The Parent company and the consolidated entity are designated as profit-orientated entities for financial reporting purposes.

Statutory base

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 14 August 2008.

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

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. In the Directors' opinion, there are no significant accounting estimates and judgements in preparing the accounts.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009.

IFRS 8 is effective for annual reporting periods commencing on or after 1 January 2009. IFRS 8 will result in a change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. This change is not considered to be significant to the Group as the basis of management of the group is based along geographical areas.

NZ IAS 1 (Revised) - Presentation of Financial Statements requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not effect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to dislose a third balance sheet (statement of financial position) this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

(b) PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Michael Hill International Limited ('company' or 'parent entity') as at 30 June 2008 and the results of all subsidiaries for the year then ended. Michael Hill International Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Notes to the financial statements cont.

NOTE 1 Summary of significant accounting policies cont.

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

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

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

The Group has formed a Trust to administer the Group's employee share scheme. The Trust is consolidated as the substance of the relationship is that the trust is controlled by the Group. Shares held by the Trust are disclosed as treasury shares and deducted from contributed equity.

(c) SEGMENT REPORTING

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(d) FOREIGN CURRENCY TRANSLATION

(i) **Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated and parent financial statements are presented in New Zealand dollars, which is Michael Hill International Limited's functional and presentation currency.

(ii) **Transactions and balances**

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

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) **Group companies**

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

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

(e) REVENUE RECOGNITION

(i) **Sales of goods - retail**

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

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

(ii) **Interest income**
Interest income is recognised on a time-proportion basis using the effective interest method.

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

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

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

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (Note 30). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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

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

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

(j) TRADE RECEIVABLES
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

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

Notes to the financial statements cont.

NOTE 1 Summary of significant accounting policies cont.

(k) INVENTORIES

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

(l) NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

(m) INVESTMENTS AND OTHER FINANCIAL ASSETS

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

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

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

(ii) **Loans and receivables**

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (note 7).

(iii) **Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) **Available-for-sale financial assets**

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Regular purchases and sales of investments are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

(n) DERIVATIVES

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

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in movements in the hedging reserve in shareholders' equity are shown in:

(i) **Fair value hedge**

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

(ii) **Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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

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

(o) FAIR VALUE ESTIMATION

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

The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

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

(p) PROPERTY, PLANT AND EQUIPMENT

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

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

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

• Plant & equipment	5 - 6 years
• Motor vehicles	4 - 5 years
• Furniture, fittings and equipment	6 years
• Leasehold improvements	6 - 10 years

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

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

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

Notes to the financial statements cont.

NOTE 1 Summary of significant accounting policies cont.

(q) INTANGIBLE ASSETS

(i) **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

(ii) **Computer software**

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

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

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

(r) TRADE AND OTHER PAYABLES

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

Deferred income represents lease incentives for entering new lease agreements. These amounts are taken to revenue over the life of the lease.

(s) BORROWINGS

Borrowings are initially recognised at fair value plus transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

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

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

(t) PROVISIONS

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

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

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

(u) EMPLOYEE BENEFITS

(i) **Wages and salaries, and annual leave**

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) **Long service leave**

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

(iii) **Retirement benefit obligations**

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

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

(iv) **Share-based payments**

Share-based compensation benefits are provided to employees via the Michael Hill International Limited Employee Share Scheme and from time to time options are issued to executives of Michael Hill International Limited in accordance with the company constitution. The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity.

The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

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

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

(v) **Profit-sharing and bonus plans**

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

(v) CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

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

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

(w) DIVIDENDS

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(x) EARNINGS PER SHARE

(i) **Basic earnings per share**

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

(ii) **Diluted earnings per share**

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

Notes to the financial statements cont.

NOTE 2 Revenue

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
From continuing operations:				
Sales revenue	**376,664**	348,757	-	-
Interest revenue	**270**	645	-	-
Dividends received from subsidiaries	**-**	-	13,363	10,625
Rent income	**106**	85	-	-
Other revenue	**514**	697	-	-
	377,554	350,184	13,363	10,625

NOTE 3 Other income

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Net foreign exchange gains (net loss in 2007 - see note 4)	**562**	-	-	-
Other income	**236**	543	-	-
	798	543	-	-

NOTE 4 Expenses

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Profit before income tax includes the following specific expenses:				
Depreciation				
Leasehold improvements	**4,453**	3,759	-	-
Furniture and fittings	**1,291**	996	-	-
Plant and equipment	**2,027**	1,641	2	2
Motor vehicles	**286**	299	17	18
Total depreciation	**8,057**	6,695	19	20
Amortisation				
Software	**517**	569	-	-
Total amortisation	**517**	569	-	-
Total depreciation and amortisation	**8,574**	7,264	19	20
Rental expense relating to operating leases	**31,778**	26,984	-	-
Net foreign exchange losses (net gain for Group in 2008 - see note 3)	**-**	332	12	-
Defined contribution superannuation expense	**5,540**	4,922	-	-
Net loss on revaluation of foreign currency derivatives (see note 27)	**-**	1,114	-	-
Donations	**77**	75	-	-
Net loss on disposal of property, plant and equipment	**50**	524	-	-

NOTE 5 Income tax expense

	GROUP		PARENT	
	2008	2007	2008	2007
	$000	$000	$000	$000
(a) Income tax expense				
Current tax	**11,990**	11,222	(809)	(324)
Deferred tax	**920**	(1,202)	(2)	-
(Over) / under provided in prior years	**(654)**	107	10	-
Income tax expense / (benefit)	**12,256**	10,127	(801)	(324)
Deferred income tax expense / (revenue) included in income tax expense comprises decrease / (increase) in deferred tax assets (note 11)	**920**	(1,202)	(2)	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	**37,488**	31,144	10,905	9,646
Tax at the New Zealand tax rate of 33% (2007: 33%)	**12,371**	10,278	3,599	3,183
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Exchange differences	**40**	59	-	-
Non deductible entertainment expenditure	**147**	68	-	-
Dividends not assessable	**-**	-	(4,410)	(3,507)
Sundry items	**-**	(16)	-	-
	12,558	10,389	(811)	(324)
Difference in overseas tax rates	**(396)**	(369)	-	-
Change in tax rate on deferred tax balance	**293**	-	-	-
(Over) / under provision in prior years	**(654)**	107	10	-
Prior year deferred tax not previously recognised	**455**	-	-	-
	(302)	(262)	10	-
Income tax expense / (benefit)	**12,256**	10,127	(801)	(324)

NOTE 6 Current assets - Cash and cash equivalents

	GROUP		PARENT	
	2008	2007	2008	2007
	$000	$000	$000	$000
Cash at bank and in hand	**6,513**	7,359	11	5
Deposits at call	**3,500**	1,067	-	-
	10,013	8,426	11	5

(a) Cash at bank and on hand

Cash at bank and on hand are non-interest bearing.

(b) Deposits at call

Deposits at call bear a floating interest rate of 8.25% (2007: 8%).

Notes to the financial statements cont.

NOTE 7 Current assets - Trade and other receivables

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Trade receivables	**4,638**	4,194	-	-
Provision for doubtful receivables	**(773)**	(1,065)	-	-
	3,865	3,129	-	-
Other receivables	**2,410**	1,501	-	-
Prepayments	**1,042**	938	-	-
Related party receivables	**-**	-	10,522	11,274
	7,317	5,568	10,522	11,274

(a) Trade receivables
Trade receivables are from sales made to customers mainly through third party credit providers.

(b) Bad and doubtful trade receivables
All trade receivables past due have been impaired.
The Group has recognised a loss of $930,000 (2007: $624,000) in respect of bad and doubtful trade receivables during the year ended 30 June 2008. The loss has been included in 'other expenses' in the income statement.

(c) Other receivables
Other receivables relate to supplier rebates, security deposits, key money and other sundry receivables.

(d) Related party receivables
Related party receivables are designated short term with no fixed repayment date.

(e) Effective interest rates
All receivables are non-interest bearing.

NOTE 8 Current assets - Inventories

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Raw materials	**7,914**	3,093	-	-
Finished goods	**128,766**	93,445	-	-
Packaging	**2,077**	1,799	-	-
Display materials	**4,951**	3,255	-	-
	143,708	101,592	-	-

Inventory expense
Inventories recognised as an expense during the year ended 30 June 2008 amounted to $140,459,000 (2007: $142,144,000).
All inventories are held at cost.

NOTE 9 Current assets - Current tax receivables

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Income tax	**-**	863	2,377	1,294

NOTE 10 Non-current assets - Property, plant and equipment

	Plant and equipment $000	Fixtures and fittings $000	Motor vehicles $000	Leasehold improvements $000	Total $000
GROUP					
At 1 July 2006					
Cost	15,140	12,371	2,006	31,853	61,370
Accumulated depreciation	(10,221)	(7,813)	(539)	(14,951)	(33,524)
Net book amount	4,919	4,558	1,467	16,902	27,846
Year ended 30 June 2007					
Opening net book amount	4,919	4,558	1,467	16,902	27,846
Exchange differences	(549)	(458)	(127)	(1,369)	(2,503)
Additions	3,151	1,727	256	5,720	10,854
Asset reclassifications	528	(49)	-	(479)	-
Disposals	(316)	(37)	(184)	(217)	(754)
Depreciation charge	(1,641)	(996)	(299)	(3,759)	(6,695)
Closing net book amount	6,092	4,745	1,113	16,798	28,748
At 30 June 2007					
Cost	13,154	8,862	1,719	29,478	53,213
Accumulated depreciation	(7,062)	(4,117)	(606)	(12,680)	(24,465)
Net book amount	6,092	4,745	1,113	16,798	28,748

	Plant and equipment $000	Fixtures and fittings $000	Motor vehicles $000	Leasehold improvements $000	Total $000
GROUP					
Year ended 30 June 2008					
Opening net book amount	6,092	4,745	1,113	16,798	28,748
Exchange differences	760	669	103	1,676	3,208
Additions	2,893	2,001	142	6,903	11,939
Disposals	(263)	(57)	(214)	(13)	(547)
Depreciation charge	(2,027)	(1,291)	(286)	(4,453)	(8,057)
Closing net book amount	7,455	6,067	858	20,911	35,291
At 30 June 2008					
Cost	14,231	10,775	1,606	36,878	63,490
Accumulated depreciation	(6,776)	(4,708)	(748)	(15,967)	(28,199)
Net book amount	7,455	6,067	858	20,911	35,291

	Plant and equipment $000	Motor vehicles $000	Total $000
PARENT			
At 1 July 2006			
Cost	30	89	119
Accumulated depreciation	(23)	(24)	(47)
Net book amount	7	65	72
Year ended 30 June 2007			
Opening net book amount	7	65	72
Additions	-	-	-
Disposals	-	-	-
Depreciation charge	(2)	(18)	(20)
Closing net book amount	5	47	52
At 30 June 2007			
Cost	30	89	119
Accumulated depreciation	(25)	(42)	(67)
Net book amount	5	47	52

Notes to the financial statements cont.

NOTE 10 Non-current assets - Property, plant and equipment cont.

	Plant and equipment $000	Motor vehicles $000	Total $000
PARENT			
Year ended 30 June 2008			
Opening net book amount	5	47	52
Additions	1	-	1
Disposals	-	-	-
Depreciation charge	(2)	(17)	(19)
Closing net book amount	4	30	34
At 30 June 2008			
Cost	31	89	120
Accumulated depreciation	(27)	(59)	(86)
Net book amount	4	30	34

NOTE 11 Non-current assets - Deferred tax assets

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	**232**	335	-	-
Fixed assets	**2,495**	2,597	(1)	(3)
Unearned income	**76**	43	-	-
Employee benefits	**2,131**	1,851	-	-
Retirement benefit obligations	**241**	32	-	-
Provision for warranties and legal costs	**213**	171	-	-
Other provisions	**358**	221	-	-
Unrealised foreign exchange losses	**(427)**	407	-	-
Operating leases	**637**	343	-	-
Inventories	**1,329**	1,189	-	-
Prepayments	**(158)**	(83)	-	-
Tax losses*	**695**	832	-	-
Net deferred tax assets	**7,822**	7,938	(1)	(3)
Movements:				
Opening balance at 1 July	**7,938**	7,285	(3)	(3)
(Charged) / credited to the income statement (note 5)	**(920)**	1,202	2	-
Foreign exchange differences	**804**	(549)	-	-
Closing balance at 30 June	**7,822**	7,938	(1)	(3)
Expected settlement:				
Within 12 months	**4,168**	4,120	(1)	(1)
In excess of 12 months	**3,654**	3,818	-	(2)
	7,822	7,938	(1)	(3)

*The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

NOTE 12 Non-current assets - Intangible assets

	Computer software $000	Total $000
GROUP		
At 1 July 2006		
Cost	3,526	3,526
Accumulated amortisation	(1,989)	(1,989)
Net book amount	1,537	1,537
Year ended 30 June 2007		
Opening net book amount	1,537	1,537
Additions	237	237
Amortisation charge*	(569)	(569)
Closing net book amount	1,205	1,205
At 30 June 2007		
Cost	3,763	3,763
Accumulated amortisation	(2,558)	(2,558)
Net book amount	1,205	1,205

GROUP	Computer software $000	Total $000
Year ended 30 June 2008		
Opening net book amount	1,205	1,205
Additions	196	196
Amortisation charge*	(517)	(517)
Closing net book amount	884	884
At 30 June 2008		
Cost	3,959	3,959
Accumulated amortisation	(3,075)	(3,075)
Net book amount	884	884

* Amortisation of $517,000 (2007: $569,000) is included in depreciation and amortisation expense in the income statement.
The parent has no intangible assets.

NOTE 13 Non-current assets - Investments in subsidiaries

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Shares in subsidiaries	**-**	-	2,800	2,800

Michael Hill International Limited has a 100% direct investment holding in Michael & Company Limited. The subsidiaries of Michael & Company Limited are set out in note 25. All investments in subsidiary companies are eliminated on consolidation.

NOTE 14 Current liabilities - Trade and other payables

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Trade payables	**23,630**	17,958	(1)	3
Accrued expenses	**3,378**	3,973	-	-
Derivative financial instruments*	**-**	1,114	-	-
Deferred Income	**287**	145	-	-
Other payables	**9,192**	6,762	55	48
	36,487	29,952	54	51

* See note 27 for more information on derivative contracts.

Notes to the financial statements cont.

NOTE 15 Current liabilities - Borrowings

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Secured				
Bank loans	**23,320**	31,119	-	-
Total current borrowings	**23,320**	31,119	-	-

Correction of prior period error: the 2007 comparative figure for current borrowings of $31,119,000 was previously incorrectly included as part of "Non-current liabilities - Borrowings" in the 30 June 2007 financial statements. The 2007 comparative information above reflects this reclassification.

Details of the security relating to each of the secured liabilities and further information on the bank overdrafts and bank loans are set out in note 18.

NOTE 16 Current liabilities - Current tax liabilities

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Income tax	**640**	-	-	-
	640	-	-	-

NOTE 17 Current liabilities - Provisions

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Employee benefits - long service leave	**1,068**	872	-	-
Returns provision	**648**	500	-	-
Other provisions	**57**	50	-	-
	1,773	1,422	-	-

(a) Employee benefits - Long service leave

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

(b) Returns provision

Provision is made for the estimated sale returns for the Group's 30 day change of mind policy. Management estimates the provision based on historical sale return information and any recent trends that may suggest future claims could differ from historical amounts.

(c) Movements in provisions

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

	Employee benefits $000	Returns provision $000	Other provisions $000	Total $000
Group - 2008				
Carrying amount at start of year	872	500	50	1,422
Additional provisions recognised	223	643	36	902
Amounts incurred and charged	(154)	(500)	(35)	(689)
Exchange differences	127	5	6	138
Carrying amount at end of year	1,068	648	57	1,773

NOTE 18 Non-current liabilities - Borrowings

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Secured				
Bank loans	**50,927**	18,396	-	-
Total non-current borrowings	**50,927**	18,396	-	-

Correction of prior period error: An amount of $31,119,000 was incorrectly included as part of "Non-current liabilities - Borrowings" in the 30 June 2007 financial statements. This amount should have been classified as a current liability. The 2007 comparative information above reflects this reclassification - see note 15.

(a) Assets pledged as security

These advances, together with the bank overdraft, are secured by floating charges over all of the Group's assets. The Group utilises bank bills for financing the operations of the business.

(b) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Credit standby arrangements				
Total facilities				
Bank overdrafts	**4,261**	4,102	-	-
Commercial bill acceptance facility	**83,285**	67,272	-	-
	87,546	71,374	-	-
Used at balance date				
Bank overdrafts	**-**	-	-	-
Commercial bill acceptance facility	**74,247**	49,515	-	-
	74,247	49,515	-	-
Unused at balance date				
Bank overdrafts	**4,261**	4,102	-	-
Commercial bill acceptance facility	**9,038**	17,757	-	-
	13,299	21,859	-	-

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. The commercial bill acceptance facility may be drawn at any time and is subject to annual review.

(c) Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods. Exposures arise predominantly from liabilities bearing variable interest rates as the Group intends to hold fixed rate liabilities to maturity. The carrying amount of commercial bills reflects fair value.

		FIXED INTEREST RATE						
2008	**Floating interest rate** $000	**1 year or less** $000	**Over 1 to 2 Years** $000	**Over 2 to 3 Years** $000	**Over 3 to 4 Years** $000	**Over 4 to 5 Years** $000	**Over 5 Years** $000	**Total 2008** $000
Commercial bill acceptance facility	16,387	6,933	14,749	26,094	10,084	-	-	74,247
Weighted average interest rate	8.06%	7.63%	7.47%	7.24%	6.83%	-	-	-

		FIXED INTEREST RATE						
2007	**Floating interest rate** $000	**1 year or less** $000	**Over 1 to 2 Years** $000	**Over 2 to 3 Years** $000	**Over 3 to 4 Years** $000	**Over 4 to 5 Years** $000	**Over 5 Years** $000	**Total 2007** $000
Commercial bill acceptance facility	8,812	22,307	-	-	9,584	8,812	-	49,515
Weighted average interest rate	6.88%	6.06%	-	-	6.75%	6.83%	-	-

Notes to the financial statements cont.

NOTE 19 Non-current liabilities - Provisions

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Employee benefits - long service leave	**887**	947	-	-

The basis used to measure the liability for long service leave is set out in note 17.

	Employee benefits $000	Total 2008 $000
Group - 2008		
Carrying amount at start of year	947	947
Additional provisions recognised	(175)	(175)
Exchange differences	115	115
Carrying amount at end of year	887	887

NOTE 20 Contributed equity

	PARENT 2008 Shares	PARENT 2007 Shares	PARENT 2008 $000	PARENT 2007 $000
(a) Share capital: Ordinary shares				
- Fully paid (b)	**383,053,190**	39,308,600	4,141	14,235
- Shares purchased through share buy-back not yet cancelled (g)	**-**	(956,876)	-	(9,106)
- Treasury stock held for Employee Share Scheme (c)	**(584,290)**	(75,654)	(291)	(377)
	382,468,900	38,276,070	3,850	4,752

(b) Fully paid ordinary share capital:

DATE	DETAILS	NUMBER OF SHARES	ISSUE PRICE	$000
1 July 2006	Opening balance	39,308,600		14,235
30 June 2007	Balance	39,308,600		14,235
1 July 2007	Opening balance	39,308,600		14,235
30 August 2007	Shares bought back in prior periods and cancelled during the financial year	(956,876)	$9.50	(9,106)
30 August 2007	Shares bought back on-market and cancelled	(246,405)	$9.50	(2,360)
28 September 2007	Employee share scheme issue	17,225	$10.79	186
28 September 2007	Transfer from treasury stock	(17,225)	$4.99	(86)
20 November 2007	10 for 1 share issue	342,947,871		-
4 April 2008	Exercise of 2002 options	1,000,000	$0.615	615
27 June 2008	Exercise of 2002 options	1,000,000	$0.615	615
30 June 2008	Transfer from option reserve			42
30 June 2008	Balance	383,053,190		4,141

(c) Treasury stock

Treasury shares are shares in Michael Hill International Limited that are held by the Michael Hill Trustee Company Limited for the purpose of issuing shares under the Michael Hill International Employee Share Scheme (see note 25).

	PARENT 2008 Shares	PARENT 2007 Shares	PARENT 2008 $000	PARENT 2007 $000
Balance 1 July	**75,654**	75,654	377	377
Allocated to employee share ownership plan	**(17,225)**	-	(86)	-
10 for 1 share issue	**525,861**	-	-	-
Balance 30 June	**584,290**	75,654	291	377

NOTE 20 Contributed equity cont.

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(e) Employee share scheme

Information relating to the Michael Hill International Limited Employee Share Scheme, including details of shares issued under the scheme, is set out in note 26.

(f) Options

Information relating to the Michael Hill International Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 26.

(g) Share buy-back

On 26 March 2007, Michael Hill International Limited announced an on-market share buyback program in order to optimise the balance sheet structure and gearing ratios, taking advantage of the current strong cash flow of the group. Share purchases could occur from 30 March 2007 and continue for a period not exceeding 12 months.

During April 2007, the company purchased 956,876 ordinary shares on-market. The shares were acquired at an average price of $9.50 per share. The total cost of $9,106,000, including $16,000 of transaction costs, was deducted from ordinary shareholder equity. The shares bought back were cancelled on 30 August 2007.

During August 2007, the company purchased 246,405 ordinary shares on-market. The shares were acquired at an average price of $9.50 per share. The total cost of $2,360,000, including $19,000 of transaction costs, was deducted from ordinary shareholder equity. The shares bought back were cancelled on 30 August 2007.

(h) Share split

On 22 August 2007, the board resolved that shareholders would receive 9 ordinary shares for every registered share held on 19 November 2007, which constituted a 10 for 1 share split. No payment was required for the issue of shares and a total of 342,947,871 shares were issued.

NOTE 21 Reserves and retained profits

	GROUP		PARENT	
	2008	**2007**	**2008**	**2007**
	$000	$000	$000	$000
(a) Reserves				
Share-based payments reserve	**220**	38	220	38
Foreign currency translation reserve	**3,966**	(687)	-	-
	4,186	(649)	220	38
Share-based payments reserve				
Balance 1 July	**38**	32	38	32
Option expense	**224**	6	224	6
Transfer to share capital (options exercised)	**(42)**	-	(42)	-
Balance 30 June	**220**	38	220	38
Foreign currency translation reserve				
Balance 1 July	**(687)**	4,058	-	-
Currency translation differences arising during the year	**4,653**	(4,745)	-	-
Balance 30 June	**3,966**	(687)	-	-

(i) **Share-based payments reserve**
The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

(ii) **Foreign currency translation reserve**
Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

	GROUP		PARENT	
	2008	**2007**	**2008**	**2007**
(b) Retained profits	$000	$000	$000	$000
Balance 1 July	**68,401**	56,811	10,581	10,038
Net profit for the year	**25,232**	21,017	11,706	9,970
Dividends	**(10,668)**	(9,427)	(10,668)	(9,427)
Balance 30 June	**82,965**	68,401	11,619	10,581

Notes to the financial statements cont.

NOTE 22 Dividends

	PARENT	
	2008 $000	2007 $000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2007 of 16 cents (2006 - 14 cents) per fully paid share paid on 15 October 2007 (2006 - 16 October 2006). Dividends are fully imputed based on tax paid at 33%.	**6,096**	5,499
Interim dividend for the year ended 30 June 2008 of 1.2 cents (2007 - 10 cents) per fully paid share paid on 1 April 2008 (2007 - 2 April 2007). Dividends are fully imputed based on tax paid at 33%.	**4,572**	3,928
Total dividends provided for or paid	**10,668**	9,427
(b) Dividends not recognised at year end		
Since year end, the Directors have declared the payment of a final dividend of 2.0 cents per fully paid ordinary share (2007 - 16 cents), fully imputed based on tax paid at 33%. The aggregate amount of the proposed dividend expected to be paid on 13 October 2008 out of retained profits at 30 June 2008, but not recognised as a liability at year end, is	**7,649**	6,124

(c) Imputed dividends

The dividends are fully imputed. Supplementary dividends of $307,000 (2007: $266,000) were paid to shareholders not tax-resident in New Zealand for which the Group received a foreign investor tax credit entitlement.

The imputed portions of the final dividends recommended after 30 June 2008 will be imputed out of existing imputation credits or out of imputation credits arising from the payment of income tax in the year ending 30 June 2008.

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Imputation credits available for subsequent financial years based on a tax rate of 33% (2007 - 33%)	**3,346**	2,790	3,346	2,790

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

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

The consolidated amounts include imputation credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

The impact on the imputation account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the imputation account of $3,767,000 (2007: $3,016,000).

NOTE 23 Earnings per share

	GROUP		
		Restated for the 10 for 1 share split	
	2008 Cents	2007 Cents	2007 Cents
(a) Basic earnings per share			
Profit attributable to the ordinary equity holders of the company	6.61	5.39	53.90
(b) Diluted earnings per share			
Profit attributable to the ordinary equity holders of the company	6.60	5.35	53.50

	GROUP	
	2008 $000	2007 $000
(c) Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**25,232**	21,017
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**25,232**	21,017

NOTE 23 Earnings per share cont.

	GROUP		
		Restated for the 10 for 1 share split	
	2008 Number	2007 Number	2007 Number
(d) Weighted average number of shares used as the denominator			
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**381,749,407**	390,059,120	39,005,912
Adjustments for calculation of diluted earnings per share:			
Options	**-**	2,000,000	200,000
Treasury Stock	**584,290**	756,540	75,654
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**382,333,697**	392,815,660	39,281,566

(e) Information concerning the classification of securities

(i) **Options**

Options granted to employees under the Michael Hill International Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 26.

(ii) **Treasury Stock**

Treasury stock held under the Michael Hill International Limited Employee Share Scheme are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. Treasury stock have not been included in the determination of basic earnings per share. Details relating to treasury stock are set out in note 20.

(iii) **Shares held for cancellation**

Shares purchased and held as part of the share buy-back (note 20(g)) are excluded from the calculation of weighted average number of ordinary shares used in the calculation of earnings per share and diluted earnings per share.

NOTE 24 Related party transactions

(a) Directors

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

(b) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2008 and 2007 is set out below. The key management personnel are all the directors of the company and the five executives with the greatest authority for the strategic direction and management of the company.

	SHORT-TERM BENEFITS	POST-EMPLOYMENT BENEFITS	OTHER LONG-TERM BENEFITS	TERMINATION BENEFITS	SHARE-BASED PAYMENTS	TOTAL
	$000	$000	$000	$000	$000	$000
2008	**3,055**	**215**	**-**	**-**	**177**	**3,447**
2007	2,514	180	-	-	3	2,697

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

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

Employee Share Scheme

Key management personnel can subscribe in cash for ordinary shares via the Michael Hill International Limited Employee Share Scheme on the same terms and conditions that applied to other employees. 17,225 shares were issued to employees during the 2008 financial year, of which 4,740 shares were issued to key management personnel. The share numbers quoted are prior to the 10 for 1 share split.

(d) Subsidiaries

The ultimate parent and controlling entity of the group is Michael Hill International Limited. Interests in subsidiaries are set out in note 25.

Notes to the financial statements cont.

NOTE 24 Related party transactions cont.

The following transactions occurred with related parties:	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Dividend revenue				
Subsidiaries	-	-	13,363	10,625
	-	-	13,363	10,625
Payments made on behalf of parent entity				
Director's fees	-	-	523	384
Other expenses	-	-	1,501	572
	-	-	2,024	956
Other transactions				
Opening balance	-	-	11,274	20,425
Loans advanced	-	-	13,363	10,625
Loans repaid	-	-	(14,115)	(19,776)
Closing balance	-	-	10,522	11,274

NOTE 25 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):
Michael Hill Franchise Pty Ltd was formed during the year ended 30 June 2008 and there were no subsidiary companies sold during the year ended 30 June 2008.

	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING 2008 %	EQUITY HOLDING 2007 %
Michael Hill Jeweller Limited	New Zealand	Ordinary	100	100
Michael & Company Limited	New Zealand	Ordinary	100	100
Michael Hill Trustee Company Limited	New Zealand	Ordinary	100	100
Michael Hill Jeweller (Australia) Pty Limited	Australia	Ordinary	100	100
Michael Hill (Wholesale) Pty Limited	Australia	Ordinary	100	100
Michael Hill Manufacturing Pty Limited	Australia	Ordinary	100	100
Michael Hill Franchise Pty Ltd	Australia	Ordinary	100	-
Michael Hill Jeweller Limited	Canada	Ordinary	100	100

NOTE 26 Share-based payments

(a) Employee Option Plan

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

Options are granted under the plan for no consideration. Options are granted for a six or ten year period.

The six year options are only exercisable in the final three years. 25% of the options granted are exercisable during the fourth year, a further 25% during the fifth year and the remaining options outstanding can be exercised in the final year.

The ten year options are exercisable at any time during the final five years.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of the options granted is set at 15% (six year options) or 30% (ten year options) above the weighted average price at which the company's shares are traded on the New Zealand Stock Exchange for the calendar month following the announcement by the Group to the New Zealand Stock Exchange of its annual results.

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

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR Number	GRANTED DURING THE YEAR Number	EXERCISED DURING THE YEAR Number	EXPIRED DURING THE YEAR Number	BALANCE AT END OF THE YEAR Number	EXERCISABLE AT END OF THE YEAR Number
GROUP AND PARENT - 2008								
22 August 2002	30 June 2008	$0.615	2,000,000	-	(2,000,000)	-	-	-
7 November 2007	30 Sept 2017	$1.253	-	4,750,000	-	-	4,750,000	-
Total			2,000,000	4,750,000	(2,000,000)	-	4,750,000	-
Weighted average exercise price			$0.615	$1.253	$0.615	-	$1.253	-
GROUP AND PARENT - 2007								
22 August 2002	30 June 2008	$6.15	2,000,000	-	-	-	2,000,000	1,000,000
Weighted average exercise price			$0.615	-	-	-	$0.615	$0.615

All figures above have been adjusted for the 10 for 1 share split.

No options were forfeited during the periods covered by the above tables.

Options granted during the 2008 financial year are detailed below. No options were granted during the 2007 financial year.

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2008 was $0.875 (2007 - nil as no options were exercised).

The weighted average remaining contractual life of share options outstanding at the end of the period was 9.25 years (2007 - 1.0 year).

Details of options granted

On the 22nd August 2002, the Directors authorised the issue of 2,000,000 options to two senior management personnel in the Group, including 1,000,000 to Emma Hill in her capacity of General Manager Canada. The issue of options for Emma Hill was subject to the approval of the shareholders at the annual meeting on the 28th November 2002, in accordance with the Company's constitution. The motion to issue options to Emma Hill was passed at the annual meeting. The exercise price of $0.615 for all 2,000,000 options was set at 15% above the weighted average price of the Company's ordinary shares over the calendar month following the announcement by the Company to the New Zealand Stock Exchange of its consolidated results for the year ended 30 June 2002.

The options may be exercised in the period from 1 July 2005 to 30 June 2008 on the following basis:

(1) In the period 1 July 2005 to 30 June 2006, the option holder may not exercise more than 25% of the entitlement.

(2) In the period 1 July 2006 to 30 June 2007, the option holder may exercise the aggregate of 25% of their entitlement and any part of their entitlement not exercised in the previous period, so that not more than 50% of the option holders' entitlement is exercised prior to 30 June 2007.

(3) In the period 1 July 2007 to 30 June 2008, the option holder may exercise such of their entitlement as has not been previously exercised.

The value of the options was calculated using the Black-Scholes option valuation model and the value of the options at the time of granting was $42,000 collectively for two option holders.

On the 7th November 2007, the Directors authorised the issue of 4,750,000 options to subscribe for ordinary shares in the Company to six senior management personnel in the Group, including 2,000,000 to Mike Parsell in his capacity of CEO of the Group. The issue of options for Mike Parsell was subject to the approval of the shareholders at the annual meeting on the 8th November 2007, in accordance with the Company's constitution. The motion to issue options to Mike Parsell was passed at the annual meeting. The exercise price of $1.253 for all 4,750,000 options was set at 30% above the weighted average price of the Company's ordinary shares in the 20 business days following the announcement on 17 August 2007 to the New Zealand Stock Exchange of its consolidated results for the year ended 30 June 2007.

The options may be exercised in the period immediately following the announcement of the Company's annual financial results for the year ending 30 June 2012 through to 30 June 2017.

The value of the options was calculated using the Black-Scholes option valuation model and the value of the options at the time of granting was $700,000 for the options available to Mike Parsell and $962,500 collectively for the other five option holders.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Notes to the financial statements cont.

NOTE 26 Share-based payments cont.

The model inputs for options granted during the year ended 30 June 2008 included:

(a) options are granted for no consideration, have a ten year life, and are exercisable in the period immediately following the announcement of the Company's annual financial results for the year ending 30 June 2012 through to 30 June 2017.
(b) exercise price: $1.253
(c) grant date: 7 November 2007
(d) expiry date: 30 September 2017
(e) share price at grant date: $1.035
(f) expected price volatility of the company's shares: 20%
(g) expected dividend yield: 4.5%
(h) risk-free interest rate: 6.35%

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

(b) Employee share scheme

The Michael Hill International Limited Employee Share Scheme was established by Michael Hill International Limited in 2001 to assist employees to become shareholders of the Company. Employees are able to purchase shares in the Company at a 10% discount to the average market price over the two weeks prior to the invitation to purchase. The shares will be held by a Trustee for a one year period during which time any dividends derived will be paid to the employee.

	GROUP		PARENT	
	2008 Number	**2007** Number	**2008** Number	**2007** Number
The plan held the following ordinary shares at the end of the year:				
Shares issued to participating employees (fully paid)	**172,250**	-	172,250	-
Not yet allocated to employees	**584,290**	756,540	584,290	756,540
	756,540	756,540	756,540	756,540

All figures above have been adjusted for the 10 for 1 share split.

During the year, 172,250 (2007 - nil) shares were issued to the Michael Hill Employee Share Ownership Plan at an average price of $0.865 per share (2007 - nil).

Michael Hill International Limited acquired no shares through on-market purchases on the New Zealand Stock Exchange during the year that related to the employee share scheme.

(c) Expenses arising from share-based payment transactions

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

	GROUP		PARENT	
	2008 $000	**2007** $000	**2008** $000	**2007** $000
Options issued under employee option plan	**224**	6	224	6
Shares issued under employee share scheme	**37**	-	37	-
	261	6	261	6

NOTE 27 Financial risk management

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

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

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

(a) Market risk

(i) **Foreign exchange risk**

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

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Where it considers appropriate, the Group enters into forward foreign exchange contracts to buy specified amounts of various foreign currencies in the future at a pre-determined exchange rate. The contracts are entered into to hedge future purchase commitments denominated in foreign currencies.The Group's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2008			30 June 2007		
	USD	**AUD**	**CAD**	**USD**	**AUD**	**CAD**
	$000	$000	$000	$000	$000	$000
Cash and cash equivalents	-	3,199	1,067	-	4,180	1,486
Trade receivables	-	3,325	224	-	2,525	116
Commercial bills	-	58,900	-	-	44,950	-
Trade payables	3,063	4,656	618	1,409	4,534	176
Forward exchange contracts - buy foreign currency (cash flow hedges)	-	-	-	16,745	-	-

The parent entity's financial assets and liabilities are denominated in New Zealand dollars.

Group sensitivity

The Group's principal foreign currency exposures arise from the purchase of overseas sourced products that are primarily invoiced in US dollars. Based on the US dollar trade payables due for payment at 30 June 2008, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's pre tax profit for the year would have been NZ$447,000 lower / NZ$366,000 higher (2007: NZ$203,000 lower / NZ$166,000 higher).

The group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of Australia and Canada. The effect on the foreign exchange translation reserve is contained in note 21.

(ii) **Cash flow and fair value interest rate risk**

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain a minimum 50% in fixed rate instruments. All the Group's borrowings are denominated in Australian Dollars.
As at the reporting date, the Group had the following variable rate borrowings:

	30 June 2008		30 June 2007	
	Weighted average interest rate		**Weighted average interest rate**	
	%	AUD $000	%	AUD $000
Commercial bills	8.06%	13,000	6.88%	8,000
Net exposure to cash flow interest rate risk		13,000		8,000

An analysis by maturities and a summary of the terms and conditions is contained in note 18.

Group sensitivity

At 30 June 2008, if interest rates had changed by -/+100 basis points from the year end rates with all other variables held constant, pre tax profit for the year would have been NZ$742,000 lower/higher (2007: NZ$495,000 lower/higher), mainly as a result of higher/lower interest expense on commercial bills.

(b) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. In addition, a large portion of risk is passed onto credit providers.

(c) Liquidity risk

The Group maintains prudent liquidity risk management with sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities.
Please see note 18 for more information on the Group's borrowings, financing arrangements and interest rate exposures.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

Notes to the Financial Statements cont.

NOTE 27 Financial risk management cont.

(e) Derivative financial instruments

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Current liabilities				
Forward exchange contracts - cash flow hedges*	**-**	1,114	-	-
Total derivative financial instrument liabilities	**-**	1,114	-	-

*included in trade and other payables

Forward exchange contracts - cash flow hedges
These contracts are hedging highly probable forecasted US dollar purchases for the ensuing financial year at various dates up to six months from the reporting date.
In the year ended 30 June 2007, there was a loss of $1,114,000 from the increase in the fair value liability.
Amounts disclosed above represent currency sold measured at the contracted rate.

NOTE 28 Reconciliation of profit after income tax to net cash inflow from operating activities

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Profit for the year	**25,232**	21,017	11,706	9,970
Depreciation	**8,057**	6,695	19	20
Amortisation	**517**	569	-	-
Non-cash employee benefits expense - share-based payments	**261**	6	261	6
Net loss on sale of non-current assets	**50**	524	-	-
Deferred taxation	**116**	(653)	(2)	-
Net exchange differences	**9,012**	(7,479)	13	(2)
(Increase) / decrease in trade and other receivables	**(1,749)**	5,241	-	-
(Increase) / decrease in inventories	**(42,116)**	20,459	-	-
Decrease / (increase) in current tax receivables	**1,503**	(141)	(1,083)	(586)
Increase / (decrease) in trade and other payables	**6,535**	(5,084)	3	(21)
Increase / (decrease) in provisions	**345**	(40)	-	-
Net cash inflow from operating activities	**7,763**	41,114	10,917	9,387

NOTE 29 Remuneration of auditors

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

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
(a) Assurance services				
Audit services				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work	**292**	309	-	-
Total remuneration for audit services	**292**	309	-	-
Total remuneration for assurance services	**292**	309	-	-
(b) Taxation services				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns	**113**	152	-	-
Corporate planning and related tax advice for the Group	**378**	17	347	-
Related practices of PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns	**109**	48	-	-
Corporate planning and related tax advice for the Group	**432**	3	432	-
Total remuneration for taxation services	**1,032**	220	779	-

NOTE 29 Remuneration of auditors cont.

	GROUP		PARENT	
	2008	2007	2008	2007
	$000	$000	$000	$000
(c) Advisory services				
PricewaterhouseCoopers Australian firm				
System reviews	**118**	-	-	-
Related practices of PricewaterhouseCoopers Australian firm				
Advisory services	**-**	15	-	-
Total remuneration for advisory services	**118**	15	-	-

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

NOTE 30 Commitments

Operating leases

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

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

	GROUP		PARENT	
	2008	2007	2008	2007
	$000	$000	$000	$000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**29,348**	20,944	-	-
Later than one year but not later than five years	**68,131**	53,770	-	-
Later than five years	**9,899**	11,383	-	-
	107,378	86,097	-	-

NOTE 31 Contingencies

(a) Contingent liabilities

The parent entity and Group had contingent liabilities in respect of guarantees to bankers and other financial institutions of subsidiary companies' overdraft facilities and fixed assets at 30 June 2008 of $113,000 (30 June 2007 - $45,594,000).

No material losses are anticipated in respect of any of the above contingent liabilities.

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

(b) Contingent assets

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

NOTE 32 Events occurring after the balance sheet date

There were no significant events occurring after 30 June 2008.

SHARE PRICE PERFORMANCE

	HIGH	LOW	as at 30/6/08
PRICES FOR SHARES TRADED DURING THE YEAR	$ 1.22	$ 0.72	$ 0.72

	2008	2007	2006	2005	2004	2003	2002
SEVEN YEAR COMPARATIVE REVIEW OF SHARE PRICES AS AT 30 JUNE	$0.72	$1.01	$0.76	$0.76	$0.60	$0.46	$0.50

Note: a 10 for 1 share split occurred on 19 November 2007. The previous years have been re-stated for comparative purposes.

Shareholder information

Information specifically for investors and shareholders is featured on our website **www.michaelhill.com**. It includes our latest share and historical share prices over the last six years. It also includes any announcements and powerpoint presentations made to Analysts and the Press at the time of the release of our half year and annual financial results to the New Zealand Stock Exchange each year. A copy of the Company's Constitution and minutes of the last Annual Meeting are also available on the website.

Any shareholders with queries relating to their shareholding or dividend payments etc., should direct their enquiries to
Computershare Investor Services Limited
Private Bag 92119
Auckland 1020
Phone 09 488 8777

Financial calendar

ANNUAL MEETING

Friday 7th November 2008 at 10.30 am.
Ellerslie Events Centre
Great Northern Room
80-100 Ascot Avenue
Greenlane
Auckland

DIVIDENDS PAYABLE

Interim - April   Final - October

FINANCIAL RESULTS ANNOUNCED

Half year - February   Annual - August

ANALYSIS OF SHAREHOLDING

TWENTY LARGEST SHAREHOLDERS AS AT 31 AUGUST 2008

	ORDINARY SHARES	% OF SHARES
R.M. Hill, A.C. Hill, R.M.J. Urlich (as trustees)	98,059,900	25.60
D.W. Hewitt, R.M.J. Urlich (as trustees)	80,916,220	21.12
TEA Custodians Ltd.	25,201,681	6.58
NZ Superannuation Fund Nominees Ltd	19,778,482	5.16
Bond St Custodians Limited	14,679,400	3.83
Accident Compensation Corporation	8,518,550	2.22
Peters MacGregor Investments Limited	7,444,600	1.94
Peters MacGregor Pty Limited	7,367,000	1.92
Peters MacGregor Holdings Pty Limited	4,633,000	1.21
M.R. Parsell	4,459,890	1.16
GMS Group Nominees Pty Ltd	3,810,000	0.99
R.L. Parsell	3,560,250	0.93
R.M. Hill, A.C. Hill, R.M.J. Urlich (as trustees)	3,456,900	0.90
Citibank Nominees (NZ) Limited	2,664,104	0.70
NZ Guardian Trust Investment Nominees Ltd	2,583,700	0.67
HSBC Nominees (NZ) Limited	2,449,230	0.64
National Nominees NZ Limited	2,441,470	0.64
Mara Spong	2,370,000	0.62
W.K. Butler, C.A. Butler, R.M J.Urlich	1,819,640	0.48
E.J. Hill	1,524,750	0.40
Total	297,738,767	77.71

SHAREHOLDING BY RANGE OF SHARES AS AT 31 AUGUST 2008

	NO. OF HOLDERS	% OF HOLDERS	NO. OF SHARES
1 - 9,999	1,376	43.9	5,611,469
10,000 - 49,999	1,386	44.2	26,530,025
50,000 - 99,999	208	6.6	13,110,408
100,000 & over	165	5.3	337,801,288
Total	3,135	100%	383,053,190

SUBSTANTIAL SECURITY HOLDERS

The following shareholders hold 5% or more of the issued capital of the Company and have filed notices with the Company under the Securities Amendment Act 1988 that they are substantial security holders in the Company.

	NO. OF ORDINARY SHARES
R.M. Hill, A.C. Hill, R.M.J. Urlich (as trustees)	98,059,900
D.W. Hewitt, R.M.J. Urlich (as trustees)	80,916,220
Leslie Wayne Peters	47,080,500
Fisher Funds Management Limited	30,319,152
NZ Superannuation Fund Nominees Limited	19,054,641

Total number of issued voting securities of the Company as at 31 August 2008 is 382,468,900.
An additional 584,290 shares are held as Treasury stock for the Company's staff share purchase scheme.

DIRECTORS & ASSOCIATED INTERESTS' SHARE HOLDINGS

The table below sets out the relevant interests in equity securities of Directors and Associated Persons of Directors at 30 June 2008, in terms of Listing Rule 10.5.3 of the New Zealand Exchange Listing Rules.

	RELEVANT INTEREST OF DIRECTOR	RELEVANT INTEREST OF ASSOCIATED PERSON
R.M. Hill & A.C. Hill	182,433,020	321,150
M.R. Parsell	4,459,890	3,700,400
G.J. Gwynne	1,472,000	
L.W. Peters	47,080,500*	
M.R. Doyle	3,500,000**	
E.J. Hill	1,524,750	

* includes 35,080,500 ordinary shares held by clients under management.
** includes 2,500,000 ordinary shares held under management for others.

INDEX

CORPORATE DIRECTORY

DIRECTORS
R.M. Hill, C.N.Z.M (Chairman)
M.R. Parsell (Chief Executive Officer)
G.J. Gwynne
L.W. Peters M.B.A.,FFin.
M.R. Doyle
A.C. Hill Dip F.A.
E.J. Hill B.Com., M.B.A.

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

REGISTERED OFFICE
The Offices of Kensington Swan
Level 9
89 The Terrace
Wellington
(All communications to
GPO Box 2922, Brisbane, Australia)

CORPORATE HEAD OFFICE
Metroplex on Gateway
7 Smallwood Place
Murarrie, Qld 4172
GPO Box 2922
Brisbane QLD 4001, Australia
Telephone 617 3399 0200
Fax 617 3399 0270

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

SOLICITORS
Kensington Swan
PO Box 10246
Wellington
New Zealand

AUDITORS
PricewaterhouseCoopers
Riverside Centre
123 Eagle Street
Brisbane, QLD
Australia

BANKERS
ANZ Banking Group (New Zealand) Limited
Australia and New Zealand Banking Group Limited

WEBSITE
www.michaelhill.com

EMAIL
inquiry@michaelhill.com.au

michael hill

INTERNATIONAL LIMITED