

## Michael Hill International Limited – Market Update

The company wishes to inform the market of a number of matters which will affect the group's result materially for the half year ending 31 December 2008:

### 1. Sales for the 5 months ending 30 November 2008

Retail conditions have been very challenging in the second quarter so far with “same store” sales flat in Australia and negative in both New Zealand and Canada.

The following figures are in NZ Dollars	Last Year	This Year	% Var
Australia same stores	86,453,655	90,394,744	4.6%
NZ same stores	34,615,307	31,467,109	-9.1%
Canada same stores	<u>9,303,848</u>	<u>8,838,647</u>	<u>-5.0%</u>
Total same stores	\$130,372,810	\$130,700,501	0.3%
Australia all stores	91,353,164	99,178,710	8.6%
NZ all stores	34,948,714	32,476,824	-7.1%
Canada all stores	10,540,423	12,042,782	14.3%
USA all stores	<u>0</u>	<u>3,965,050</u>	
Total all stores	\$136,842,301	\$147,663,366	7.9%

Exchange rates used for the 6 months:

Australian	0.86	0.83
Canada	0.76	0.72
USA	NA	0.61

The following figures are in local currency		Last Year	This Year	% Var
Australia same stores	AUD	74,607,638	75,271,189	0.9%
NZ same stores	NZD	34,615,307	31,467,109	-9.1%
Canada same stores	CAD	7,058,557	6,404,740	-9.3%
Australia all stores	AUD	78,807,668	82,639,760	4.9%
NZ all stores	NZD	34,948,714	32,476,824	-7.1%
Canada all stores	CAD	7,986,114	8,722,621	9.2%
USA all stores	USD	0	2,401,874	

The next few weeks' trade has a material impact on the company's result for the year so we are not able to indicate at this point in time a likely half year or full year result. A further update on trade will be provided after the important Xmas trading period.

## 2. Margin Under Pressure from Strong USD

To compound the lack of sales growth the strong USD has placed margin under pressure which will adversely affect the bottom line for the half year. A drop of nearly 25% in the AUD against the USD rate came at a time when the majority of our Xmas orders were being received into stock resulting in significant additional local cost being incurred on these orders. The impact of the volatile currencies involved for the group affects the value of inventory and therefore margins as well as impacting the consolidated group's reported profits.

## 3. US Acquisition in September 2008

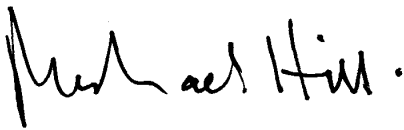
The acquisition in the US has resulted in the company incurring acquisition costs in the vicinity of \$1.0m since the start of the financial year.

We would also like to remind the market that the US business will take quite some time to turn around and will incur operating losses in the current year as expected and the board remains confident this investment will position the company well for the future.

## 4. Internal Restructure of the Michael Hill Group

Michael Hill International Ltd today announced an internal restructuring of the Group which will materially and positively affect the after-tax profits and cash flow of the Group in coming years, commencing from 15 December 2008. A separate announcement has been made to the NZX with details of the restructure and financial impacts for the coming periods.

In effect Michael Hill International has sold its Intellectual Property in the "Michael Hill Jeweller System of Retailing" to its Australian subsidiary Michael Hill Franchise Pty Ltd for NZ\$293m with effect from Monday 15 December 2008.

A handwritten signature in black ink that reads "Michael Hill." The signature is written in a cursive, flowing style.

R.M. Hill            15/12/08  
Chairman

All inquiries should be made to Mike Parsell CEO phone +61 403 246655