

Michael Hill International Limited	
Results for announcement to the market	
Reporting Period	6 months to 31 December 2011
Previous Reporting Period	6 months to 31 December 2010

	Amount \$NZ'000	Percentage Change %
Revenue from ordinary activities	288,846	7.3%
Profit from ordinary activities after tax attributable to members	26,297	11.5%
Net profit for the period attributable to members	26,297	11.5%

	Amount per security	Imputed amount per security
Interim dividend for half-year ended 31 December 2011	2 cents	nil
Record date	23 March 2012	
Dividend payment date	2 April 2012	

Michael Hill International Limited's accounts attached to this report have been reviewed and are not subject to any qualification.

REPORT OF THE DIRECTORS

Profit Announcement

Michael Hill International Limited today announced an after tax profit of \$26.297m for the six months ended 31 December 2011, up 11.5% on the corresponding period last year.

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

- Operating revenue of \$288.846m up 7.3% on same period last year
- Same store sales were 1.7% up on same period last year
- EBIT of \$34.775m up 9.2% on same period last year
- Net profit before tax of \$32.337m is up 12.7% on last year
- Net profit after tax of \$26.297m is up 11.5% on last year
- Revenue collected from Professional Care Plans of \$14.411m for the period
- Net debt of \$10.728m at 31 December 2011 down from \$49.163m last year
- Operating cash inflow of \$46.800m up from \$21.040m last year
- 7 new stores opened and 1 closed during the period
- Total of 245 stores open at 31 December 2011
- Interim dividend of 2.0 cents per share up 33% on last year
- Equity ratio of 56.2% at 31 December 2011

New Zealand Retail Operations

The New Zealand retail segment revenue increased by 8.5% to \$60.908m for the six months, with an operating surplus of \$12.192m, an increase of 12.7% on the corresponding period last year.

Same store sales during the twelve months increased by 9.2% (6.2% last year).

The operating surplus as a percentage of revenue increased to 20% (19.3% last year).

Australian Retail Operations

The Australian retail segment increased its revenue by 4.4% to AU\$147.091m for the six months with an operating surplus of AU\$24.382m, compared to AU\$25.079m for the previous corresponding period, a decrease of 2.8%.

Same store sales in local currency decreased by 1.5% for the six months (5.7% increase last year).

The operating surplus as a percentage of revenue was 16.6% (17.8% last year).

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

- Doncaster, Victoria
- Chatswood, New South Wales
- Marrickville, New South Wales
- Burleigh, New South Wales
- Warrnambool, Victoria

1 store was closed in New South Wales during the period, giving a total of 149 stores operating in Australia as at 31 December 2011.

Canadian Retail Operations

The Canadian retail segment increased its revenue by 20.9% to CA\$24.257m for the six months, with an operating surplus of CA\$1.184m, compared to CA\$0.391m for the previous corresponding period, an increase of 202.8%.

Same stores sales in local currency increased 5.2% for the six months (15.1% increase last year).

2 new stores were opened during the period:

- Polo Park, Manitoba
- Market Mall, Alberta

There were 35 stores open as at 31 December 2011.

US Retail Operations

The US retail segment achieved revenue of US\$5.272m for the six months and there was an operating loss of US\$1.431m for the same period (US\$2.121m last year). Same stores sales in local currency increased 22.3% for the six months.

The board is pleased with the progress of the US operation over the past six 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 9 stores open as at 31 December 2011.

Professional Care Plan (PCP)

PCP sales continue to grow and have significantly improved cash flow of the company. Although it is too early to accurately predict the margins and therefore profitability of the PCP business, the company is confident that the PCP's will contribute positively to the margins and profits of the overall business.

PCP sales during the first six months were \$14,411,408. An amount of \$1,466,312 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 First half *	Last Year Second Half	This Year First Half
PCP sales collected for the half year	\$2,937,882	\$8,734,389	\$14,411,408
PCP revenue brought to income for the half year	\$0	\$559,779	\$1,466,312
Deferred revenue carried forward on balance sheet	\$2,986,080	\$11,069,275	\$24,337,672

*PCP's have been sold since October 2010

Outstanding Tax Issues from Group Restructuring in 2008

In the 2011 full year report, the company provided an update on the 2 outstanding tax matters relating to the 2008 group restructure. Below is a further update on the respective matters.

The company's discussions with the Inland Revenue (IR) in New Zealand referred to in the 2011 directors' report in relation to the way the group financed the sale of Intellectual Property from one of our New Zealand companies to one of our Australian companies have continued. Tax returns have been filed with the IR for the 2008-09 and 2009-10 financial years. The IR issued a binding ruling confirming some aspects of the tax treatment of the financing structure but commenced a limited scope review of some outstanding concerns in relation to the 2009 tax return. The 2009 tax return issues are now being considered by IR under the disputes resolution process. In turn the company initiated the disputes resolution process in respect of the 2010 return in order to expedite finalisation of the issues. Discussions with IR in relation to the 2009 and 2010 tax returns are continuing.

The company's discussions with the Australian Taxation Office (ATO) relate to the value at which the intellectual property was transferred between the respective companies. Discussions are likewise continuing with the ATO in respect to this matter at the time of this announcement.

The board does not consider that either of the above ongoing tax matters requires a provision or contingency in the group's financial statements for 2011 half year. This will be kept under review.

Dividend

The Directors are pleased to announce an interim dividend of 2.0¢ per share (2010 – 1.5¢), with no imputation credits attached for New Zealand shareholders and full franking credits for Australian shareholders. The dividend will be paid on Monday, 2nd April 2012 with the record date being Friday, 23rd March 2012.

Due to the internal restructuring of the Group in December 2008, the company is unlikely to be in a position to impute dividends for the foreseeable future, however this will depend on the performance of each segment in the coming years and also on the level of dividend to be paid in future periods. Whilst the 2011-12 interim dividend is fully franked to Australian resident shareholders, it is likely that future dividends will only be partially franked due to the level of 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

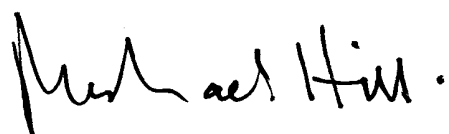
The Group has reported net operating cash inflows of \$46.800m for the six months, compared to \$21.040m for the previous year and net debt has fallen to \$10.728m from \$49.163m at the same time last year.

The surplus from operations is a result of:

• Profit excluding non cash items	\$31.802m
• Increase in trade and other receivables	(\$8.192)m
• Increase in inventory levels	(\$12.246)m
• Increase in trade and other payables	\$17.664m
• Increase in deferred revenues from Professional Care Plans	\$12.925m
• Other miscellaneous items	\$4.847m

Net cash inflow from operations for Half Year \$46.800m

The Group's balance sheet continues to be sound with an equity ratio of 56.2% as at 31 December 2011 (54.1% in 2010) and a working capital ratio of 2.8 :1 (3.2:1 in 2010).

A handwritten signature in black ink that reads "Michael Hill." The signature is written in a cursive style with a period at the end.

Sir Michael Hill 15/02/2012
Chairman

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

STATEMENT OF FINANCIAL PERFORMANCE	Consolidated Statement of Financial Performance		
	Current half year \$NZ'000	% Change	Previous corresponding half year \$NZ'000
Revenue			
Trading revenue	288,846	7.3%	269,086
Other revenue	197	23.9%	159
Total operating revenue	289,043	7.4%	269,245
Expenses			
Cost of goods sold	(109,483)	9.1%	(100,307)
Employee benefits expense	(67,060)	5.6%	(63,529)
Occupancy costs	(23,257)	11.2%	(20,921)
Depreciation and amortisation expense	(6,093)	10.8%	(5,497)
Loss on disposal of property, plant & equipment	(423)	449.4%	(77)
Other expenses	(47,896)	1.9%	(47,022)
Finance costs	(2,494)	(22.3%)	(3,210)
Profit before income tax	32,337	12.7%	28,682
Income tax expense	(6,040)	18.5%	(5,099)
Profit attributable to members of Michael Hill International Limited	26,297	11.5%	23,583

INCLUDED IN STATEMENT OF FINANCIAL PERFORMANCE ABOVE

Interest income	56	33.3%	42
Net foreign exchange gain (loss)	1,438	192.1%	(1,561)
Depreciation	(6,048)	12.3%	(5,388)
Amortisation	(45)	(58.7%)	(109)
Net loss on disposal of property, plant & equipment	(423)	449.4%	(77)
Rental expense relating to operating leases	(23,257)	11.2%	(20,921)

EARNINGS PER SECURITY	Earnings Per Security	
	Current half year Cents	Previous corresponding half year Cents
Basic EPS	6.87	6.16
Diluted EPS	6.85	6.15

DIVIDENDS	Dividends	
	Current half year \$NZ'000	Previous corresponding half 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
Total dividends provided for or paid	11,483	9,567

STATEMENT OF FINANCIAL POSITION	Consolidated Statement of Financial Position		
	At end of current half year \$NZ'000	% Change	At end of previous half year \$NZ'000
ASSETS			
Current assets			
Cash and cash equivalents	32,545	32.4%	24,573
Trade and other receivables	16,988	29.6%	13,108
Inventories	188,083	2.9%	182,739
Total current assets	237,616	7.8%	220,420
Non-current assets			
Property, plant and equipment	45,535	3.6%	43,968
Deferred tax assets	63,100	5.3%	59,926
Intangible assets	106	(51.4%)	218
Total non-current assets	108,741	4.4%	104,112
Total assets	346,357	6.7%	324,532
LIABILITIES			
Current liabilities			
Trade and other payables	69,725	10.6%	63,050
Current tax liabilities	6,856	121.4%	3,096
Provisions	3,631	23.1%	2,950
Deferred revenue	5,200	560.7%	787
Total current liabilities	85,412	22.2%	69,883
Non-current liabilities			
Borrowings	43,273	(41.3%)	73,736
Provisions	1,952	37.0%	1,425
Deferred revenue	20,975	452.8%	3,794
Total non-current liabilities	66,200	(16.2%)	78,955
Total liabilities	151,612	1.9%	148,838
Net assets	194,745	10.8%	175,694
EQUITY			
Contributed equity	4,083	2.5%	3,983
Reserves	4,737	(18.0%)	5,776
Retained profits	185,925	12.0%	165,935
Total equity	194,745	10.8%	175,694

NET TANGIBLE ASSETS	Net Tangible Assets	
	Current half year \$ / Share	Previous corresponding half year \$ / Share
Net tangible assets	\$ 0.51	\$ 0.46

STATEMENT OF CASH FLOWS	Consolidated Statement of Cash flows	
	Current half year \$NZ'000	Previous corresponding half year \$NZ'000
Cash flows from operating activities		
Receipts from customers (incl. GST)	325,731	291,133
Payments to suppliers and employees (incl. GST)	(262,519)	(259,716)
Interest received	55	42
Other revenue	197	159
Interest paid	(2,501)	(2,987)
Income tax (paid)/received	(1,049)	1,094
Net goods and services tax paid	(13,114)	(8,685)
Net cash inflow from operating activities	46,800	21,040
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	145	73
Payments for property, plant and equipment	(9,108)	(9,009)
Net cash (outflow) from investing activities	(8,963)	(8,936)
Cash flows from financing activities		
Proceeds from borrowings	30,744	72,402
Repayment of borrowings	(33,306)	(56,850)
Proceeds from sale of treasury stock	90	119
Dividends paid to company's shareholders	(11,483)	(9,567)
Net cash (outflow)/inflow from financing activities	(13,955)	6,104
Net increase in cash and cash equivalents	23,882	18,208
Cash and cash equivalents at the beginning of the half year	8,540	6,270
Effects of exchange rate changes on cash and cash equivalents	123	95
Cash and cash equivalents at the end of half year	32,545	24,573

STATEMENT OF CHANGES IN EQUITY	Statement of Changes In Equity	
	Current half year \$NZ'000	Previous corresponding half year \$NZ'000
Total equity at the beginning of the half year	178,376	158,544
Profit for the half year	26,297	23,583
Exchange differences on translation of foreign operations	1,257	2,725
Total recognised income and expense for the half year	27,554	26,308
Transactions with equity holders in their capacity as equity holders		
Option reserve movement	198	276
Employee shares issued	100	133
Dividends provided for or paid	(11,483)	(9,567)
Total equity at the end of the half year	194,745	175,694

ISSUED AND QUOTED SECURITIES	Issued Securities	
	At end of current half year No. of Shares	At end of previous half 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 half year	900,000	1,150,000

Issued Options:	Issued	Exercise Price	Expiry Date
Options issued 7 November 2007	4,250,000	\$1.253	30/09/2017
Options issued 24 August 2009	200,000	\$0.940	30/09/2019
Options issued 5 November 2009	150,000	\$0.940	30/09/2019
Options issued 17 September 2010	350,000	\$0.880	30/09/2020
Options issued 5 November 2010	400,000	\$0.940	30/09/2019
Options issued 5 November 2010	400,000	\$0.880	30/09/2020
Options issued 8 July 2011	150,000	\$1.150	27/04/2021
Options issued 20 August 2011	750,000	\$1.160	30/09/2021

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