

Michael Hill International Limited
ABN 25 610 937 598
Appendix 4D
Results for announcement to the market
Half-year report 31 December 2016

Reporting period: 1 July 2016 to 31 December 2016
Previous reporting period: 1 July 2015 to 31 December 2015

Results in brief

	31 Dec 2016 \$'000	31 Dec 2015 \$'000	Change \$'000	Change %
Revenue from continuing operations	327,502	310,775	16,727	5.4%
Net profit before tax	38,237	33,174	5,063	15.3%
Net profit after tax	25,753	24,916	837	3.4%

Dividends

	Amount per security Cents	Franked amount per security Cents
31 December 2016		
Interim dividend ¹	AU 2.50c	AU 1.25c
	Amount per security	Franked amount per security
31 December 2015		
Interim dividend	NZ 2.50c	-
Final dividend ²	AU 2.50c	AU 2.50c

1. The record date for determining entitlements to the interim dividend of AU 2.5 cents per share is 24 February 2017. The payment date for the interim dividend is 31 March 2017.

2. Final dividend of AU 2.5 cents per share for the year ended 30 June 2016 was declared on 18 August 2016.

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

	31 December 2016	31 December 2015
Net tangible assets		
Net tangible asset backing per ordinary security	\$0.53	\$0.52

Entities of which control has been gained or lost

Control has not been gained or lost in relation to any entity during the period.

This report should be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Michael Hill International Limited in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

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

E J Hill
Chair
16 February 2017
Brisbane

Michael Hill International Limited ABN 25 610 937 598

Interim report - 31 December 2016

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Michael Hill International Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' report

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Michael Hill International Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

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

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

Principal activities

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

There were no significant changes in the nature of the Group's activities during the half-year to 31 December 2016.

Highlights of the half-year

- Operating revenue of \$327.5m, up 5.4% on same period last year
- Record EBIT achieved of \$40.0m, up 13.5% on \$35.2m for the same period last year
- Same store sales for the Group of \$306.0m, up 0.8% on same period last year
- Canadian retail segment achieved a record EBIT of CA\$8.8m, up 26.0% on last year
- New Zealand segment recorded a record EBIT of NZ\$16.5m, up 7.7% on last year
- Australian segment produced a record EBIT of AU\$33.7m, up 3.1% on last year
- US segment losses reduced by 29.8% to US\$1.1m for the half-year
- Emma & Roe lifted revenue 72% to \$8.7m and losses increased to \$2.2m for the half-year
- Corporate and other costs down by 6%
- Net profit after tax of \$25.8m, up from \$24.9m last year
- Earnings per share 6.7 cents per share, up from 6.5 cents last year
- Interim dividend of AU 2.5 cents per share compared to NZ 2.5 cents last year
- Net debt of \$36.6m
- Equity ratio of 48.9%
- Eight new Michael Hill stores opened giving a total of 305 stores at the half-year
- Eight new Emma & Roe stores opened during the period giving 24 stores at the half-year

Highlights of the half-year (continued)

Key Facts

TRADING RESULTS	31 Dec 2016 \$'000	31 Dec 2015 \$'000	+/-%
SIX MONTHS ENDED (AU \$000)			
Revenue	327,502	310,775	5.4%
EBIT	40,018	35,245	13.5%
Group profit after tax	25,753	24,916	3.4%
Net cash from operating activities	15,904	32,463	(51.0)%

FINANCIAL POSITION AT HALF-YEAR	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Contributed equity	10,015	3,760
Total equity	208,055	204,469
Total assets	425,128	388,423
Net debt	36,628	26,349

NUMBER OF STORES

As at 31 December	2016	2015
Michael Hill		
Australia	170	166
New Zealand	53	52
Canada	72	65
United States	10	10
Total Michael Hill stores	305	293

Emma & Roe

Australia	23	10
New Zealand	1	1
Total Emma & Roe stores	24	11

KEY MEASURES	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Share price 31 December (AU\$)	1.27	NZ\$.99
Basic earnings per share (AUc)	6.70	6.50
Interest expense cover (times)	22.4	16.0
Equity ratio (%)	48.9	52.6
Current ratio	2.6:1	2.7:1

Highlights of the half-year (continued)

Review of operations and results

Michael Hill International Limited (ASX/NZX: MHJ) today announced an after tax profit of \$25.8m for the six months ended 31 December 2016, an increase of 3.4% on last year.

The first half result was pleasing, especially given the difficult trading period in the lead up to December and the critical Christmas trading period. Same store sales were slightly up for the Group and gross margin was slightly down while costs were managed well, culminating in a record half-year EBIT for the Group of \$40.0m. Particularly pleasing was the performance of our Canadian market which experienced same store growth of 6.8% while opening 5 new stores during the half.

The Emma & Roe brand experienced flat same store sales for the half but total sales grew 72% to \$8.7m. Eight new stores were opened, most of which were in NSW. The plan is to continue new store growth to create a critical mass of stores in the Queensland and NSW advertising catchment areas which will allow us to market this new brand more effectively. The new stores opened during the half won't make positive contributions until additional marketing spend is able to be funded from a larger store base in the large and lucrative NSW market.

The US operation went through a change of management during the half and suffered from soft sales however the bottom line improved on last year through gross margin growth and cost reductions.

Overall this was a reasonable result for the Group given the difficult and lumpy trading conditions across most markets.

The balance sheet is still in good shape at the end of the half despite the Company making a settlement payment of NZ\$22.6m to the New Zealand Inland Revenue (IR) as part of the settlement reached in August 2016 and recorded in our 2015-16 financial statements. This payment has resulted in a lowering of our equity ratio to 48.9% (52.6% at 31 December 2015) and lifted net debt to \$36.6m (\$26.3m at 31 December 2015). Net operating cash flow of \$15.9m was likewise impacted by the settlement payment to the IR during the half. These ratios are within an acceptable range for the Group.

Australian Retail Segment

	31 Dec 2016 AU\$'000	31 Dec 2015 AU\$'000	+/- %
For the six months ending			
Revenue	181,994	176,829	2.9%
EBIT	33,663	32,639	3.1%
EBIT % of revenue	18.5%	18.5%	-
Number of stores	170	166	4

The Australian segment achieved a solid first half result that was punctuated with a difficult pre-Christmas trading period in November however the retail team recovered well to make some gains in December which helped deliver the record first half operating result of \$33.7m.

Highlights of the half-year (continued)

New Zealand retail segment

	31 Dec 2016 NZ\$'000	31 Dec 2015 NZ\$'000	+/- %
For the six months ending			
Revenue	66,905	67,895	(1.5)%
EBIT	16,525	15,342	7.7%
EBIT % of revenue	24.7%	22.6%	2.1%
Number of stores	53	52	1

Our New Zealand segment also recorded a record first half operating result of NZ\$16.5m against a back drop of flat sales for most of the half. This excellent result was achieved by a focus on margin management and cost control.

Canadian retail segment

	31 Dec 2016 CA\$'000	31 Dec 2015 CA\$'000	+/- %
For the six months ending			
Revenue	62,723	53,766	16.7%
EBIT	8,834	7,012	26.0%
EBIT % of revenue	14.1%	13.0%	1.1%
Number of stores	72	65	7

The Canadian segment recorded another impressive result with same store sales lifting 6.8% which produced a record half-year operating profit of \$8.8m. Another five stores were opened during the period giving the country 72 stores trading at the end of the half.

United States retail segment

	31 Dec 2016 US\$'000	31 Dec 2015 US\$'000	+/- %
For the six months ending			
Revenue	7,030	7,500	(6.3)%
EBIT	(1,111)	(1,583)	29.8%
EBIT % of revenue	(15.8)%	(21.1)%	5.3%
Number of stores	10	10	-

The US segment had a tough trading half which saw same store sales fall 9.3% but at the same time gross margin improved and expenses were reduced producing a smaller operating loss than in the previous year. A new retail leadership team was put in place during the half and it is expected that top line sales will improve over the second half. The Company still views the US as a viable growth opportunity and will continue to innovate and test this large and lucrative market with a view to opening more stores when the time is right.

Highlights of the half-year (continued)

Emma & Roe retail segment

	31 Dec 2016 \$'000	31 Dec 2015 \$'000	+/- %
For the six months ending			
Revenue	8,749	5,086	72.0%
EBIT	(2,219)	(1,037)	(114.0)%
EBIT % of revenue	(25.4)%	(20.4)%	(5.0)%
Number of stores	24	11	13

Emma & Roe saw some rapid revenue growth in the half, up 72% to \$8.7m driven by the growth in store numbers to 24 stores by the end of the half. Same store sales were flat for the half. Additional infrastructure and resources were added to the division during the half to oversee the future growth of the brand. As a result of flat same store sales and increased costs, the operating loss for this division grew to \$2.2m from \$1.0m last year for the half.

Strategic update

New store openings have continued as planned with eight Michael Hill and eight Emma & Roe stores opened in the first half. There are plans for another ten Michael Hill and six Emma & Roe openings in the second half.

Emma & Roe now has store presence in New South Wales and will have an adequate store base by July to allow for some television advertising in the 2017-18 year which will assist in lifting the modest sales levels currently being achieved in this new market where the brand is not yet well recognised.

The US segment was restructured during the half and is now managed by our North American President, Brett Halliday based in Toronto. The Company still views the US as a viable market with enormous potential but there is work to do on lifting brand awareness through effective marketing programs, and from improved productivity of the teams.

Our branded collections strategy continues to deliver good productivity to the business and a continued focus on developing and rolling out our proprietary collections is planned within the constraints of available cash flow and funding.

Online sales via our e-commerce portal are growing steadily and while still modest as a total portion of revenue, they continue to grow. Further investment and resources will be added to the e-commerce division to renovate the web site and add functionality to our online offering.

CRM is now implemented in the business and valuable customer data is available which will allow for more effective direct marketing and also allow for valuable data analytics to better understand our customer so we can develop and improve our offering in the future.

Dividends

The Directors have announced an interim dividend of AU2.5¢ per share (2015 - NZ2.5¢), 50% franked in Australia with full imputation credits for New Zealand shareholders. The dividend will be paid on 31 March 2017 with the record date being 24 February 2017.

Matters subsequent to the end of the reporting period

There are no significant events after the end of the reporting period which have come to our attention.

Matters subsequent to the end of the reporting period (continued)

Chief Executive Officer appointment

The Board is still working through the process of appointing a Chief Executive Officer following the resignation of the previous Chief Executive Officer, Mike Parsell. This appointment is a critical one for the Group and a thorough search and interview process is being conducted. The Acting Chief Executive Officer, Phil Taylor, the Group's Chief Financial Officer, will continue in the interim role until a final decision has been made.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 18.

Rounding of amounts

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

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

This report is made in accordance with a resolution of Directors.



E J Hill
Director
Brisbane
16 February 2017

Michael Hill International Limited
Consolidated statement of comprehensive income
For the half-year 31 December 2016

	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Notes		
Revenue from continuing operations	327,502	310,775
Other income	161	34
Cost of goods sold	(118,061)	(110,862)
Employee benefits expense	(83,034)	(77,581)
Occupancy costs	(29,090)	(26,553)
Marketing expenses	(17,821)	(19,212)
Selling expenses	(14,248)	(13,798)
Depreciation and amortisation expense	(9,650)	(8,701)
Loss on disposal of property, plant and equipment	(300)	(138)
Other expenses	(15,432)	(18,581)
Finance costs	(1,790)	(2,209)
Profit before income tax	38,237	33,174
Income tax expense	(12,484)	(8,258)
Profit for the half-year	25,753	24,916
Other comprehensive income		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Cash flow hedges	453	(221)
Currency translation differences arising during the half-year	97	841
Other comprehensive income for the half-year, net of tax	550	620
Total comprehensive income for the half-year	26,303	25,536
Total comprehensive income for the half-year is attributable to:		
Owners of Michael Hill International Limited	26,303	25,536
	Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:		
Basic earnings per share	6.70	6.50
Diluted earnings per share	6.66	6.48

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

Michael Hill International Limited
Consolidated statement of financial position
As at 31 December 2016

	31 Dec 2016	31 Dec 2015	30 Jun 2016
Notes	\$'000	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	11,649	7,567	8,853
Trade and other receivables	31,175	25,727	26,263
Inventories	231,814	215,653	199,961
Current tax receivables	-	1,680	-
Other current assets	4,250	9,901	5,035
Total current assets	278,888	260,528	240,112
Non-current assets			
Trade and other receivables	1,478	370	325
Property, plant and equipment	4 77,767	67,939	71,933
Deferred tax assets	59,116	50,631	64,074
Intangible assets	5 5,560	6,535	5,561
Other non-current assets	2,319	2,420	2,192
Total non-current assets	146,240	127,895	144,085
Total assets	425,128	388,423	384,197
LIABILITIES			
Current liabilities			
Trade and other payables	71,149	66,681	46,377
Current tax liabilities	3,629	-	25,022
Provisions	5,461	4,870	4,902
Deferred revenue	27,434	24,280	24,685
Total current liabilities	107,673	95,831	100,986
Non-current liabilities			
Borrowings	48,277	33,916	40,887
Provisions	5,078	4,821	5,198
Deferred revenue	56,045	49,386	50,725
Total non-current liabilities	109,400	88,123	96,810
Total liabilities	217,073	183,954	197,796
Net assets	208,055	204,469	186,401
EQUITY			
Contributed equity	6 10,015	3,760	3,767
Reserves	3,362	8,247	4,131
Retained profits	194,678	192,462	178,503
Total equity	208,055	204,469	186,401

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

Michael Hill International Limited
Consolidated statement of changes in equity
For the half-year 31 December 2016

		Attributable to owners of Michael Hill International Limited					
		Contributed equity \$'000	Options reserve \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Total equity \$'000
Notes							
	Balance at 1 July 2016	3,767	2,188	2,827	(884)	178,503	186,401
	Profit for the period	-	-	-	-	25,753	25,753
	Currency translation differences	-	-	97	-	-	97
	Currency forward contracts	-	-	-	(61)	-	(61)
	Interest rate swaps	-	-	-	514	-	514
	Total comprehensive income for the half-year	-	-	97	453	25,753	26,303
	Transactions with owners in their capacity as owners:						
	Dividends provided for or paid	-	-	-	-	(9,578)	(9,578)
7	Option expense through share based payments reserve	-	29	-	-	-	29
	Long term incentives issued	-	75	-	-	-	75
	Issue of share capital - exercise of options	4,825	-	-	-	-	4,825
	Transfer option reserve to contributed equity on exercise of options	1,423	(1,423)	-	-	-	-
		6,248	(1,319)	-	-	(9,578)	(4,649)
	Balance at 31 December 2016	10,015	869	2,924	(431)	194,678	208,055
	Balance at 1 July 2015	3,760	1,943	6,270	(768)	176,416	187,621
	Profit for the period	-	-	-	-	24,916	24,916
	Currency translation differences	-	-	841	-	-	841
	Currency forward contracts	-	-	-	(72)	-	(72)
	Interest rate swaps	-	-	-	(149)	-	(149)
	Total comprehensive income for the half-year	-	-	841	(221)	24,916	25,536
	Transactions with owners in their capacity as owners:						
	Dividends provided for or paid	-	-	-	-	(8,870)	(8,870)
7	Option expense through share based payments reserve	-	70	-	-	-	70
	Reverse options previously forfeited	-	112	-	-	-	112
		-	182	-	-	(8,870)	(8,688)
	Balance at 31 December 2015	3,760	2,125	7,111	(989)	192,462	204,469

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

Michael Hill International Limited
Consolidated statement of cash flows
For the half-year 31 December 2016

	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Notes		
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	364,770	347,246
Payments to suppliers and employees (inclusive of goods and services tax)	(302,462)	(299,470)
	<u>62,308</u>	<u>47,776</u>
Interest received	9	138
Other revenue	161	34
Interest paid	(1,696)	(2,039)
Income tax received / (paid)	(28,481)	1,864
Net GST and sales taxes paid	(16,397)	(15,310)
Net cash inflow from operating activities	8 <u>15,904</u>	<u>32,463</u>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	57	67
Payments for property, plant and equipment	(14,680)	(11,328)
Payments for intangible assets	(1,302)	(1,034)
Net cash (outflow) from investing activities	4 <u>(15,925)</u>	<u>(12,295)</u>
Cash flows from financing activities		
Proceeds from borrowings	89,500	70,000
Payments for share options exercised	4,825	-
Repayment of borrowings	(82,000)	(80,500)
Dividends paid to Company's shareholders	(9,578)	(8,870)
Net cash inflow (outflow) from financing activities	7 <u>2,747</u>	<u>(19,370)</u>
Net increase in cash and cash equivalents	2,726	798
Cash and cash equivalents at the beginning of the financial year	8,853	6,797
Effects of exchange rate changes on cash and cash equivalents	70	(28)
Cash and cash equivalents at end of half-year	<u>11,649</u>	<u>7,567</u>

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

1 Basis of preparation

These consolidated interim financial statements for the half-year reporting period ended 31 December 2016 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Michael Hill International Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

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

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

Until 23 June 2016, Michael Hill New Zealand Limited (formerly known as Michael Hill International Limited) was the parent of the Group. Until that time, Michael Hill New Zealand Limited was a public company registered under the Companies Act 1993 and remains domiciled in New Zealand. Michael Hill New Zealand Limited had its primary listing on the New Zealand Stock Exchange. The listing was suspended on 22 June 2016 as part of the scheme of arrangement to move the primary listing to the ASX.

Michael Hill International Limited obtained control of the former parent, Michael Hill New Zealand Limited (formerly known as Michael Hill International Limited) on 23 June 2016. The reason for obtaining control was the move to the ASX. Michael Hill International Limited issued equity in exchange for the equity of Michael Hill New Zealand Limited. The assets and liabilities of the new group and the original group were the same immediately before and after the reorganisation. The owners of the original parent before the reorganisation had the same absolute and relative interests in the new assets of the original group and the new group immediately before and after the reorganisation. As it was a common control transaction, it is outside the scope of AASB 3 Business Combinations. The transaction is accounted for as a group reorganisation by applying the principles of reverse acquisition accounting. The Group financial statements represent a continuation of the original group.

These consolidated interim financial statements of Michael Hill International Limited and its subsidiaries (collectively, the Group) for the six months ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 16 February 2017.

2 Segment information

(a) Identification and description of segments

Management have determined the operating segments based on the reports reviewed by the Board and Executive Team that are used to make strategic decisions. This definition was updated after it was announced on 10 June 2016 that the Emma & Roe brand was moving from the trial phase into growth mode. Management have also determined that the definition of segments include trading activity from our online presence and in-house credit function. Prior year comparatives were restated in line with the updated definition.

2 Segment information (continued)

(a) Identification and description of segments (continued)

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

The amounts provided to the Board and Executive Team in respect of total assets and liabilities are measured in a manner consistent with the financial statements. These reports do not allocate total assets or total liabilities based on the operations of each segment or by geographical location.

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

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

Types of products and services

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

Accounting policies and inter-segment transactions

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

Segment information by brand

for the period ended 31 December 2016	Michael Hill \$'000	Emma & Roe \$'000	Corporate & other \$'000	Group \$'000
Operating revenue	318,336	8,749	417	327,502
Gross profit %	62.0%	66.0%	-	63.8%
EBITDA	64,615	(1,663)	(13,284)	49,668
Depreciation and amortisation	(7,725)	(556)	(1,369)	(9,650)
EBIT	56,890	(2,219)	(14,653)	40,018
Interest income	-	-	9	9
Finance costs	(3)	(4)	(1,783)	(1,790)
Net profit before tax	56,887	(2,223)	(16,427)	38,237
Income tax expense	-	-	-	(12,484)
Net profit after tax	56,887	(2,223)	(16,427)	25,753

2 Segment information (continued)

Segment information by brand (continued)

for the period ended 31 December 2015

	Michael Hill \$'000	Emma & Roe \$'000	Corporate & other \$'000	Group \$'000
Operating revenue	305,370	5,086	319	310,775
Gross profit %	62.0%	70.1%	-	64.2%
EBITDA	58,819	(773)	(14,100)	43,946
Depreciation and amortisation	(7,082)	(264)	(1,355)	(8,701)
EBIT	51,737	(1,037)	(15,455)	35,245
Interest income	2	-	136	138
Finance costs	(94)	(12)	(2,103)	(2,209)
Net profit before tax	51,645	(1,049)	(17,422)	33,174
Income tax expense	-	-	-	(8,258)
Net profit after tax	51,645	(1,049)	(17,422)	24,916

Michael Hill retail segment by country

for the period ending 31 December 2016

	Australia \$'000	New Zealand \$'000	Canada \$'000	United States \$'000	Michael Hill \$'000
Segment operating revenue	181,994	63,770	63,219	9,353	318,336
Gross profit %	62.4%	62.0%	61.2%	60.0%	62.0%
Segment EBITDA	37,442	17,034	10,957	(818)	64,615
Segment depreciation and amortisation	(3,779)	(1,267)	(2,030)	(649)	(7,725)
Segment EBIT	33,663	15,767	8,927	(1,467)	56,890
Segment EBIT as a % of revenue	18.5%	24.7%	14.1%	(15.7)%	17.9%
Segment finance costs	8	(11)	-	-	(3)
Segment net profit before tax	33,671	15,756	8,927	(1,467)	56,887

for the period ended 31 December 2015

	Australia \$'000	New Zealand \$'000	Canada \$'000	United States \$'000	Michael Hill \$'000
Segment operating revenue	176,829	62,236	55,928	10,377	305,370
Gross profit %	62.3%	61.5%	62.3%	58.7%	62.0%
Segment EBITDA	36,118	15,375	8,990	(1,664)	58,819
Segment depreciation and amortisation	(3,479)	(1,265)	(1,797)	(541)	(7,082)
Segment EBIT	32,639	14,110	7,193	(2,205)	51,737
Segment EBIT as a % of revenue	18.5%	22.7%	12.9%	(21.2)%	17.9%
Segment interest income	-	2	-	-	2
Segment finance costs	(81)	(13)	-	-	(94)
Segment net profit before tax	32,558	14,099	7,193	(2,205)	51,645

3 Financial assets and financial liabilities

Set out below is an overview of financial assets, other than cash and short-term deposits, held by the Group as at 31 December 2016 and 30 June 2016:

	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Financial assets at amortised cost:		
Trade and other receivables	32,293	26,138
Derivatives designated as hedging instruments:		
Foreign exchange forward contracts	360	450
Total current	31,175	26,263
Total non current	1,478	325

Set out below is an overview of financial liabilities held by the Group as at 31 December 2016 and 30 June 2016:

	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Financial liabilities at amortised cost:		
Trade and other payables	70,358	45,044
Non-current interest bearing loans and borrowings		
Secured bank loan	48,277	40,887
Derivatives designated as hedging instruments:		
Foreign exchange forward contracts	-	29
Interest rate swaps	791	1,304
Total current	71,149	46,377
Total non current	48,277	40,887

4 Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2016, the Group acquired assets with a total cost of \$14,680,000 (31 December 2015 - \$11,328,000). Assets with a net book value of \$357,000 were disposed of during the six months ended 31 December 2016 (31 December 2015 - \$204,000), resulting in a net loss on disposal of \$300,000 (31 December 2015 - \$137,000 loss).

5 Intangible assets

Acquisitions and disposals

During the six months ended 31 December 2016, the Group acquired assets with a total cost of \$1,302,000 (31 December 2015 - \$1,034,000). No assets were disposed of during the six months ended 31 December 2016 (31 December 2015 - \$1,000), resulting in no net loss on disposal (31 December 2015 - \$1,000 loss).

6 Contributed equity

(a) Share capital

	31 Dec 2016 Shares	30 Jun 2016 Shares	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Share capital				
Ordinary shares - fully paid	387,438,513	383,138,513	10,015	3,767

(b) Movements in ordinary share capital

	31 Dec 2016 Shares	30 Jun 2016 Shares	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Ordinary shares				
Opening balance	383,138,513	383,153,190	3,767	3,767
Exercise of options - Proceeds received	4,300,000	-	4,825	-
Cancellation of treasury stock	-	(14,677)	-	-
Transfer option reserve to contributed equity	-	-	1,423	-
Closing balance	387,438,513	383,138,513	10,015	3,767

7 Dividends

(a) Ordinary shares

	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Final dividend for the year ended 30 June 2016 of 2.5 cents (2015: NZ 2.5 cents) per fully paid share paid on 6 October 2016 (2015: 2 October 2015)	9,578	8,870

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

	31 Dec 2016 \$'000	31 Dec 2015 \$'000
In addition to the above dividends, since half-year end the Directors have recommended the payment of an interim dividend of 2.5c cents per fully paid ordinary share (2015 - NZ 2.5 cents), franked at 50% (based on Australian tax paid at 30%) and fully imputed. The aggregate amount of the proposed dividend expected to be paid on 31 March 2017 out of retained earnings at 31 December 2016, but not recognised as a liability at half-year end, is	9,686	9,030

(c) Franked dividends

The franked portions of the final dividends recommended after 31 December 2016 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the half-year to 30 June 2017.

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

	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Profit for the half-year	25,753	24,916
Depreciation and amortisation	9,650	8,701
Non-cash employee benefits expense - share-based payments	104	182
Other non-cash expenses	150	118
Net (gain) loss on sale of non-current assets	300	138
Net exchange differences	(621)	1,309
Change in operating assets and liabilities:		
(Increase) / decrease in trade and other receivables	(4,300)	(5,757)
(Increase) / decrease in inventories	(23,603)	(32,739)
(Increase) / decrease in deferred tax assets	4,725	(3,754)
(Increase) / decrease in other current assets	772	(1,706)
(Increase) / decrease in other non current assets	(101)	102
(Decrease) / increase in trade and other payables	22,313	22,888
(Decrease) / increase in current tax liabilities	(25,142)	9,690
(Decrease) / increase in provisions	256	327
(Decrease) / increase in deferred revenue	5,648	8,048
Net cash inflow from operating activities	<u>15,904</u>	<u>32,463</u>

In the Directors' opinion:

- (a) the interim financial statements and notes set out on pages 7 to 16 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

This declaration is made in accordance with a resolution of Directors.



E J Hill
Director
Brisbane
16 February 2017

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

As lead auditor for the review of Michael Hill International Limited for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

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

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



Ernst & Young



Alison de Groot
Partner
16 February 2017

**Michael Hill International Limited
Corporate directory**

Directors	E J Hill B.Comm., M.B.A. Sir R M Hill K.N.Z.M. G W Smith B.Comm., F.C.A., F.A.I.C.D. R I Fyfe J S Allis
Acting Chief Executive Officer / Chief Financial Officer	Philip Roy Taylor
Company Secretary	Mary-Anne Greaves
Principal registered office in Australia	Metroplex on Gateway 7 Smallwood Place Murarrie QLD 4172 Australia GPO Box 2922 Brisbane QLD 4001 Australia Telephone +61 7 3114 3500 Fax +61 7 3399 0222
Share register	Computershare Investor Services Pty Ltd 117 Victoria Street West End QLD 4101 Investor enquiries: 1300 850 505 (within Australia) +61 3 9415 4000 (outside Australia)
Solicitors	HopgoodGanim Lawyers Level 8 Waterfront Place Brisbane QLD 4000
Auditor	Ernst & Young Level 51 One One One 111 Eagle Street Brisbane QLD 4000
Bankers	Australia and New Zealand Banking Group Limited ANZ Banking Group (New Zealand) Limited Bank of Montreal Bank of America N.A.
Website	www.michaelhill.com.au www.emmaandroe.com.au investor.michaelhill.com
Email	inquiry@michaelhil.com.au