

Michael Hill International Limited	
Results for announcement to the market	
Reporting Period	12 months to 30 June 2012
Previous Reporting Period	12 months to 30 June 2011

	Amount \$NZ'000	Percentage Change %
Revenue from ordinary activities	511,497	4.5%
Profit from ordinary activities after tax attributable to members	36,511	5.8%
Net profit for the period attributable to members	36,511	5.8%

	Amount per security	Imputed amount per security
Final dividend for year ended 30 June 2012	3.5 cents	nil
Record date	28 September 2012	
Dividend payment date	5 October 2012	

Michael Hill International Limited's accounts have been audited and an unqualified audit opinion was given.

CHAIRMAN'S STATEMENT

Profit Announcement

Michael Hill International Limited today announced an after tax profit of \$36.511m for the twelve months ended 30 June 2012, up 5.8% on the corresponding period last year.

Summary of Key Points (all values stated in NZD unless stated otherwise)

- Operating revenue of \$511.497m up 4.5% on same period last year
- EBIT of \$45.892m up 0.6% on same period last year
- Same store sales were 0.3% down on same period last year
- Net profit before tax of \$42.036m up 5.1% on same period last year
- Net profit after tax of \$36.511m up 5.8% on same period last year
- Revenue collected from Professional Care Plans of \$26.955m for the period
- Net debt of \$20.994m at 30 June 2012 down from \$36.873m last year
- Operating cash flow of \$52.131m up from \$43.319m last year
- 15 new stores opened and 3 closed during the period
- Total of 252 stores open at 30 June 2012
- Final dividend of 3.5 cents per share up 16.7%
- Total dividend for the year of 5.5 cents up 22.2% from 4.5 cents in 2011
- Equity ratio of 60.1% at 30 June 2012

New Zealand Retail Operations

The New Zealand retail segment revenue increased by 7.1% to \$109.110m for the twelve months, with an operating surplus of \$21.550m, an increase of 16.6% on the corresponding period last year. Same store sales during the twelve months increased by 7.3% (5.4% last year).

The operating surplus as a percentage of revenue increased to 19.8% (18.1% last year).

One new store opened in New Zealand during the period, as follows:

- Pukekohe, Northern Region

No stores were closed during the period, giving a total of 53 stores operating in New Zealand as at 30 June 2012.

Australian Retail Operations

The Australian retail segment increased its revenue by 3.1% to AU\$259.032m for the twelve months with an operating surplus of AU\$36.798m, compared to AU\$38.650m for the previous corresponding period, a decrease of 4.8%. Same store sales in local currency decreased 2.1% for the twelve months (4.7% increase last year).

The operating surplus as a percentage of revenue was 14.2% (15.4% last year).

10 new stores were opened in Australia during the period, as follows:

- Burleigh, Queensland
- Canberra Centre, ACT
- Chatswood, New South Wales
- Doncaster, Victoria
- Highlands Marketplace, New South Wales
- Marrickville, New South Wales
- Orange, New South Wales
- Peninsula Fair, Queensland
- Runaway Bay, Queensland
- Warrnambool, Victoria

Three stores were closed during the period, giving a total of 153 stores operating in Australia as at 30 June 2012.

Canadian Retail Operations

The Canadian retail segment increased its revenue by 20% for the twelve months to CA\$44.265m and there was an operating surplus of CA\$0.518m compared to a loss of CA\$0.237m for the previous corresponding period. Same store sales in local currency increased 5.8% for the twelve months (12.1% last year).

Four new stores were opened during the period, as follows:

- Market Mall, Alberta
- Polo Park, Manitoba
- Scarborough, Ontario
- St Vital, Manitoba

No stores were closed during the period, giving a total of 37 stores operating in Canada as at 30 June 2012.

US Retail Operations

The US retail segment increased its revenue by 17.7% for the twelve months to US\$9.576m for the twelve months and there was an operating loss of US\$2.650m for the same period (US\$3.410m last year). Same stores sales in local currency increased 17.2% for the twelve months.

The board is satisfied with the progress of the US operation over the past twelve months but acknowledges there is still a long way to go before the business is proven up in the US market. Focus remains on improving both the top line sales and the margins in order to grow the bottom line of the nine stores over the coming twelve months.

There were nine stores open as at 30 June 2012.

Professional Care Plan (PCP)

As the PCP business is still relatively new (having been introduced in October 2010) the Group feels that it remains too early to accurately predict the margins and therefore profitability of the PCP business. The Group is confident, however, that the PCP's will contribute positively to the margins and profits of the overall business.

PCP sales for the financial year were \$26,955,284. An amount of \$6,025,417 has been included as revenue in the segment figures stated above from the current and prior periods.

PCP sales are carried on the balance sheet as deferred revenue and then brought to revenue in the P&L over the life of the plans (3 Year and Life Time) in proportion to the expected cost of meeting commitments under the PCP's. It is assumed that the liability for accounting purposes of the life time plans will expire within 10 years from date of sale. The estimate of expected commitments under the relevant PCP is based on a combination of our own experience and overseas research. These estimates will be updated as the company gathers actual data over the coming years. The costs of meeting the liability under the respective PCP's is brought to account in the period incurred.

The following table summarises the revenue treatment of the PCP business.

The following figures are in NZ Dollars	Last Year	This Year
PCP sales collected for the year	\$11,672,271	\$26,955,284
PCP revenue brought to income for the year	\$559,799	\$6,025,417
Deferred revenue carried forward on balance sheet	\$11,069,275	\$31,669,686

*PCP's have been sold since October 2010

Outstanding Tax Issues from Group Restructuring in 2008

It will be recalled that the Group currently has two unresolved tax matters relating to the way the Group valued and financed the sale of intellectual property from one of our New Zealand companies to one of our Australian companies.

In New Zealand, the Inland Revenue (IR) has questioned the manner in which the transaction was financed. In Australia, the Australian Taxation Office (ATO) has queried the value at which the intellectual property was transferred. The Group does not agree with the positions advanced by either the IR or ATO and believes the tax treatment and values it has adopted are correct. Discussions continue with both the IR and ATO within their dispute process frameworks, but it remains unclear when final resolution will be achieved in respect of either matter.

In New Zealand, the amount in dispute is \$17,858,000, being the tax effect of deductions claimed by the New Zealand Group from the date of the sale through to 30 June 2011. The tax effect of deductions for the 2012 financial year is \$6,778,000. In the event any tax liability was payable, the Group would also incur an interest expense.

In respect of Australia, the value at which the intellectual property was transferred was originally determined by reference to an independent valuation carried out by an internationally recognised firm and a deferred tax asset was raised in 2009 based on that valuation. The deferred tax asset balance at 30 June 2012 was \$42,592,000 as a result of depreciation of components of the intellectual property and a previously announced adjustment in value. The ATO has signalled that it has issues with aspects of that valuation which, if correct, would reduce the amount of depreciation able to be deducted by the Group. As noted, the Group does not accept the ATO's position and believes the ATO's views are based on a number of factual, legal and technical valuation errors. The Group is presently preparing, and will file shortly, a formal response to the ATO.

Both matters are capable of being resolved by agreement, but if the Group is unable to find common ground with either the IR or ATO then further formal legal processes may be needed to achieve resolution. As is the case with almost all legal processes there is inherent uncertainty as to the outcome and the Group does not believe that the outcome of either process can be predicted or the range of possible implications quantified. The board does not consider that either of the above ongoing tax matters require a provision in the Group's 2012 financial statements but further detail is included at note 33 to the Financial Statements.

Dividend

The Directors are pleased to announce a final dividend of 3.5¢ per share (2011 – 3.0¢), with no imputation credits attached for New Zealand shareholders and full franking credits for Australian shareholders. The dividend will be paid on Friday, 5 October 2012 with the record date being Friday, 28 September 2012. Including the 2.0 cent per share interim dividend paid on 2 April 2012, the total dividend for the year will be 5.5¢, an increase of 22.2% on the previous corresponding period (2011 – 4.5¢).

Due to the internal restructuring of the Group in December 2008, the company is unlikely to be in a position to impute dividends for some years; however this will depend on the performance of the segment in the coming years and also on the level of dividend to be paid in future periods.

Whilst the 2011-12 final dividend is fully franked to Australian resident shareholders, it is possible that future dividends will only be partially franked due to the likelihood of future dividend payout exceeding the level of tax liability in Australia. However, this position can change over time depending on a number of variables and the company will keep the market informed each time a dividend is declared.

Cash Flows / Balance Sheets

The Group has reported net operating cash flows of \$52.131m for the twelve months, compared to \$43.319m for the previous year.

The surplus from operations is a result of:

• Profit excluding non cash items	\$44.540m
• Decrease in other payables	\$ 0.579m
• Increase in deferred revenues from Professional Care Plan	\$21.182m
• Increase in inventory levels	(\$16.056)m
• Other miscellaneous items	\$ 1.886m
Net Cash Inflow from Operations Surplus for Year	\$52.131m

The Group's balance sheet continues to be sound with an equity ratio of 60.1% as at 30 June 2012 (60.9% in 2011) and a working capital ratio of 3.1:1 (3.3:1 in 2011).

Summary

2011-12 witnessed a continued good recovery in revenue in New Zealand, Canada and the US while sales were tougher to make in our largest market Australia. The "same store" sales growth in New Zealand, Canada and the US are commendable achievements and demonstrate the strength of the Michael Hill retail system to recover from severe downturns in domestic economies. A big focus in the coming year will be to drive "same store" sales revenue in Australia our largest market. Additional resources have been placed in this market with a view to turning around the results from 2011-12. The directors are satisfied with the overall performance of the group and they remain confident in the continued growth and profitability of the group.

The Directors remain confident in the continued growth and profitability of the group.



Sir Michael Hill 16/08/2012

Chairman

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STATEMENT OF FINANCIAL PERFORMANCE	Consolidated Statement of Financial Performance		
	Current full year \$NZ'000	% Change	Previous corresponding full year \$NZ'000
Revenue			
Trading revenue	511,497	4.5%	489,330
Other revenue	1,494	149.8%	598
Total operating revenue	512,991	4.7%	489,928
Expenses			
Cost of goods sold	(194,573)	5.0%	(185,323)
Employee benefits expense	(124,394)	4.2%	(119,416)
Occupancy costs	(47,531)	8.7%	(43,716)
Depreciation and amortisation expense	(12,328)	7.6%	(11,453)
Loss on disposal of property, plant & equipment	(457)	180.4%	(163)
Other expenses	(87,619)	4.2%	(84,051)
Finance costs	(4,053)	(30.4%)	(5,821)
Profit before income tax	42,036	5.1%	39,985
Income tax (expense)	(5,525)	0.7%	(5,486)
Profit attributable to members of Michael Hill International Limited	36,511	5.8%	34,499

INCLUDED IN STATEMENT OF FINANCIAL PERFORMANCE ABOVE

Interest income	197	17.3%	168
Insurance recovery	79	(82.2%)	443
Net foreign exchange (loss) / gain	1,051	181.5%	(1,289)
Depreciation	12,248	8.3%	11,305
Amortisation	80	(46.0%)	148
Net loss on disposal of property, plant & equipment	(457)	180.4%	(163)
Rental expense relating to operating leases	(47,531)	8.7%	(43,716)
Donations	(23)	(23.3%)	(30)

EARNINGS PER SECURITY	Earnings Per Security	
	Current full year Cents	Previous corresponding full year Cents
Basic EPS	9.54	9.02
Diluted EPS	9.50	8.99

DIVIDENDS	Dividends	
	Current full year \$NZ'000	Previous corresponding full year \$NZ'000
Final dividend for the year ended 30 June 2011 of 3.0 cents (2010 - 2.5 cents) per fully paid share paid on 10 October 2011 (2010 - 11 October 2010).	11,483	9,567
Interim dividend for the year ended 30 June 2012 of 2.0 cents (2011 - 1.5 cents) per fully paid share paid on 2 April 2012 (2011 - 1 April 2011).	7,656	5,740
Total dividends provided for or paid	19,139	15,307

STATEMENT OF FINANCIAL POSITION	Consolidated Statement of Financial Position		
	At end of current full year \$NZ'000	% Change	At end of previous full year \$NZ'000
ASSETS			
Current Assets			
Cash and cash equivalents	12,064	41.3%	8,540
Trade and other receivables	11,847	38.5%	8,551
Inventories	187,017	8.1%	173,055
Total current assets	210,928	10.9%	190,146
Non-current assets			
Property, plant and equipment	47,116	11.6%	42,211
Deferred tax assets	64,085	5.8%	60,599
Intangible assets	70	(53.9%)	152
Other non-current assets	1,449	-	-
Total non-current assets	112,720	9.5%	102,962
Total assets	323,648	10.4%	293,108
LIABILITIES			
Current liabilities			
Trade and other payables	51,260	(0.3%)	51,401
Current tax liabilities	5,325	496.3%	893
Provisions	3,871	43.5%	2,697
Deferred revenue	8,330	278.5%	2,201
Total current liabilities	68,786	20.3%	57,192
Non-current liabilities			
Borrowings	33,058	(27.2%)	45,413
Provisions	2,062	42.9%	1,443
Deferred revenue	25,383	137.6%	10,684
Total non-current liabilities	60,503	5.1%	57,540
Total liabilities	129,289	12.7%	114,732
Net assets	194,359	9.0%	178,376
EQUITY			
Contributed equity	4,083	2.5%	3,983
Reserves	1,793	(45.4%)	3,282
Retained profits	188,483	10.2%	171,111
Total equity	194,359	9.0%	178,376

NET TANGIBLE ASSETS	Net Tangible Assets	
	Current full year \$ / Share	Previous corresponding full year \$ / Share
Net tangible assets	\$ 0.51	\$ 0.47

STATEMENT OF CASH FLOWS	Consolidated Statement of Cash flows	
	Current full year \$NZ'000	Previous corresponding full year \$NZ'000
Cash flows from operating activities		
Receipts from customers (incl. GST)	585,137	551,512
Payments to suppliers and employees (incl. GST)	(495,588)	(473,930)
Interest received	197	168
Other revenue	485	706
Interest paid	(4,077)	(5,637)
Income tax paid	(1,346)	(1,392)
Net goods and services tax paid	(32,677)	(28,108)
Net cash inflow from operating activities	52,131	43,319
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	230	157
Payments for property, plant and equipment	(18,127)	(14,010)
Net cash (outflow) from investing activities	(17,897)	(13,853)
Cash flows from financing activities		
Proceeds from borrowings	39,742	82,457
Repayment of borrowings	(51,280)	(94,419)
Proceeds from sale of treasury stock	90	119
Dividends paid to company's shareholders	(19,139)	(15,307)
Net cash (outflow) from financing activities	(30,587)	(27,150)
Net increase / (decrease) in cash and cash equivalents	3,647	2,316
Cash and cash equivalents at the beginning of the financial year	8,540	6,270
Effects of exchange rate changes on cash and cash equivalents	(123)	(46)
Cash and cash equivalents at the end of year	12,064	8,540

STATEMENT OF CHANGES IN EQUITY	Statement of Changes In Equity	
	Current full year \$NZ'000	Previous corresponding full year \$NZ'000
Total equity at the beginning of the financial year	178,376	158,544
Profit for the year	36,511	34,499
Exchange differences on translation of foreign operations	(1,843)	86
Total recognised income and expense for the year	34,668	34,585
Transactions with equity holders in their capacity as equity holders		
Employee share scheme issue	100	133
Option reserve movement	354	421
Dividends provided for or paid	(19,139)	(15,307)
Total equity at the end of the financial year	194,359	178,376

ISSUED AND QUOTED SECURITIES	Issued Securities	
	At end of current full year No. of Shares	At end of previous full year No. of Shares
Ordinary Shares:		
Fully Paid	383,053,190	383,053,190
Treasury stock held for employee share scheme	(277,604)	(388,717)
	382,775,586	382,664,473
Options issued during the year	900,000	1,150,000

Issued Options:	Issued	Exercise Price	Expiry Date
Options issued 7 November 2007	4,250,000	\$1.25	30/09/2017
Options issued 24 August 2009	200,000	\$0.94	30/09/2019
Options issued 5 November 2009	150,000	\$0.94	30/09/2019
Options issued 17 September 2010	350,000	\$0.88	30/09/2020
Options issued 5 November 2010	400,000	\$0.94	30/09/2019
Options issued 5 November 2010	400,000	\$0.88	30/09/2020
Options issued 16 September 2011	750,000	\$1.16	30/09/2021

SUBSIDIARIES	Subsidiaries	
	Current full year % Ownership	Previous corresponding full year % Ownership
Name of Entity	Country of Incorporation	
Michael Hill Jeweller Limited	New Zealand	100%
Michael Hill Trustee Company Limited	New Zealand	100%
MHJ (US) Limited	New Zealand	100%
Michael Hill Finance (NZ) Limited	New Zealand	100%
Michael Hill Franchise Holdings Limited	New Zealand	100%
Michael Hill Jeweller (Australia) Pty Limited	Australia	100%
Michael Hill Wholesale Pty Limited	Australia	100%
Michael Hill Manufacturing Pty Limited	Australia	100%
Michael Hill Finance (Limited Partnership)	Australia	100%
Michael Hill Group Services Pty Limited	Australia	100%
Michael Hill Franchise Pty Limited	Australia	100%
Michael Hill Franchise Services Pty Limited	Australia	100%
Michael Hill Jeweller (Canada) Limited	Canada	100%
Michael Hill LLC	United States	100%