

Michael Hill International Limited
Condensed statement of comprehensive income
For the six months ended 31 December 2015

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Revenue from continuing operations	310,775	283,189
Other income	34	2,035
Cost of goods sold	(110,862)	(101,780)
Employee benefits expense	(77,581)	(70,194)
Occupancy costs	(26,553)	(24,872)
Marketing expenses	(19,212)	(17,663)
Selling expenses	(13,798)	(12,640)
Depreciation and amortisation expense	(8,701)	(7,574)
Loss on disposal of property, plant and equipment	(138)	(123)
Other expenses	(18,581)	(15,375)
Finance costs	(2,209)	(2,559)
Profit before income tax	33,174	32,444
Income tax expense	(8,258)	(8,747)
Profit for the half-year	<u>24,916</u>	<u>23,697</u>
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Cash flow hedges	(221)	(609)
Currency translation differences arising during the half-year	841	5,748
Other comprehensive income for the half-year, net of tax	<u>620</u>	<u>5,139</u>
Total comprehensive income for the half-year	<u>25,536</u>	<u>28,836</u>
Total comprehensive income for the half-year is attributable to:		
Owners of Michael Hill International Limited	<u>25,536</u>	<u>28,836</u>
	Cents	Cents
Earnings per share attributable to the ordinary equity holders of the Company during the half-year, attributable to continuing operations:		
Basic earnings per share	6.50	6.19
Diluted earnings per share	6.48	6.15

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

Michael Hill International Limited
Condensed statement of financial position
As at 31 December 2015

	Notes	31 Dec 2015 \$'000	31 Dec 2014 \$'000	30 June 2015 \$'000
ASSETS				
Current assets				
Cash and cash equivalents		7,567	11,737	6,797
Trade and other receivables		30,914	30,527	24,859
Inventories		215,653	207,774	182,232
Current tax receivables		1,680	-	11,376
Other current assets		4,714	1,437	3,143
Total current assets		<u>260,528</u>	<u>251,475</u>	<u>228,407</u>
Non-current assets				
Trade and other receivables		647	584	636
Property, plant and equipment	3	67,939	64,727	64,845
Intangible assets	4	6,535	6,643	6,491
Deferred tax assets		50,631	65,042	48,381
Other non-current assets		2,143	2,521	2,253
Total non-current assets		<u>127,895</u>	<u>139,517</u>	<u>122,606</u>
Total assets		<u>388,423</u>	<u>390,992</u>	<u>351,013</u>
LIABILITIES				
Current liabilities				
Trade and other payables		66,681	68,489	43,739
Current tax liabilities		-	6,025	-
Provisions		4,870	4,737	4,624
Deferred revenue		24,280	25,510	21,516
Total current liabilities		<u>95,831</u>	<u>104,761</u>	<u>69,879</u>
Non-current liabilities				
Borrowings		33,916	45,572	45,116
Provisions		4,821	5,262	4,254
Deferred revenue		49,386	38,846	44,143
Total non-current liabilities		<u>88,123</u>	<u>89,680</u>	<u>93,513</u>
Total liabilities		<u>183,954</u>	<u>194,441</u>	<u>163,392</u>
Net assets		<u>204,469</u>	<u>196,551</u>	<u>187,621</u>
EQUITY				
Contributed equity	5	3,760	3,760	3,760
Reserves		8,247	11,021	7,445
Retained profits		192,462	181,770	176,416
Total equity		<u>204,469</u>	<u>196,551</u>	<u>187,621</u>

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

Michael Hill International Limited
Condensed statement of changes in equity
For the six months ended 31 December 2015

Attributable to owners of Michael Hill International Limited						
Notes	Contributed equity \$'000	Options reserve \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Total equity \$'000
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)
	<u>3,760</u>	<u>1,943</u>	<u>7,111</u>	<u>(989)</u>	<u>201,332</u>	<u>213,157</u>
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	-	-	(8,870)	(8,870)
Option expense through share based payments reserve	-	70	-	-	-	70
Reverse options previously forfeited	-	112	-	-	-	112
Balance at 31 December 2015	<u>3,760</u>	<u>2,125</u>	<u>7,111</u>	<u>(989)</u>	<u>192,462</u>	<u>204,469</u>

Attributable to owners of Michael Hill International Limited						
Notes	Contributed equity \$'000	Options reserve \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2014	3,651	1,918	4,155	(277)	171,838	181,285
Profit for the period	-	-	-	-	23,697	23,697
Currency translation differences	-	-	5,748	-	-	5,748
Currency forward contracts	-	-	-	(11)	-	(11)
Interest rate swaps	-	-	-	(598)	-	(598)
	<u>3,651</u>	<u>1,918</u>	<u>9,903</u>	<u>(886)</u>	<u>195,535</u>	<u>210,121</u>
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	-	-	(13,765)	(13,765)
Employee shares issued	109	-	-	-	-	109
Option expense through share based payments reserve	-	86	-	-	-	86
Balance at 31 December 2014	<u>3,760</u>	<u>2,004</u>	<u>9,903</u>	<u>(886)</u>	<u>181,770</u>	<u>196,551</u>

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

Michael Hill International Limited
Condensed statement of cash flows
For the six months ended 31 December 2015

	31 Dec	31 Dec
	2015	2014
Notes	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST and sales taxes)	347,246	315,529
Payments to suppliers and employees (inclusive of GST and sales taxes)	<u>(299,470)</u>	<u>(253,659)</u>
	<u>47,776</u>	<u>61,870</u>
Interest received	138	23
Other revenue	34	67
Interest paid	(2,039)	(2,395)
Income tax received / (paid)	1,864	(4,178)
Net GST and sales taxes paid	<u>(15,310)</u>	<u>(15,459)</u>
Net cash inflow / (outflow) from operating activities	9 <u>32,463</u>	<u>39,928</u>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	67	144
Payments for property, plant and equipment	(11,328)	(11,265)
Payments for intangible assets	<u>(1,034)</u>	<u>(1,156)</u>
Net cash inflow / (outflow) from investing activities	<u>(12,295)</u>	<u>(12,277)</u>
Cash flows from financing activities		
Proceeds from borrowings	70,000	68,507
Repayment of borrowings	(80,500)	(79,000)
Proceeds from sale of treasury stock	-	99
Proceeds from share options exercised	-	-
Dividends paid to Company's shareholders	(8,870)	(13,765)
Net cash inflow / (outflow) from financing activities	6 <u>(19,370)</u>	<u>(24,159)</u>
Net increase / (decrease) in cash and cash equivalents	798	3,492
Cash and cash equivalents at the beginning of the half-year	6,797	8,109
Effects of exchange rate changes on cash and cash equivalents	<u>(28)</u>	<u>136</u>
Cash and cash equivalents at end of the half-year	<u>7,567</u>	<u>11,737</u>

The above condensed cash flow statement should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

The interim financial statements for the half-year ended 31 December 2015 have been prepared in accordance with NZ IAS 34 interim financial reporting and IAS 34 interim financial reporting.

These 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 2015. The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Statutory base

Michael Hill International Limited is a public company registered under the Companies Act 1993 and is domiciled in New Zealand. The Company has its primary listing on the New Zealand Stock Exchange. The Company is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

The interim financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Financial Markets Conducts Act 2013 and the Companies Act 1993. The interim financial statements of the Group are for the economic entity comprising Michael Hill International Limited and its subsidiaries.

These consolidated financial statements have been approved for issue by the Board of Directors on 11 February 2016.

The reporting currency used in the preparation of these consolidated interim financial statements is Australian dollars, rounded to the nearest thousand.

2 Segment information

Identification and description of segments

The operating segments are identified by the Board and Executive Team based on the country in which the item is sold.

The Executive Director and Executive Team 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 report.

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

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 into geographic areas.

Major customers

Michael Hill International Limited and its controlled entities sells goods and provides 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 the 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.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments, then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments, which management believes will be inconsistent.

Unallocated expenses include all expenses that do not relate directly to the relevant retail segment and include: the Emma & Roe brand operations, trading activity through our online presence, manufacturing activities, warehouse and distribution, general corporate expenses, interest and company tax. Inter-segment pricing is at arm's length or market value.

Michael Hill International Limited
Notes to the financial statements
For the six months ended 31 December 2015

(continued)

Segment Information

	MHJ AUSTRALIA			MHJ NEW ZEALAND			MHJ CANADA			MHJ USA			GROUP		
	2015 \$'000	2014 \$'000	+/-%	2015 \$'000	2014 \$'000	+/-%	2015 \$'000	2014 \$'000	+/-%	2015 \$'000	2014 \$'000	+/-%	2015 \$'000	2014 \$'000	+/-%
Operating revenue															
Sales to customers	175,563	168,540	4.2%	61,866	58,045	6.6%	55,433	45,835	20.9%	10,256	6,768	51.5%	303,118	279,188	8.6%
Unallocated revenue													7,657	4,001	(91.4%)
Total operating revenue													310,775	283,189	9.7%
Segment results															
Operating profit / (loss)	32,431	31,504	2.9%	14,113	12,814	10.1%	7,619	5,251	45.1%	(2,023)	(644)	(214.2%)	52,140	48,925	6.6%
Unallocated revenue less unallocated expenses													(18,966)	(16,481)	(15.1%)
Profit before income tax													33,174	32,444	2.3%
Income tax expense													(8,258)	(8,747)	5.6%
Profit for the half-year													24,916	23,697	5.1%
Segment assets															
Unallocated	124,391	121,993	2.0%	50,336	47,794	5.3%	66,680	67,432	(1.1%)	23,407	18,200	28.6%	264,814	255,419	3.7%
Total													123,609	135,573	(8.8%)
													388,423	390,992	(0.7%)
Segment liabilities															
Unallocated	77,111	72,434	6.5%	24,957	23,634	5.6%	18,944	17,777	6.6%	4,925	3,209	53.5%	125,937	117,054	7.6%
Total													58,017	77,387	(25.0%)
													183,954	194,441	(5.4%)
Segment acquisitions of property, plant & equipment and intangibles															
Unallocated	3,143	1,749	79.7%	1,935	2,117	(8.6%)	3,372	3,708	(9.1%)	1,973	541	264.7%	10,423	8,115	28.4%
Total													1,939	4,306	(55.0%)
													12,362	12,421	(0.5%)
Segment depreciation and amortisation expense															
Unallocated	3,479	3,202	8.6%	1,265	1,168	8.3%	1,796	1,447	24.1%	541	322	68.0%	7,081	6,139	15.3%
Total													1,620	1,435	12.9%
													8,701	7,574	14.9%

3 Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2015, the Group acquired assets with a total cost of \$11,328,000 (31 December 2014 - \$11,265,000). Assets with a net book value of \$204,000 were disposed of during the six months ended 31 December 2015 (31 December 2014 - \$267,000), resulting in a net loss on disposal of \$137,000 (31 December 2014 - \$123,000 loss).

4 Intangible assets

Acquisitions and disposals

During the six months ended 31 December 2015, the Group acquired assets with a total cost of \$1,034,000 (31 December 2014 - \$1,156,000). Assets with a net book value of \$1,000 were disposed of during the six months ended 31 December 2015 (31 December 2014 - nil), resulting in a net loss on disposal of \$1,000 (31 December 2014 - nil).

5 Contributed equity

	31 Dec 2015 Shares	30 Jun 2015 Shares	31 Dec 2015 \$'000	30 Jun 2015 \$'000
Share capital				
Ordinary shares				
Fully paid	383,153,190	383,153,190	3,767	3,767
Treasury stock held for employee share scheme	<u>(14,677)</u>	<u>(14,677)</u>	<u>(7)</u>	<u>(7)</u>
	<u>383,138,513</u>	<u>383,138,513</u>	<u>3,760</u>	<u>3,760</u>
Opening balance of ordinary shares issued	383,053,190	383,153,190	3,767	3,702
Issues of ordinary shares during the year				
Employee share scheme issue	-	96,907	-	109
Transfer from treasury stock	<u>-</u>	<u>(96,907)</u>	<u>-</u>	<u>(44)</u>
Closing balance of ordinary shares issued	<u>383,053,190</u>	<u>383,153,190</u>	<u>3,767</u>	<u>3,767</u>

6 Dividends

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2015 of NZ 2.5c (2014 - NZ 4.0c) per fully paid share paid on 2 October 2015 (2014 - 3 October 2014)	<u>8,870</u>	<u>13,765</u>
(b) Dividends not recognised at the end of the half-year		
In addition to the above dividends, since the end of the half-year the Directors have recommended the payment of an interim dividend of NZ 2.5c per fully paid ordinary share (2014 - NZ 2.5c). The aggregate amount of the proposed dividend expected to be paid on 1 April 2016 out of retained profits at 31 December 2015, but not recognised as a liability at the end of the half-year, is	<u>9,030</u>	<u>9,177</u>

The dividends paid during the current financial period and corresponding previous financial period are not imputed out of existing imputation credits or out of imputation credits arising from the payment of income tax.

7 Contingencies

(a) Contingent liabilities

Tax matters

The Group has one unresolved tax matter relating to the sale and financing of the intellectual property between New Zealand and Australian Group members, as reported in the 2015 Annual Report.

Discussions continue with the Inland Revenue Department within their dispute process framework. With the passage of time, the Board considers it is increasingly likely that the matter will require formal resolution through the courts, but it remains unclear when this might occur. The Board remains of the opinion that this tax matter does not require a provision in the Group's financial statements, nevertheless a tax pooling arrangement has been entered which would mitigate some of the risks of an adverse outcome.

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

8 Events occurring after the reporting period

There have been no material matters or circumstances which have arisen between balance date and the date of this report that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

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

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Profit for the half-year	24,916	23,697
Depreciation and amortisation	8,701	7,574
Non-cash employee benefits expense - share based payments	182	97
Other non-cash expenses	118	(18)
Net loss on sale of non-current assets	138	123
Net exchange differences	1,309	(1,927)
(Increase) / decrease in trade and other receivables	(5,757)	(5,015)
(Increase) / decrease in inventories	(32,739)	(26,551)
(Increase) / decrease in deferred tax asset	(3,754)	(2,759)
(Increase) / decrease in other current assets	(1,706)	(1,437)
(Increase) / decrease in other non-current assets	102	101
(Decrease) / increase in trade and other payables	22,888	26,331
(Decrease) / increase in current tax liabilities	9,690	6,118
(Decrease) / increase in provisions	327	4,026
(Decrease) / increase in deferred revenue	8,048	9,568
Net cash inflow from operating activities	<u>32,463</u>	<u>39,928</u>

Review Report to the Shareholders of Michael Hill International Limited (“the company”) and its subsidiaries together (“the group”)

We have reviewed the interim financial statements on pages 1 to 9, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our review work, for this report, or for our findings.

Directors' Responsibilities

The directors are responsible for the preparation and fair presentation of interim financial statements which comply with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Reviewer's Responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*. As the auditor of the group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Basis of Statement

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

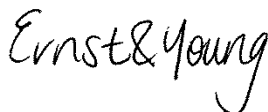
The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Other than in our capacity as auditor we have no relationship with, or interests in, the group.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements, set out on pages 1 to 9, do not present fairly, in all material respects, the financial position of the group as at 31 December 2015 and its financial performance and cash flows for the six month period ended on that date in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*.

Our review was completed on 11 February 2016 and our findings are expressed as at that date.



Ernst & Young
Brisbane