Michael Hill International Limited
ABN 25 610 937 598
Appendix 4D
Results for announcement to the market
Half-year report 29 December 2019

Reporting period

Reporting period:	1 July 2019 to 29 December 2019
Previous reporting period:	1 July 2018 to 31 December 2018

Results for announcement to the market

				$'000
Revenue from ordinary activities	Up	4.4%	to	329,482
Earnings before interest and taxation (EBIT)*	Up	29.5%	to	35,272
Underlying EBIT before one-off items*	Up	6.9%	to	31,616
Net profit after tax (from ordinary activities) for the period attributable to members	Up	19.6%	to	21,404

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

Dividends

	Amount per security	Franked amount per security
29 December 2019		
Interim dividend (cents per share) [1]	1.50	-

	Amount per security	Franked amount per security
31 December 2018		
Interim dividend (cents per share)	2.50	-
Final dividend (cents per share) [2]	1.50	-

1. The record date for determining entitlements to the interim dividend of AU 1.5 cents per share is 13 March 2020. The payment date for the interim dividend is 27 March 2020. The dividend will be unfranked and fully imputed. In addition, the dividend will be declared as conduit foreign income, therefore no Australian withholding tax will be deducted from the dividend payment to Michael Hill International Limited's foreign shareholders.

2. Final dividend of AU 1.5 cents per share for the year ended 30 June 2019 was declared on 15 August 2019.

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

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

Net tangible assets	**29 Dec 2019**	31 Dec 2018
Net tangible asset backing per ordinary security	**$0.04**	$0.44

In calculating the net tangible assets for the half year to 29 December 2019, the lease right-of-use asset recognised under AASB 16 *Leases* has been excluded whilst the lease liability recognised has been included. Prior year comparatives do not include the impact of AASB 16 *Leases*.

This report should be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Michael Hill International Limited in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001 (Cth), ASX Listing Rules* and *NZX Listing Rules.*

Emma J Hill

E J Hill
Chair
25 February 2020
Brisbane

Michael Hill International Limited *ABN 25 610 937 598*
Interim financial report - 29 December 2019

Contents

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Michael Hill International Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth), ASX Listing Rules* and *NZX Listing Rules.*

DISCLAIMER

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

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

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

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

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

The Directors present their report on the consolidated entity (referred to hereafter as the 'Group') consisting of Michael Hill International Limited ACN 610 937 598 ('Michael Hill International' or the 'Company') and all controlled subsidiaries for the 26 week period ended 29 December 2019.

Directors

The following persons were Directors of Michael Hill International Limited during the whole of the financial period and up to the date of this report:

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

Principal activities

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

Significant changes in the state of affairs

There have been no significant changes in the nature of the Group's activities during the half-year to 29 December 2019.

From 1 July 2019, the Group adopted a "retail" reporting calendar that uses a 52 week reporting cycle. Therefore, the full year annual reporting period ends on 28 June 2020. Prior year comparatives have not been restated for the interim report ended 29 December 2019 and will not be restated for the annual report ended 28 June 2020.

During the prior reporting period, the Group conducted a review of Australian retail employment contracts and rostering practices. This review identified non-compliance with some requirements of the General Retail Industry Award for a number of the Group's store-based workforce in Australia. As a result of this, the half year ended 31 December 2018 has been restated. Further details are available in note 3 to the financial statements.

Proforma results

Proforma results for FY20H1 are the current year results excluding the impact of *AASB 16 Leases* to allow comparability for users of the financial statements.

Review of operations

Key financial results

• Statutory net profit after tax increased by 19.6% to $21.4m (Proforma FY20H1: $21.6m) (FY19H1 restated: $17.9m).
• Statutory earnings before interest and tax increased by 34.6% to $35.3m (FY19H1 restated: $26.2m).
• Group operating revenues increased by 4.4% for the half to $329.5m (FY19H1: $315.4m).
• Underlying earnings before interest and tax* increased by 6.9% to $31.6m (FY19H1: $29.6m).
• Group same store sales were up 6.3% at $317.7m (FY19F1: $298.9m).
• Group gross margin reduced to 61.7% (FY19H1: 64.2%), predominantly due to foreign exchange and gold price impacts.
• Active inventory management, delivering ~10% reduction to $200.1m (FY19H1: $220.2m).
• Net positive cash position of $0.4m against net debt position of $20.7m at close of FY19H1.
• Interim dividend AU 1.5 cents per share, unfranked and fully imputed with conduit foreign income.

Review of operations (continued)

Operational performance

• e-commerce sales on the Michael Hill website (excluding Emma & Roe product) increased by 44.3% to $9.7m.
• Branded collection sales represented 35.4% of total sales for the half.
• FY19 cost-saving initiatives now annualising across FY20, with the second tranche of $5m savings starting to be realised in FY20. Additional cost-out initiatives are also being pursued.
• Loyalty program Brilliance launched online in November 2019, with in-store launch to follow in FY20H2.
• One Michael Hill store opened (Canada) and three under-performing stores were closed (Australia) during the period, giving a total of 304 stores trading at 29 December 2019.

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

Key Facts

TRADING RESULTS	**29 Dec 2019 $'000**	**29 Dec 2019 Adj's $'000**	**29 Dec 2019 Proforma $'000**	31 Dec 2018 Restated $'000	Statutory +/-%	Proforma +/-%
SIX MONTHS ENDED (AU $000)						
Revenue from continuing operations	**329,482**	**-**	**329,482**	315,445	4.4%	4.4%
Underlying EBIT*	**35,272**	**(3,656)**	**31,616**	29,576		6.9%
Group profit after tax from continuing operations	**21,404**	**(168)**	**21,572**	17,891	19.6%	20.6%
Group gross profit	**203,435**	**-**	**203,435**	202,486	0.5%	0.5%
Group gross profit %	**61.7%**	**-**	**61.7%**	64.2%		
Dividends paid	**5,817**	**-**	**5,817**	9,679	(39.9)%	(39.9)%

FINANCIAL POSITION	**29 Dec 2019 $'000**	31 Dec 2018 Restated $'000	30 June 2019 $'000
Contributed equity	**11,016**	10,266	10,984
Total equity	**179,873**	184,950	176,752
Total assets	**583,727**	416,728	379,193
Net cash / (net debt)	**379**	(20,745)	(24,781)

NUMBER OF STORES	**29 Dec 2019**	29 Dec 2018	30 June 2019
Australia *	**165**	173	168
New Zealand	**52**	53	52
Canada	**87**	85	86
Total stores	**304**	311	306

* Includes Emma & Roe stores: 29 Dec 2019: 1 (31 Dec 2018: 2)

Review of operations (continued)

KEY MEASURES	**29 Dec 2019 $'000**	31 Dec 2018 Restated $'000	30 June 2019 $'000
Share price (AU$)	**0.68**	0.62	0.54
Basic earnings per share (AUc)	**5.52**	4.62	4.30
Equity ratio (%)	**30.8**	44.4	46.6

Review of operations and results

The Group reported a statutory net profit after tax (NPAT) of $21.4m for the half year ended 29 December 2019, an increase of 19.6% (FY19H1 Restated: $17.9m).

Underlying earnings before interest and tax (EBIT) pre-AASB 16 for the half increased by 6.9% to $31.6m (FY19H1: $29.6m). The growth in EBIT has resulted from an increase in Group operating revenue, and targeted reduction in costs which together have mitigated the impact of compressed gross margins driven by foreign exchange, rising gold prices and competitive market pressures.

Same store sales were up 6.3% for the half year to $317.7m (FY19H1: $298.9m), as the Company worked hard to regain market share and to achieve positive sales growth over both quarters.

The enhancement of our e-commerce business has been a key focus for FY20H1, with the soft launch of our loyalty program (Brilliance) online, and improvements in our educational content and user experience of the website. The Michael Hill website sales (excluding Emma & Roe product) were up by 44.3% representing 3.0% of total sales for the half.

The Company's active inventory management program has led to a significant reduction in inventory on hand at 29 December 2019, at $200.1m against the close of FY19H1 of $220.2m. Together with strong operating cashflows and improved working capital management (lower capital expenditure, renegotiation of vendor payment terms and reduction in the Cost Of Doing Business ("CODB")), our net debt position of $20.7m at FY19H1 improved to a net cash position of $0.4m at half year end.

The impact of AASB 16 *Leases* has not been included in the below retail segment results in line with management's definition of operating segments.

The company opened one new store in Canada and closed three under-performing stores in Australia, resulting in 304 stores at 29 December 2019 (including one remaining Emma & Roe store).

The interim dividend has been held flat against the prior half, at AU 1.5 cents per share, recognising the ongoing cashflow commitment of the previously announced wage remediation payments.

Review of operations (continued)

Australia retail segment

	29 Dec 2019 AU$'000	31 Dec 2018 AU$'000	+/- %
For the six months ending			
Revenue	**174,244**	175,507	**(0.7)%**
Gross profit	**104,291**	110,511	**(5.6)%**
Gross profit % of revenue	**59.9%**	63.0%	**-3.1 ppts**
EBIT	**22,666**	24,630	**(8.0)%**
EBIT % of revenue	**13.0%**	14.0%	**-1 ppts**
Number of stores	**165**	173	**-8**

In Australia, same store sales were up 3.3% and retail segment revenue declined slightly by 0.7% to $174.2m (FY19H1: $175.5m) for the half. The decline was mainly due to the closure of eight underperforming stores since 31 December 2018. Gross margin of 59.9% (FY19H1: 63.0%) was compressed as the Company chased market share in challenging retail conditions.

New Zealand retail segment

	29 Dec 2019 NZ$'000	31 Dec 2018 NZ$'000	+/- %
For the six months ending			
Revenue	**69,984**	65,790	**6.4%**
Gross profit	**41,145**	41,241	**(0.2)%**
Gross profit % of revenue	**58.8%**	62.7%	**-3.9 ppts**
EBIT	**14,463**	15,065	**(4.0)%**
EBIT % of revenue	**20.7%**	22.9%	**-2.2 ppts**
Number of stores	**52**	53	**-1**

In New Zealand, same store sales increased by 6.6% to $68.1m (FY19H1: $63.9m) and retail segment revenue grew by 6.4% to $69.9m (FY19H1: $65.8m) for the half year with gross margin of 58.8% (FY19H1: 62.7%). New Zealand remains our highest performing segment, with pre-AASB 16 EBIT as a % of revenue at 20.7%.

Canada retail segment

	29 Dec 2019 CA$'000	31 Dec 2018 CA$'000	+/- %
For the six months ending			
Revenue	**79,919**	74,371	**7.5%**
Gross profit	**46,484**	45,966	**1.1%**
Gross profit % of revenue	**58.2%**	61.8%	**-3.6 ppts**
EBIT	**7,938**	8,581	**(7.5)%**
EBIT % of revenue	**9.9%**	11.5%	**-1.6 ppts**
Number of stores	**87**	85	**2**

Review of operations (continued)

In Canada, same store sales increased by 5.1% to $75.1m (FY19H1: $71.5m) and retail segment revenue experienced growth of 7.5% to $79.9m (FY19H1: $74.3m), with a decline in gross margin to 58.2% (FY19H1: 61.8%). Canada remains a core profit growth opportunity, as we continue to focus on key productivity initiatives.

Update on key initiatives

The key areas of focus for Management remain broadly unchanged, with some key milestones achieved in the half.

1. Unwavering focus on costs - While FY19 cost initiatives are now annualising across FY20, the second tranche of $5m savings is also starting to be realised in FY20. Additionally, further opportunities have now been identified and an ongoing program of non-customer facing Cost Of Doing Business reductions will be embedded into our results moving forward.

2. Retail Operating Model - The company has embraced the staged implementation of a more sophisticated and integrated customer-focused retail operating model. This was evidenced by the success of the Michael Hill 40th Birthday campaign, deliberate product newness for Black Friday campaign and our targeted Christmas campaigns. This new operating rhythm underpins our shift to a more contemporary customer-led retail business.

3. Retail Fundamentals - There has been an ongoing focus on retail execution supported by our new incentive scheme trial, early learnings from our *Sparkle* customer feedback program and a heightened focus on product and visual merchandising execution in our stores. We continue to prioritise the importance of sales training and customer engagement, combined with a deliberate emphasis on inventory management and cost control.

4. Product Evolution - We are continually introducing product newness as part of the new merchandise rhythm, along with gradually building the momentum and refreshing our Branded Collections, whilst maintaining a disciplined focus on margin mix and margin outcomes.

5. Canadian Productivity - A number of initiatives have been implemented in Canada resulting in an early improvement in sales per square metre. We will continue to focus on the productivity growth of this retail segment over the remainder of FY20 and beyond.

6. Digital-first - Our online business continues to grow rapidly as we enhance the customer experience, online navigation, extended product offer and our loyalty program. We are confident that the changes we are making and the plans we have in place will continue to propel this all important channel.

7. Loyalty - In November 2019, we delivered the first stage of our customer loyalty program. The initial launch was focused in our online channel, while we tested customer engagement. Early results have been very pleasing, as we now ramp up to the exciting proposition of launching across all our physical stores in the second half.

8. Brand - The Michael Hill brand has a deep and rich heritage centred around innovation, quality, and value. As we enter a new decade for the brand, we will deliver a modernised approach to drive greater customer advocacy, engagement and conversion.

(continued)

Non-IFRS Financial Information

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

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

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

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

Calculation of Underlying EBIT

Underlying EBIT has been calculated as follows:

	29 Dec 2019 $000's	31 Dec 2018 Restated $000's
Statutory EBIT	**35,272**	**26,200**
Impact of AASB 16 Leases:	(3,656)	-
Proforma EBIT	**31,616**	**26,200**
Add back E&R and US closure costs:		
Lease settlements and onerous lease provision	-	111
Impairment and asset disposals	-	219
Other items	-	210
Add back one-off items:		
CEO and Group Executive transition costs	-	494
Remediation costs	-	2,342
Underlying EBIT	**31,616**	**29,576**

(continued)

Dividends

The Directors announce an interim dividend of AU1.5¢ per share (2019 - AU2.5¢), unfranked and fully imputed. The dividend will be paid on 27 March 2019 with the record date being 13 March 2019. The dividend will be declared as conduit foreign income, therefore no Australian withholding tax will be deducted from the dividend payment to our foreign shareholders.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001 (Cth)* is set out on page 9 and forms part of this report.

Rounding of amounts

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

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

This report is made on 25 February 2020 in accordance with a resolution of Directors.

Emma J Hill

E J Hill
Chair
Brisbane
25 February 2020

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

As lead auditor for the review of the half-year financial report of Michael Hill International Limited for the half-year ended 29 December 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst&Young

Ernst & Young

Alison de Groot
Partner
25 February 2020

Michael Hill International Limited
Consolidated statement of comprehensive income
For the half-year 29 December 2019

	Notes	29 Dec 2019 $'000	31 Dec 2018 Restated $'000
Continuing operations			
Revenue	5	**329,482**	315,445
Other income		**708**	395
Cost of goods sold		**(126,047)**	(112,959)
Employee benefits expense		**(82,947)**	(86,655)
Occupancy costs*		**(9,528)**	(30,340)
Marketing expenses		**(20,499)**	(19,205)
Selling expenses		**(12,146)**	(14,098)
Depreciation and amortisation expense*		**(27,217)**	(9,650)
Loss on disposal of property, plant and equipment	7	**(141)**	(42)
Impairment reversal/(expense)		**12**	(442)
Other expenses		**(16,405)**	(16,216)
Finance expenses		**(4,984)**	(1,391)
Profit before income tax		**30,288**	24,842
Income tax expense		**(8,884)**	(6,951)
Profit for the half-year		**21,404**	17,891
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
Gains/(losses) on cash flow hedges		**2**	(154)
Currency translation differences arising during the year		**(320)**	2,004
Other comprehensive income for the half-year, net of tax		**(318)**	1,850
Total comprehensive income for the half-year, net of tax		**21,086**	19,741
Total comprehensive income for the half-year is attributable to:			
Owners of Michael Hill International Limited		**21,086**	19,741
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share		**5.52**	4.62
Diluted earnings per share		**5.50**	4.61

* See note 2 for details regarding a change in accounting policy.

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

	Notes	**29 Dec 2019 $'000**	31 Dec 2018 Restated $'000	30 Jun 2019 $'000
ASSETS				
Current assets				
Cash and cash equivalents		**33,179**	7,690	7,923
Trade and other receivables	6	**33,918**	30,234	29,656
Inventories		**200,105**	220,189	179,503
Contract assets	11	**1,077**	573	992
Derivative financial instruments	6	**-**	175	-
Current tax receivables		**-**	-	2,295
Other current assets		**5,066**	3,979	2,935
Total current assets		**273,345**	262,840	223,304
Non-current assets				
Trade and other receivables	6	**14,164**	6,526	6,985
Contract assets	11	**1,277**	1,579	1,438
Property, plant and equipment		**57,446**	66,636	63,213
Right-of-use assets	2	**144,805**	-	-
Intangible assets		**21,348**	12,739	15,439
Deferred tax assets		**69,730**	65,426	67,708
Other non-current assets		**1,612**	982	1,106
Total non-current assets		**310,382**	153,888	155,889
Total assets		**583,727**	416,728	379,193
LIABILITIES				
Current liabilities				
Trade and other payables	6	**78,565**	76,654	44,548
Lease liabilities	2	**33,062**	-	-
Contract liabilities	11	**27,367**	27,184	26,054
Derivative financial instruments	6	**466**	299	468
Current tax liabilities		**343**	2,336	1,367
Provisions	9	**29,843**	29,307	31,441
Deferred revenue	10	**75**	1,008	1,252
Total current liabilities		**169,721**	136,788	105,130
Non-current liabilities				
Lease liabilities	2	**135,610**	-	-
Contract liabilities	11	**58,399**	57,463	55,813
Borrowings	6	**32,800**	28,435	32,704
Provisions	9	**7,324**	6,948	6,947
Deferred revenue	10	**-**	2,144	1,847
Total non-current liabilities		**234,133**	94,990	97,311
Total liabilities		**403,854**	231,778	202,441
Net assets		**179,873**	184,950	176,752

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

	Notes	**29 Dec 2019 $'000**	31 Dec 2018 Restated $'000	30 Jun 2019 $'000
EQUITY				
Contributed equity	12	**11,016**	10,266	10,984
Reserves		**6,326**	3,642	5,805
Retained profits		**162,531**	171,042	159,963
Total equity		**179,873**	184,950	176,752

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

		Attributable to owners of Michael Hill International Limited					
	Notes	**Contributed equity $'000**	**Share based payments reserve $'000**	**Foreign currency translation reserve $'000**	**Cash flow hedge reserve $'000**	**Retained profits $'000**	**Total equity $'000**
Balance at 1 July 2019		10,984	757	5,516	(468)	159,963	176,752
Adjustment on adoption of AASB 16 (net of tax)		-	-	(43)	-	(13,019)	(13,062)
Restated total equity at the beginning of the financial period		**10,984**	**757**	**5,473**	**(468)**	**146,944**	**163,690**
Profit for the half year		-	-	-	-	21,404	21,404
Currency translation differences		-	-	690	-	-	690
Currency forward contracts		-	-	-	(162)	-	(162)
Interest rate swaps		-	-	-	164	-	164
Total comprehensive income for the half-year		**-**	**-**	**690**	**2**	**21,404**	**22,096**
Transactions with owners in their capacity as owners:							
Dividends paid	13	-	-	-	-	(5,817)	(5,817)
Options forfeited		-	(166)	-	-	-	(166)
Share rights expense through share based payments reserve		-	98	-	-	-	98
Issue of share capital on vesting of share rights		32	(32)	-	-	-	-
Share rights forfeited		-	(28)	-	-	-	(28)
		32	(128)	-	-	(5,817)	(5,913)
Balance at 29 December 2019		**11,016**	**629**	**6,163**	**(466)**	**162,531**	**179,873**

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

	Notes	Contributed equity $'000	Share based payments reserve $'000	Foreign currency translation reserve $'000	Cash flow hedge reserve $'000	Retained profits $'000	Total equity $'000
		Attributable to owners of Michael Hill International Limited					
Balance at 1 July 2018		10,266	1,369	605	(145)	162,830	174,925
Profit for the half year		-	-	-	-	19,531	19,531
Currency translation differences		-	-	2,004	-	-	2,004
Currency forward contracts		-	-	-	(245)	-	(245)
Interest rate swaps		-	-	-	91	-	91
Correction of error (net of tax)	3(a)	-	-	-	-	(1,640)	(1,640)
Total comprehensive income for the half-year		**-**	**-**	**2,004**	**(154)**	**17,891**	**19,741**
Transactions with owners in their capacity as owners:							
Dividends paid	13	-	-	-	-	(9,679)	(9,679)
Option expense through share based payments reserve		-	11	-	-	-	11
Share rights expense through share based payments reserve		-	(48)	-	-	-	(48)
		-	(37)	-	-	(9,679)	(9,716)
Balance at 31 December 2018		**10,266**	**1,332**	**2,609**	**(299)**	**171,042**	**184,950**

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

	Notes	**29 Dec 2019 $'000**	31 Dec 2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST and sales taxes)		**361,204**	344,651
Payments to suppliers and employees (inclusive of GST and sales taxes)		**(267,015)**	(300,619)
		94,189	44,032
Interest received		**-**	33
Other revenue		**708**	395
Interest paid		**(4,936)**	(1,156)
Income tax paid		**(4,130)**	(4,394)
Net GST and sales taxes paid		**(18,821)**	(14,153)
Net cash inflow from operating activities		**67,010**	24,757
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**94**	267
Payments for property, plant and equipment	7	**(4,179)**	(6,697)
Payments for intangible assets		**(7,028)**	(1,286)
Net cash (outflow) from investing activities		**(11,113)**	(7,716)
Cash flows from financing activities			
Proceeds from borrowings		**44,000**	74,500
Repayment of borrowings		**(44,000)**	(81,500)
Principal portion of lease payments		**(24,854)**	-
Dividends paid to Company's shareholders	13	**(5,816)**	(9,679)
Net cash (outflow) from financing activities		**(30,670)**	(16,679)
Net increase in cash and cash equivalents		**25,227**	362
Cash and cash equivalents at the beginning of the financial year		**7,923**	7,220
Effects of exchange rate changes on cash and cash equivalents		**29**	108
Cash and cash equivalents at end of half-year		**33,179**	7,690

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

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

(a) Basis of preparation

These consolidated financial statements for the half-year reporting period ended 29 December 2019 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth)*.

From 1 July 2019, the Group adopted a "retail" reporting calendar that uses a 52 week reporting cycle. Therefore, the full year annual reporting period ends 28 June 2020. Prior year comparatives have not been restated for the interim reports ending 29 December 2019 and will not be restated for the annual reports ending 28 June 2020.

These consolidated financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Michael Hill International Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth), ASX Listing Rules* and *NZX Listing Rules*.

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

Michael Hill International Limited (the Company) is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded. The Group’s principal activity is the sale of jewellery and related services.

Due to the seasonal nature of selling jewellery and related services, higher revenues and operating profits are usually expected in the first half of the financial year. Accordingly, inventory levels and working capital levels are higher at the end of the first half of the financial year rather than at the end of the financial year. A comparative half-year balance sheet has been included in the consolidated statement of financial position. This information is provided to allow for a better understanding of the results. However, management has concluded that this is not 'highly seasonal’ in accordance with AASB 134.

These consolidated financial statements of Michael Hill International Limited and its subsidiaries (collectively, the Group) for the six months ended 29 December 2019 were authorised for issue in accordance with a resolution of the Directors on 25 February 2020.

(b) New and amended standards adopted by the group

The Group applied AASB 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

2 Changes in accounting policies

Except as described below, the accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2019.

AASB 16 was issued in January 2016 and it replaces AASB 117 Leases, AASB Interpretation 4 Determining whether an Arrangement contains a Lease, AASB Interpretation-115 Operating Leases-Incentives and AASB Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset in the statement of comprehensive income.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying AASB 117 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, as the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and have lease contracts for which the underlying asset is of low value ('low-value assets').

(a) Adjustments recognised on adoption of AASB 16

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019 for each market and lease term. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was between 2.73% and 7.48%.

All lease assets and lease liabilities relate to property leases held by the Group. The Group also holds lease contracts for various items of plant and equipment, which have been classified as either short-term leases or relating to low-value assets. The Group had no recognised finance leases prior to adoption of AASB 16 *Leases*.

	2019 $'000
Operating lease commitments disclosed as at 30 June 2019	155,070
Discounted using the lessee's incremental borrowing rate of at the date of initial application	121,642
Add: adjustments as a result of a different treatment of extension and termination options	46,412
Lease liability recognised as at 1 July 2019	**168,054**
Of which are:	
Current lease liabilities	34,017
Non-current lease liabilities	134,037
	168,054

2 Changes in accounting policies (continued)

(a) Adjustments recognised on adoption of AASB 16 (continued)

The associated right-of-use assets for property leases were measured on a modified retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The effect of adoption of AASB 16 *Leases* as at 1 July 2019 (increase/(decrease)) is as follows:

	1 July 2019 $'000
Assets	
Right of use assets	144,326
Property, plant and equipment	(3,060)
Trade and other receivables	963
Deferred tax assets	5,375
Total assets	**147,604**
Liabilities	
Trade and other payables	25
Deferred revenue	(2,810)
Lease liability	168,054
Provisions	(4,603)
Total liabilities	**160,666**
Equity	
Foreign currency translation	(43)
Retained earnings	(13,019)
Total equity	**(13,062)**

- Right of use assets of $144,326,000 were recognised and presented separately in the statement of financial position.
- Property, plant and equipment reduced by $3,060,000 in relation to fit out contributions received from landlords previously recognised as deferred revenue and recalculation of the make good asset.
- Deferred tax assets increased by $5,375,000 due to the deferred tax impact of the changes in assets and liabilities.
- Lease liabilities of $168,054,000 were recognised.
- Deferred revenue of $2,810,000 relating to lease incentive revenue was derecognised.
- Provisions of $4,603,000 related to straight line leasing adjustments for previous operating leases were derecognised.
- The net effect of these adjustments had been adjusted to retained earnings ($13,019,000).

(i) Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate for each portfolio of leases with reasonably similar characteristics, aligned with lease term ;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;

2 Changes in accounting policies (continued)

(a) Adjustments recognised on adoption of AASB 16 (continued)

(i) Practical expedients applied (continued)

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(b) The group's leasing activities and how these are accounted for

The Group leases various offices, retail stores and equipment. Rental contracts are typically made for fixed periods of 1 to 10 years but may have extension options as described in (ii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each reporting period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Payments for occupancy expenses previously treated as payments to suppliers in the statement of cash flows are now accounted as payments for principal and interest. These are therefore accounted for as cash outflows for financing activities and interest expense cash outflows.

2 Changes in accounting policies (continued)

(b) The group's leasing activities and how these are accounted for (continued)

(i) Variable lease payments

Estimation uncertainty arising from variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a store. At a Group level, less than 1% of lease payments are on the basis of variable payment terms and are generally the difference between 4% of sales and actual lease payments. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognised in profit or loss in the half-year in which the condition that triggers those payments occurs.

(ii) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or additional terms after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, there was no revision of lease terms to reflect the effect of exercising extension or termination options.

(iii) Holdover leases

At any given point in time, there will be a number of property leases in holdover. These leases are accounted for under AASB 16 *Leases* when it is reasonably certain that the lease will be renewed or a new lease signed, and the terms and conditions of the lease are mutually agreed with the lessor.

3 Critical estimates, judgements and errors

(a) Correction of error - previous year

During the prior reporting period, the Group conducted a review of Australian retail employment contracts and rostering practices. This review identified non-compliance with some requirements of the General Retail Industry Award for a number of the Group's store-based workforce in Australia. The Group has now commenced a more detailed review of all employee records, rostering practices and payments.

The remediation of these issues, which occurred over six financial years up to and including the 2019 financial year, is estimated to be a one-off cost of up to $25m. In order to reflect this in prior periods, $14.3m after tax was included in the restatement of opening retained earnings as at 1 July 2018 as required by AASB108 Accounting Policies, Changes in Accounting Estimates and Errors. $3.1m after tax was included in the 2019 full year results.

Critical accounting estimates and judgements have been made in the calculations as to the number of overtime hours, allowance payments and the valuation based on assumed work patterns. Any reviews of the estimates will be recognised in the period the revisions are verified.

3 Critical estimates, judgements and errors (continued)

(a) Correction of error - previous year (continued)

The error has been corrected by restating each of the affected financial statements line items for the half year to 31 December 2018 as follows:

	31 Dec 2018 $'000	Increase/ (Decrease) $'000	31 Dec 2018 (Restated) $'000
Consolidated statement of financial position (extract)			
Deferred tax assets	64,723	703	65,426
Current provisions	26,964	2,343	29,307
Net assets	**186,590**	**(1,640)**	**184,950**
Retained profits	172,682	(1,640)	171,042
Total equity	**186,590**	**(1,640)**	**184,950**

	31 Dec 2018 $'000	Profit Increase/ (Decrease) $'000	31 Dec 2018 (Restated) $'000
Consolidated statement of profit or loss (extract)			
Employee benefits expense	84,312	2,343	86,655
Profit before income tax	**27,185**	**(2,343)**	**24,842**
Income tax expense	7,654	(703)	6,951
Profit for the half-year	**19,531**	**(1,640)**	**17,891**

4 Segment information

(a) Description of segments and principal activities

Management have determined the operating segments based on the reports reviewed by the Board and Executive Team that are used to make strategic decisions. The Board and Executive team consider, organise and manage the business primarily from a geographic perspective, being the country of origin where the sale and service was performed.

The operating segments exclude the adjustments required under AASB 16 *Leases* and therefore operating lease expenses are included at a segment level.

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 business operates in three geographical segments: Australia, New Zealand and Canada.

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

The Adjustment segment includes all adjustments related to the adoption of AASB 16 *Leases*.

4 Segment information (continued)

(a) Description of segments and principal activities (continued)

Types of products and services

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

Major customers

Michael Hill International Limited and its controlled entities sell goods and provide services to a number of customers from which revenue is derived. There is no single customer from which the Group derives more than 10% of total consolidated revenue.

Accounting policies and inter-segment transactions

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

(b) Segment results

for the period ending 29 December 2019	**Australia $'000**	**New Zealand $'000**	**Canada $'000**	**Corporate & Other $'000**	**Michael Hill Proforma $'000**	**Adjust $'000**	**Michael Hill $'000**
Operating revenue	174,244	66,231	88,542	465	**329,482**	-	**329,482**
Gross profit	104,291	38,962	51,500	8,682	**203,435**	-	**203,435**
Gross profit %	59.9%	58.8%	58.2%		**61.7%**	-	**61.7%**
EBITDA*	26,711	14,975	11,803	(12,315)	**41,174**	21,315	**62,489**
Depreciation and amortisation	(4,045)	(1,247)	(3,023)	(1,243)	**(9,558)**	(17,659)	**(27,217)**
Segment EBIT*	**22,666**	**13,728**	**8,780**	**(13,558)**	**31,616**	**3,656**	**35,272**
EBIT as a % of revenue	13.0%	20.7%	9.9%		**9.6%**		**10.6%**
Finance costs	69	3	-	(1,232)	**(1,160)**	(3,824)	**(4,984)**
Segment net profit before tax from continuing operations	**22,735**	**13,731**	**8,780**	**(14,790)**	**30,456**	**(168)**	**30,288**

for the period ended 31 December 2018	**Australia $'000**	**New Zealand $'000**	**Canada $'000**	**Corporate & Other Restated $'000**	**Michael Hill Restated $'000**
Operating revenue	175,507	61,273	77,880	785	**315,445**
Gross profit	110,511	38,395	48,154	5,426	**202,486**
Gross profit %	63.0%	62.7%	61.8%		**64.2%**
EBITDA*	28,873	15,354	11,739	(20,116)	**35,850**
Depreciation and amortisation	(4,243)	(1,276)	(2,837)	(1,294)	**(9,650)**
Segment EBIT*	**24,630**	**14,078**	**8,902**	**(21,410)**	**26,200**
EBIT as a % of revenue	14.0%	23.0%	11.4%		**8.3%**
Interest income	-	-	-	33	**33**
Finance costs	(31)	(32)	-	(1,328)	**(1,391)**
Segment net profit before tax from continuing operations	**24,599**	**14,046**	**8,902**	**(22,705)**	**24,842**

* EBIT and EBITDA are Non-IFRS Information and are unaudited.

5 Revenue

The Group derives the following types of revenue:

	29 Dec 2019 $'000	31 Dec 2018 $'000
Revenue from sale of goods and repair services	**312,583**	298,269
Revenue from professional care plans	**14,924**	15,587
Interest and other revenue from in-house customer finance program	**1,975**	1,556
	329,482	315,412
Interest income	**-**	33
Total revenue	**329,482**	315,445

(a) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same way as in the consolidated statement of profit or loss.

Timing of revenue recognition 2019	**Australia $'000**	**New Zealand $'000**	**Canada $'000**	**Corporate and other $'000**	**29 Dec 2019 Total $'000**
At a point in time	**165,711**	**63,471**	**83,362**	**429**	**312,544**
Over time	**8,532**	**2,760**	**5,646**	**37**	**16,938**
Total segment revenue	**174,243**	**66,231**	**89,008**	**466**	**329,482**

Timing of revenue recognition 2018	Australia **$'000**	New Zealand **$'000**	Canada **$'000**	Corporate and other **$'000**	31 Dec 2018 Total **$'000**
At a point in time	167,024	58,509	73,113	216	298,862
Over time	8,483	2,764	4,767	536	16,550
Total segment revenue	**175,507**	**61,273**	**77,880**	**752**	**315,412**

6 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 29 December 2019 and 30 June 2019:

	29 Dec 2019 $'000	30 Jun 2019 $'000
Financial assets at amortised cost:		
Trade and other receivables	**48,082**	36,641
Total current	**33,918**	29,656
Total non current	**14,164**	6,985

Set out below is an overview of financial liabilities held by the Group as at 29 December 2019 and 30 June 2019:

	29 Dec 2019 $'000	30 Jun 2019 $'000
Financial liabilities at amortised cost:		
Trade and other payables	**78,565**	44,548
Borrowings	**32,800**	32,704
Lease liabilities (see note 2)	**168,672**	-
Foreign exchange forward contracts	**307**	145
Interest rate swaps	**159**	323
Total current	**112,093**	45,016
Total non current	**168,410**	32,704

(a) Fair value measurements of financial instruments

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

At 29 December 2019	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Total financial assets	**-**	**-**	**-**	**-**
Financial Liabilities				
Foreign exchange contracts	**-**	**307**	**-**	**307**
Interest rate swaps	**-**	**159**	**-**	**159**
Total financial liabilities	**-**	**466**	**-**	**466**

6 Financial assets and financial liabilities (continued)

(a) Fair value measurements of financial instruments (continued)

(i) Fair value hierarchy (continued)

At 30 June 2019 *	Notes	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets					
Total financial assets		-	-	-	-
Financial Liabilities					
Foreign exchange contracts		-	145	-	145
Interest rate swaps		-	323	-	323
Total financial liabilities		**-**	**468**	**-**	**468**

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting half-year.

There were no transfers between levels during the year.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting half-year. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

7 Property, plant and equipment

Acquisitions and disposals

During the six months ended 29 December 2019, the Group acquired assets with a total cost of $4,179,000 (31 December 2018 - $6,697,000). Assets with a net book value of $235,000 were disposed of during the six months ended 29 December 2019 (31 December 2018 - $309,000), resulting in a net loss on disposal of $141,000 (31 December 2018 - $42,000 loss).

Impairment

An impairment charge of $180,000 was recognised during the six months ended 29 December 2019 reporting period (31 December 2018 - $442,000).

8 Intangible assets

Acquisitions and disposals

During the six months ended 29 December 2019, the Group acquired assets, primarily software development, with a total cost of $7,028,000 (31 December 2018 - $1,286,000). No assets were disposed of during the six months ended 29 December 2019 (31 December 2018 - $18,000), resulting in no net loss on disposal (31 December 2018 - no loss as assets were fully impaired).

Impairment

No impairment charges were recognised during the six months ended 29 December 2019 reporting period (31 December 2018 - $48,000).

9 Provisions

	29 Dec 2019			30 Jun 2019		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Employee benefits	**27,160**	**1,747**	**28,907**	28,140	2,069	30,209
Warranty provision	**1,451**	**-**	**1,451**	1,674	-	1,674
Make good provision	**404**	**5,577**	**5,981**	133	4,878	5,011
Restructuring costs	**408**	**-**	**408**	1,014	-	1,014
Other provisions	**420**	**-**	**420**	480	-	480
	29,843	**7,324**	**37,167**	31,441	6,947	38,388

10 Deferred revenue

	29 Dec 2019			30 Jun 2019		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Lease incentive income	**-**	**-**	**-**	962	1,847	2,809
Sundry Deferred Revenue	**75**	**-**	**75**	290	-	290
	75	**-**	**75**	1,252	1,847	3,099

11 Contract assets and liabilities

		29 Dec 2019			30 Jun 2019		
	Notes	**Current $'000**	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Contract assets							
Deferred expenditure (i)		**697**	**1,277**	**1,974**	701	1,438	2,139
Right of return assets (ii)		**380**	**-**	**380**	291	-	291
		1,077	**1,277**	**2,354**	992	1,438	2,430

	29 Dec 2019			30 Jun 2019		
Contract liabilities	**Current $'000**	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Deferred service revenue (iii)	**24,213**	**55,236**	**79,449**	23,573	54,230	77,803
Deferred interest free revenue (iv)	**2,090**	**1,611**	**3,701**	1,643	604	2,247
Right of return liabilities (ii)	**878**	**-**	**878**	682	-	682
Lifetime Diamond Warranty (LTDW) (v)	**186**	**1,552**	**1,738**	156	979	1,135
	27,367	**58,399**	**85,766**	26,054	55,813	81,867

11 Contract assets and liabilities (continued)

(i) Deferred expenditure

Direct and incremental bonuses associated with the sale of PCPs are deferred and amortised in proportion to the PCP revenue recognised. Management reviews trends in current and estimated future services provided under the plan to assess whether changes are requested to the cost recognition rates used.

(ii) Right of return assets and refund liabilities

Refund liabilities recognises the estimated returned sales under the Group's return policy, being 30 days. Management estimates the returned sales based on historical sale return information and any recent trends that may suggest future claims could differ from historical amounts. For sales that are expected to be returned, the Group recognises a right of return liability. The associated inventory value for sales that are expected to be returned is recognised as a right of return asset.

(iii) Deferred service revenue

The Group offers a professional care plan ('PCP') product which is considered deferred revenue until such time that service has been provided. A PCP is a plan under which the Group offers future services to customers based on the type of plan purchased. The Group subsequently recognises the income in revenue in the statement of comprehensive income once these services are performed.

(iv) Deferred interest free revenue

Deferred interest free revenue is recognised on the in-house customer finance program when consideration is deferred. It is calculated as the difference between the nominal cash and cash equivalents received from customers and the discounted cashflows, on both interest and non-interest bearing products. Interest revenue is brought to account over the term of the finance agreement, and the rate used for non-interest bearing products is in line with current, comparable market rates.

(v) Lifetime Diamond Warranty (LTDW)

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

12 Contributed equity

(a) Share Capital

	29 Dec 2019 Shares	30 Jun 2019 Shares	**29 Dec 2019 Half-year $'000**	30 Jun 2019 Full-year $'000
Share capital				
Ordinary shares - fully paid	**387,769,105**	387,750,000	**11,016**	10,984

(b) Movements in ordinary share capital

	29 Dec 2019 Shares	30 Jun 2019 Shares	**29 Dec 2019 Half-year $'000**	30 Jun 2019 Full year $'000
Ordinary shares				
Opening balance	**387,750,000**	387,438,513	**10,984**	10,266
Options forfeited	**-**	-	**-**	228
Rights issued	**19,105**	311,487	**32**	490
Closing balance	**387,769,105**	**387,750,000**	**11,016**	**10,984**

13 Dividends

(a) Ordinary shares

	29 Dec 2019 $'000	31 Dec 2018 $'000
Final dividend for the year ended 30 June 2019 of 1.5 cents (2018: AU 2.5 cents) per fully paid share paid on 27 September 2019 (2018: 28 September 2018)	**5,817**	9,679

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

	29 Dec 2019 $'000	31 Dec 2018 $'000
In addition to the above dividends, since half-year end the Directors have recommended the payment of an interim dividend of 1.5c cents per fully paid ordinary share (2019 - AU 2.5 cents), unfranked and fully imputed*. The aggregate amount of the proposed dividend expected to be paid on 27 March 2020 out of retained earnings at 29 December 2019, but not recognised as a liability at half-year end, is	**5,817**	9,686

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

14 Events occurring after the reporting period

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

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

Directors' declaration

(a) the financial statements and notes set out on pages 10 to 29 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 29 December 2019 and of its performance for the half-year ended on that date, and

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

This declaration is made on 25 February 2020 in accordance with a resolution of Directors.

E J Hill
Chair
Brisbane
25 February 2020

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Michael Hill International Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 29 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 29 December 2019 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's consolidated financial position as at 29 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Ernst & Young

Ernst & Young

Alison de Groot
Partner
Brisbane
25 February 2020

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