

**Michael Hill**  
INTERNATIONAL LTD

ANNUAL REPORT 2001



*have it all*  
**HAVE IT NOW**

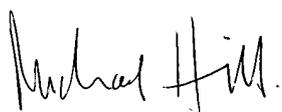
*I so  
deserve  
this*

*and this*

*and this*

**Michael Hill**  
J E W E L L E R

The Directors are pleased to  
present the Annual Report of  
Michael Hill International Limited  
for the year ended 30 June 2001.



R.M. Hill

Chairman of Directors



M.R. Parsell

Chief Executive Officer/Director

Dated 23 August 2001

## CONTENTS

2	Company Profile
2	Results in Brief
5	Trend Statement
7	Chairman's Letter
8	Report of the Directors
12	CEO Review of Operations
15	Corporate Governance Statement
17	Risk Management Statement
19	Corporate Code of Conduct
21	Board Members' Profiles
22	Auditors' Report
23	Financial Statements
36	Directors' Interests in Transactions
37	Shareholder Information
38	Share Price Performance
40	Store Outlets - Australia
41	Store Outlets - New Zealand
42	Notice of Annual Meeting
44	Corporate Directory
44	Management Directory
44	Financial Calendar



## COMPANY PROFILE

**MICHAEL HILL INTERNATIONAL** operates Michael Hill Jeweller - an Australasian retail jewellery chain with 115 stores between Australia and New Zealand as at 30 June 2001. The Company began in 1979 when Michael Hill opened the first store in the New Zealand town of Whangarei, some 160 kilometres north of Auckland.

A unique retail jewellery formula that included dramatically different store designs, a product range devoted exclusively to jewellery and almost saturation levels of high impact advertising elevated the Company to national prominence and record sales.

The Company grew rapidly, expanding to 10 stores by 1987 - the same year it was listed on the New Zealand Stock Exchange. 1987 also saw expansion into Australia, opening the first store in August, in the Brisbane suburb of Indooroopilly.

Today the Group employs over 1200 full and part time employees in retailing, manufacturing and administration. It has approximately 2200 shareholders and is the most profitable publicly listed retail jeweller in Australia/New Zealand.

## OUR CORPORATE OBJECTIVES

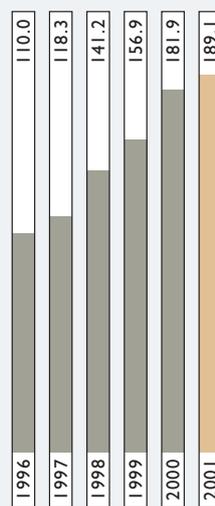
- To provide a superior long term return for our shareholders.
- To provide employees with secure rewarding long term employment in an environment where excellence is encouraged.

## OUR VISION

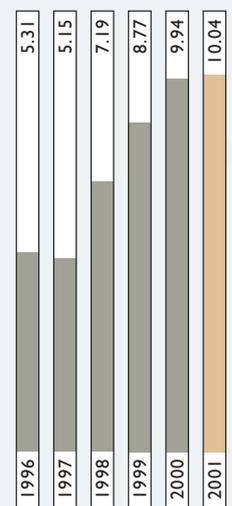
To strive for perfection in jewellery retailing and manufacturing, and provide the highest quality, service and value to our customers.

## RESULTS IN BRIEF

	2001	2000
<b>TRADING RESULTS</b>		
• Group revenue (\$000's)	189,168	181,983
• Group surplus after tax (\$000's)	10,039	9,939
- First half	7,745	7,494
- Second half	2,294	2,445
<b>FINANCIAL POSITION</b>		
• Total assets (\$000's)	91,331	82,394
• Total shareholders' funds (\$000's)	49,568	42,587
<b>RATIOS</b>		
• Group surplus after tax to average		
- Total assets	11.6%	12.7%
- Shareholders' funds	21.8%	24.9%
• Earnings per share	26.0¢	25.8¢
• Shareholders equity	54%	52%
• Interest cover (times)	8.1	10.6
• Current ratio	5.1:1	3.6:1
<b>NUMBER OF STORES 30 JUNE</b>		
• New Zealand	41	40
• Australia	74	66
Total	115	106
<b>DISTRIBUTION TO SHAREHOLDERS</b>		
• Dividends - including final dividend		
- Per ordinary share	15.0¢	13.5¢
- Times covered by surplus after tax	1.73	1.90
<b>ISSUED AND PAID UP CAPITAL</b>		
• 38,558,600 Ordinary shares (\$000's)	7,712	7,712
<b>SHARE PRICE</b>		
30 June	\$3.80	\$2.85



**GROUP SALES**  
\$ Millions



**GROUP SURPLUS AFTER TAXATION**  
\$ Millions

## *Highlights of the Year*

- Group revenue up 4% to \$189 million.
- Group surplus after tax increased to \$10,039,000.
  - Dividend up 11% for the year.
  - Nine new stores opened during the year.
  - An excellent 22% return on shareholders' funds.
- Same store sales up 2.9% in New Zealand and 3.5% in Australia (GST adjusted).





**THE LATEST STORE TO BE OPENED AT BAYFAIR, MT MAUNGANUI, NEW ZEALAND. "WITH PLANNED SHOPPING CENTRE REFURBISHMENTS, EXTENSIONS, AND NEW SHOPPING CENTRE CONSTRUCTION, THE COMPANY POTENTIALLY HAS ANOTHER 56 STORES THAT COULD BE OPENED IN AUSTRALIA."**

## TREND STATEMENT

	2001 \$000	2000 \$000	1999 \$000	1998 \$000	1997 \$000	1996 \$000
<b>Group sales</b>	<b>\$ 189,168</b>	<b>\$ 181,983</b>	<b>\$ 156,940</b>	<b>\$ 141,254</b>	<b>\$ 118,303</b>	<b>\$ 110,060</b>
<b>Earnings</b>						
Surplus before taxation	15,130	15,517	13,549	11,059	8,037	8,181
Tax provision	5,091	5,578	4,775	3,867	2,883	2,865
Surplus after tax	10,039	9,939	8,774	7,192	5,154	5,316
Dividend distributions	2,518*	5,216	4,444	3,669	2,695	2,513
Retained surplus for year	7,521	4,723	4,330	3,523	2,459	2,803
<b>Funds employed</b>						
Paid-up ordinary capital	7,712	7,712	7,712	7,712	7,712	7,712
Reserves and retained earnings	41,856	34,875	29,339	24,605	20,310	18,396
Shareholders' funds	49,568	42,587	37,051	32,317	28,022	26,108
Long term debt / deferred tax	28,503	22,670	21,849	18,302	18,904	18,001
	<b>\$ 78,071</b>	<b>\$ 65,257</b>	<b>\$ 58,900</b>	<b>\$ 50,619</b>	<b>\$ 46,926</b>	<b>\$ 44,109</b>
<b>Utilisation of funds</b>						
Non current assets	22,652	19,635	14,583	13,169	13,106	13,621
Expenditure carried forward / goodwill	505	625	756	892	974	1,146
Net working capital	54,914	44,997	43,561	36,558	32,846	29,342
	<b>\$ 78,071</b>	<b>\$ 65,257</b>	<b>\$ 58,900</b>	<b>\$ 50,619</b>	<b>\$ 46,926</b>	<b>\$ 44,109</b>

\*Note change in accounting policy detailed in the notes to the Financial Statements.

<b>CASH FLOW STATEMENT</b>	2001 \$000	2000 \$000	1999 \$000	1998 \$000	1997 \$000	1996 \$000
Net profit before tax	15,130	15,517	13,549	11,059	8,037	8,181
Depreciation	4,280	4,264	2,903	2,783	2,398	2,003
Other non-cash adjustments	147	1,545	1,002	1,901	(183)	1,372
Tax paid	(7,911)	(5,718)	(4,567)	(3,786)	(3,179)	(2,303)
Dividends	(5,410)	(4,638)	(4,059)	(3,091)	(2,695)	(2,012)
Working capital increase	(3,759)	(1,394)	(10,106)	(3,455)	(4,028)	(2,175)
Capital expenditure	(8,028)	(9,161)	(4,502)	(2,652)	(2,751)	(3,750)
Other	0	0	(30)	(82)	(20)	(21)
<b>Surplus cash pre external funds</b>	<b>(\$ 5,551)</b>	<b>\$ 415</b>	<b>(\$ 5,810)</b>	<b>\$ 2,677</b>	<b>(\$ 2,421)</b>	<b>\$ 1,295</b>
<b>External source of funds</b>						
Net borrowings/(repayments)	6,250	0	3,455	(1,750)	1,152	(1,631)
Asset sales	178	146	222	238	101	241
<b>Surplus cashflow</b>	<b>\$ 877</b>	<b>\$ 561</b>	<b>(\$ 2,133)</b>	<b>\$ 1,165</b>	<b>(\$ 1,168)</b>	<b>(\$ 95)</b>

<b>STATISTICS</b>	2001	2000	1999	1998	1997	1996
Earnings per share	26.03¢	25.8¢	22.8¢	18.7¢	13.4¢	13.8¢
Net tangible asset backing	\$1.27	\$1.09	94.6¢	82.1¢	71¢	66¢
Interest cover (times)	8.1	10.6	9.9	8.0	6.1	6.0
Net debt \$000's	\$27,113	\$22,051	\$21,234	\$16,023	\$17,710	\$15,890
Dividend per ordinary share	15.0¢	13.5¢	11.5¢	9.5¢	7.0¢	6.5¢
% of tax paid profit paid as dividend	25.0%†	52.3%	50.5%	51.0%	52.3%	47.1%
Working capital ratio	5.1:1	3.6:1	3.8:1	3.9:1	4.3:1	3.8:1
EBIT/Sales %	9.1%	9.4%	9.6%	8.9%	8.1%	8.9%
Return on average capital funds	21.8%	24.9%	25.3%	24%	19%	22%
Jewellery stores at year end	115	106	102	94	88	82
Exchange rate for translating Australian results	.79	.80	.84	.83	.91	.87

†Note change in accounting policy relating to providing for final dividend.



**“THE RETURN ON SHAREHOLDERS’ FUNDS HAS AVERAGED 24% OVER THE PAST FOUR YEARS AND WE CAN BE JUSTIFIABLY PROUD OF THIS RECORD, MATCHED BY FEW COMPANIES ON THE NZ STOCK EXCHANGE”**

# LETTER TO SHAREHOLDERS

## DEAR FELLOW SHAREHOLDERS,

I am pleased to report that we have achieved solid progress during the past financial year. It was also a year in which we were able to deliver considerable value to our shareholders. Despite the very difficult trading conditions that we experienced in Australia, we were able to record a small increase in Group profit for the year which was a significant achievement.

Our results for the year show that we achieved \$189 million of revenue, Group profit of \$10.039 million and we opened eight new stores in Australia and one in New Zealand.

Our profit result represents an excellent 21.8% return on shareholders' funds. The return has averaged 24% over the past four years and we can be justifiably proud of this record, matched by few companies on the NZ Stock Exchange. The value of the Company has been reflected in the share price which has increased 33% to \$3.80 in the 12 months ended 30 June 2001.

Our dividend payout for the past year, of 15 cents per share, represents 56% of our tax paid profit for the year, and is an 11% increase on the previous year. Our dividend payout has over doubled in four years and is consistent with our stated objectives of increasing shareholder value while pursuing controlled profitable growth for the Group.

The Group has now 115 stores spread between Australia (74) and New Zealand (41), with many exciting opportunities available to us over the coming years.

The Board's focus over the past 12 months has been concentrated on bringing the two operating companies in Australia and New Zealand closer together under the leadership of our Chief Executive Officer, Mike Parsell. This has involved some rationalisation of certain duplicated functions. The benefits of this process will show through over the coming years - for example the Group has now contracted one Advertising Agency to handle the advertising in both countries, with the same promotions being run in each country each month.

Christine Hill has now joined the Board as a Director. Christine has been associated with the Company since its formation in 1979, and has been closely involved with the artistic direction of the Groups' store designs and interior layouts over the years. Christine brings a feminine perspective to the Board's activities.



The Board decided last year to sell its two buildings in Whangarei and Brisbane and to lease them back on long term leases. The Whangarei building was sold in September 2001, realising \$1.5 million. The Brisbane building is being sold in two stages, with stage one being placed on the market in September 2001. Stage one of the building is expected to realise around AUD\$4.6 million in the next 2-3 months, with a further AUD\$2 million realised on the sale of stage two of the Brisbane building in three years time. A decision has not yet been made regarding the use of these funds, but increasing shareholder value is paramount in the Board's thinking.

The Group is in fine shape financially with a very sound balance sheet. With an equity ratio of 54% at 30 June 2001, we are in a strong position to take advantage of the tremendous growth opportunities available to us. We have upwards of 40 new store possibilities in Australia, and further marketing opportunities to increase our market share in New Zealand.

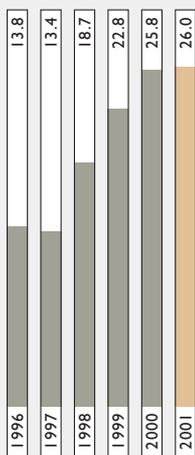
The reduction of corporate tax rates in Australia from 34 cents to 30 cents from 1/7/01 will also be a major boost for the Group. With the expected uplift in the retail scene in Australia in the next twelve months, we should be well positioned to benefit from the recovery when it happens.

Our Company continues to go from strength to strength. We have a team of dedicated and passionate individuals at all levels of the Group, a great many of whom have been with us for many years. Their expertise and enthusiasm constitutes a major reason for our success. They foster and preserve a company culture which is unique and keeps us ahead of our competitors. My thanks go to everyone in the Company.

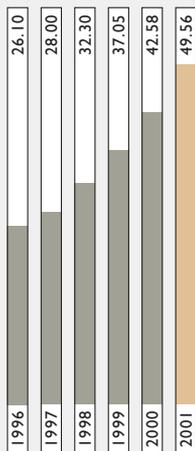
Our Annual meeting will be held at the Albany North Harbour Stadium on the North Shore in Auckland on the 16th November and I look forward to welcoming you there.

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

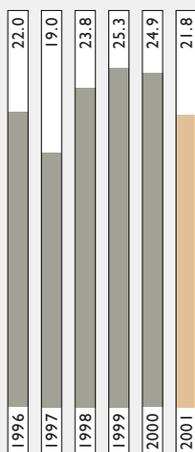
Michael Hill  
Chairman



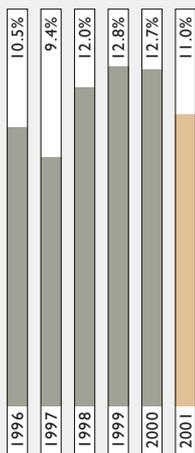
**EARNINGS PER SHARE**  
Cents



**SHAREHOLDERS' FUNDS**  
\$ Millions



**RETURN ON AVERAGE SHAREHOLDERS' FUNDS**



**RETURN ON AVERAGE TANGIBLE ASSETS**

## REPORT OF THE DIRECTORS

The Directors have pleasure in submitting to Shareholders the 14th Annual Report and audited accounts of the Company for the year ended 30 June 2001 together with the CEO's review of the Australian and New Zealand operations.

### BUSINESS ACTIVITIES

The Group's sole business activities during the 2000/01 financial year continued to be jewellery retailing and manufacturing.

### CONSOLIDATED FINANCIAL RESULTS

The Group has recorded a tax paid surplus of \$10,039,000 for the year ended 30 June 2001 (2000 - \$9,939,000). This surplus was achieved on a turnover of \$189,168,000 (2000 - \$181,983,000).

The accounts for the year ended 30 June 2001 have been presented in accordance with the accounting principles and policies detailed on pages 28 and 29 of this Report.

	2001 \$000	2000 \$000
<b>Group Turnover</b>	<b>189,168</b>	181,983
Surplus before tax	15,130	15,517
Taxation	(5,091)	(5,578)
<b>Surplus after tax</b>	<b>10,039</b>	9,939
Dividends paid and proposed	(2,518)*	(5,216)
<b>Net surplus retained</b>	<b>\$ 7,521</b>	\$ 4,723

\*Note - The final dividend of 8.5¢ per share has not been included. See change in Accounting Policy in the notes to the Financial Statements.

### SHAREHOLDERS' FUNDS/RESERVES

Total Shareholders' Funds of the Group now stand at \$49,568,000, an increase of \$6,981,000 over the previous year.

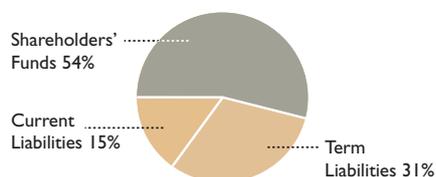
The Group's reserves at 30 June 2001 totalled \$41,856,000.

	\$000
The Group's reserves at 30 June 2000 were	34,875
To which was added	
Operating surplus after tax for the year	10,039
Foreign currency translation reserve movement	(540)
From which was deducted	
Ordinary dividends paid	2,518
<b>Leaving reserves at 30 June 2001 at</b>	<b>\$ 41,856</b>
These comprise	
Retained earnings	37,837
Other reserves	4,019
	<b>\$ 41,856</b>

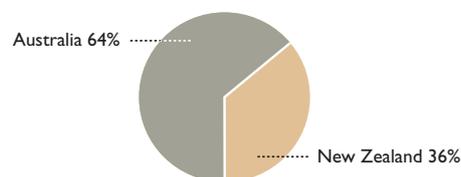
### EQUITY RATIO/CASH FLOWS

At 30 June 2001, Shareholders' Funds accounted for 54% of the total assets employed by the Group compared to 52% the year before. The change in accounting policy for the final dividend has increased this ratio by 2% compared to last year. Our interest bill for the year was covered 8.1 times by earnings. (2000 - 10.6 times).

Operating cash flows for the Group amounted to \$7,887,000 for the year compared to \$14,214,000 the previous year.



**SOURCE OF FUNDING**  
as at 30 June 2001



**SOURCE OF REVENUE**  
for the year ended 30 June 2001

## DIVIDENDS

Your Directors paid an interim dividend of 6.5 cents per share, with full imputation credits attached on 26 March 2001. Overseas Shareholders were also paid a supplementary dividend. On the 23 August 2001, your Directors declared a final dividend of 8.5 cents per share payable on 29 October 2001. The share register will close at 5pm on 19 October 2001 for the purpose of determining entitlement to the final dividend. Overseas Shareholders will also be entitled to a supplementary payment on the final dividend.

The total dividend for the year was 15.0 cents (fully imputed), a 11% increase over last year. The payout represents 58% of the Group's operating surplus after tax (including the final dividend), and is consistent with our objectives of increasing benefits to shareholders while pursuing controlled profitable growth for the Group.

## DIRECTORS

Messrs M.R. Parsell and L.W. Peters retire by rotation and being eligible offer themselves for re-election. J.W.D. Ryder resigned from the Board as at 17 November 2000. Mrs A.C. Hill was appointed by the Board as a Director on the 22nd February 2001 and under the constitution resigns, but being eligible offers herself for re-election.

## DIRECTORS' REMUNERATION

Directors' Remuneration and all other benefits received, or due and receivable during the year was as follows:

	2001 \$000	2000 \$000
<b>Parent Company</b>		
R.M. Hill*	153	153
M.R. Parsell*	A\$ 400	A\$ 380
J.W.D. Ryder	13	30
G.J. Gwynne	35	30
L.W. Peters	A\$ 35	A\$ 30
M.R. Doyle	35	11
A.C. Hill	21	13

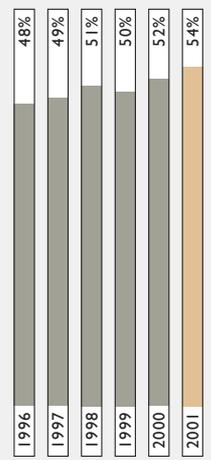
**\*Note** - Executive Directors do not receive director's fees. Executive remuneration includes salary, superannuation, bonus payments, retirement allowances and provision of a vehicle received in their capacity as employees.

## REMUNERATION OF EMPLOYEES

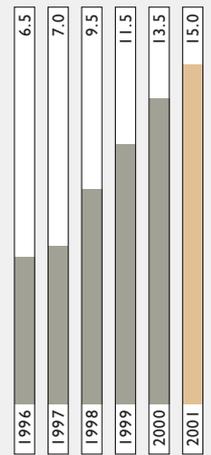
The number of employees (not including Directors) whose remuneration exceeded \$100,000 is as follows:

	2001 \$000	2000 \$000
100 - 110	5	4
110 - 120	5	1
120 - 130	2	6
130 - 140	4	2
140 - 150	6	5
150 - 160	-	2
160 - 170	1	-
170 - 180	1	-
180 - 190	1	1
190 - 200	-	1
230 - 240	1	-
240 - 250	-	1
250 - 260	1	-

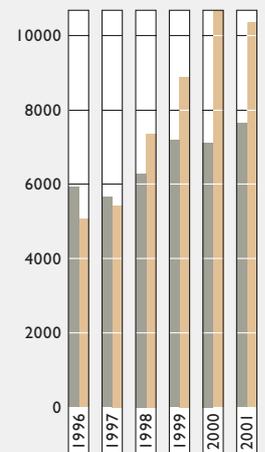
Australian remuneration has been converted into New Zealand dollars at the exchange rate used for translating the Australian profits into New Zealand dollars, 0.79 (2000 - 0.80).



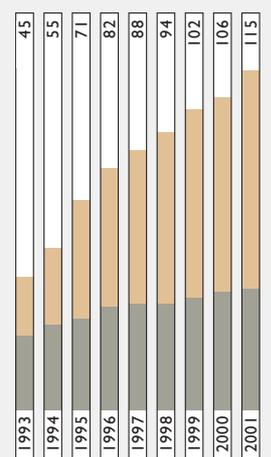
EQUITY RATIO



5 YEAR DIVIDENDS  
Cents



EARNINGS BEFORE  
INTEREST AND TAX  
(NZ\$000's)  
■ NEW ZEALAND  
■ AUSTRALIA



TOTAL JEWELLERY STORES  
■ NEW ZEALAND  
■ AUSTRALIA

# REPORT OF THE DIRECTORS cont.

## INFORMATION ON DIRECTORS

The qualifications and experience of the Directors are shown on page 21.

The Directors are responsible for the preparation of the Financial Statements and other information included in this Annual Report. The Financial Statements have been prepared in conformity with generally accepted accounting principles to give a true and fair view of the financial position of the Company and Group and the results of their operations and cashflows.

The Company appoints independent chartered accountants to audit the Financial Statements prepared by the Directors and to express an opinion on these Financial Statements. The independent auditors' report, which sets out their opinion and the basis of that opinion is set out on page 22 of this report.

## CORPORATE GOVERNANCE PRACTICES

The principal corporate governance policies followed by the Directors are set out on pages 15 and 16 of this report.

## RISK MANAGEMENT PRACTICES

The principal risk management practices adopted by the Board are set out on page 17 of this report.

## CORPORATE CODE OF CONDUCT

The Company operates under a Corporate Code of Conduct that is set out on page 19 of this report.

## DIRECTORS' INTERESTS IN CONTRACTS

Since the date of the last report, the Directors have declared, pursuant to Section 140 (2) of the Companies Act 1993, that they are to be regarded as having an interest in any contract that may be made with the entities listed by virtue of their directorship or membership of those entities. Changes recorded in the interests register during the financial year are listed on page 36.

## DIRECTORS' SHARE DEALINGS

The Directors named below have disclosed to the Board under Section 148 of the Companies Act 1993 particulars of the following acquisitions or dispositions of relevant interests in the ordinary shares of the company during the year. The relevant interest acquired or disposed of includes beneficial ownership.

	No. of Shares acquired or (disposed of)	Consideration paid or (received)	Date of acquisition or (disposal)
L.W. Peters	(400,400)	(\$1,461,460)	9/4/01
G.J. Gwynne	100,000	\$300,000	20/9/00

## DIRECTORS' USE OF INFORMATION

During the year, the Board received no requests from Directors to use information received in their capacity as directors or employees which would not otherwise have been available to them.

## DIRECTORS' & EMPLOYEES' INDEMNITY AND INSURANCE

The Company has arranged policies of Directors and Officers Liability Insurance with an indemnity limit that generally ensures Directors and Officers will incur no monetary loss as a result of actions taken by them. Certain actions are excluded, including penalties and fines imposed in respect of breaches of the law.

## DIRECTORS' LOANS

There were no loans by the Company to the Directors.

## SHARE PURCHASE SCHEME

Shareholders will recall that last year's Report of Directors foreshadowed a proposed share purchase scheme for Management staff throughout the Group.

Setting up the scheme involved the Company working closely with its solicitors and other advisors to devise a scheme that complied with both New Zealand and Australian securities and tax laws. The complex issues that arose during the course of finalising the structure of the scheme lead to the Company considering a number of different structures prior to choosing the final configuration for the scheme.

Last year's Report of Directors indicated that the scheme would entitle participating management to acquire shares in the Company in lieu of bonuses to which they would otherwise be entitled in respect of a particular year. The scheme which was finally approved by the Board does not provide for an increase in staff bonuses, as originally proposed but instead provides for the sale of treasury stock at a discount to market prices in a manner which has approximately the same economic effect as the original proposal.

Australian securities laws preclude the Company from including further information about the scheme in the Annual Report at this stage, however, the Board can report that all the documentation for the scheme has now been finalised, and implementation will be able to occur later this year.

## AUDITORS

PricewaterhouseCoopers, whose audit remuneration and fees paid for other services are detailed on note 2 to the accounts, have indicated their willingness to continue in office.

## EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are not aware of any matter or circumstance since the end of the financial year not otherwise dealt with in this Report or the Financial Statements that has or may significantly affect the operation of Michael Hill International Limited, or the state of affairs of the Company.

## CHANGES IN ACCOUNTING POLICY

The treatment of dividends in the accounts has been changed and is set out at Note 1 to the Financial Statements on page 29.



**MICHAEL & CHRISTINE HILL WITH THE FIRST THREE PLACE GETTERS IN THE MICHAEL HILL WORLD VIOLIN COMPETITION.**

**ANNUAL REPORT AWARDS**

For the third consecutive year, the Company was delighted to be judged the winner of the “Other Companies” section in the Annual Report Awards competition conducted by the New Zealand Institute of Chartered Accountants for its 2000 Annual Report to Shareholders. The Company was also awarded the special award for best “Corporate Governance Reporting” for all New Zealand companies. The Board extends its congratulations to the dedicated team who have compiled and designed these award winning reports over the past three years.

**DONATIONS**

Small donations (cash and/or jewellery) were made to

- a) Business in the Community - mentor program
- b) Various schools and sports clubs throughout New Zealand for prizes
- c) Raleigh New Zealand - youth development program
- d) The Michael Hill World Violin Competition - \$20,000 cash plus trophies and prizes.

The Company was very pleased to be judged the winner of the “Creative NZ Award for the most inspirational new arts and business partnership” at the 2001 National Business Review “Supporter of the Arts” awards, attended by the Prime Minister and Minister of the Arts, the Rt. Hon. Helen Clark. The judges commented “a new and exciting relationship between arts and business partners, fostering innovation, energy and excellence”.

On behalf of the Directors,

R.M. Hill  
Chairman

M.R. Parsell  
Chief executive Officer



# GROUP OPERATIONS REVIEW 2001

## OPERATING RESULTS - GROUP

Group revenue increased 4% to \$189 million with EBIT from the Group's two operating divisions improving 1.1% to \$18 million. The Group's net profit after tax increased 1% to \$10.039 million, with operating cash flow generated of \$7.887 million. This was a satisfactory result given the very difficult trading conditions in Australia, due to the negative impact on retailing associated with the introduction of GST and the Olympic games.

A number of projects were also undertaken during the financial year to position the Company for the future. These included the completion and fit out of the new administration, distribution, and manufacturing facility in Brisbane, the specification and development of a new central inventory management computer system, which will be rolled out across the Group over the next eighteen months, and the development of a totally new and improved store design. In December, the Company also appointed a new advertising agency to manage the Groups' advertising and brand strategy moving forward. The year also saw the Company open its first store in Western Australia, establishing a base from which to expand from in future years. The large format store concept introduced in New Zealand was also adapted and introduced into the Australian market.



MIKE PARSELL

## OPERATING RESULTS - NEW ZEALAND

	2001 NZ\$000	2000 NZ\$000
Revenue	<b>68,314</b>	63,105
Earnings before interest and tax	<b>7,643</b>	7,120
As a % of revenue	<b>11.2%</b>	11.3%
Average assets employed	<b>29,818</b>	30,569
Return on assets	<b>25.6%</b>	24.5%
Number of stores	<b>41</b>	40

The New Zealand Company had a very pleasing result for the year. Sales improved 8.3% to \$68.3 million, up from \$63.1 million the year before. EBIT improved 7.3% to \$7.6 million, up from \$7.1 million. As a percentage of revenue, EBIT was steady at 11.2%. Same store sales increased 2.9% for the full year. The four large format stores performed well, with the four stores achieving an average 24% return on the assets employed in those stores prior to Head Office allocations. In total, the four large format stores contributed a total of \$1,260,00 of EBIT for the New Zealand Company. This is a very good result and we expect this to improve over the coming years. This may provide additional opportunities to open new stores under this format or expand the capacity

of existing stores. The full New Zealand EBIT return on total average assets employed increased from 24.5% to 25.6%.

## OPERATING RESULTS - AUSTRALIA

	2001 NZ\$000	2000 NZ\$000
Revenue	<b>120,854</b>	118,878
Earnings before interest and tax	<b>10,354</b>	10,678
As a % of revenue	<b>8.6%</b>	9.0%
Average assets employed	<b>56,589</b>	48,704
Return on assets	<b>18.3%</b>	21.9%
Number of stores	<b>74</b>	66
Exchange rate for translating surplus	<b>.79</b>	.80

In Australia, revenue increased 1.7% to NZ\$120.854 million and EBIT decreased by 3% to NZ\$13.354 million. In Australian dollars, sales were up 11.6% to A\$95.5 million (GST adjusted) and EBIT down 4.3% on the previous year to A\$8.179 million. Same store sales (adjusted for the effect of GST) improved by 3.5% for the year.

This was a difficult year for the Australian Company. The introduction of GST resulted in July's EBIT finishing well down on the prior year. This was a result of low consumer demand in July along with the associated implementation costs. As an example of these costs, the

Company closed its doors for two full trading days to reprice and retag every item of stock. This was undertaken due to the stringent repricing guidelines imposed by the Australian Consumer and Competition Commission and the high level of monitoring undertaken during this period. Our result was further affected by poor consumer demand in September during the Olympic games. This deficit was difficult to make up over the remainder of the year. Additional overhead costs were also incurred during the year. These included the appointment of additional support staff and two new Regional managers to support additional growth in New South Wales, and the establishment of our Western Australian region. These costs will be spread as additional stores open in these markets. The EBIT return on assets on average assets employed reduced from 21.9% to 18.3%.

## BRAND IMAGE AND STORE DESIGN

In December 2000, McCann Erickson was appointed to manage our Australasian advertising account. This process involved a strategic review of the Company's image and brand perception in both markets. Market research indicated that although our brand has an extremely loyal following, there were some consumers who wouldn't shop

with us due to brand perceptions created by our advertising in earlier years. In order to position the Company with a long-term competitive advantage, the Company had to address the issue of creating a stronger brand image for Michael Hill Jeweller.

A new brand strategy was developed, which moving forward aims to increase sales by attracting more consumers to our brand, and to assist us in building our average transaction value per customer. Currently this averages around A\$150 in Australia and NZ\$160 in New Zealand. Our goal is to lift this by 20% over the next 5 years. Our goal also includes lifting gross margins over time as we aim to position Michael Hill Jeweller as the dominant brand and destination for fine jewellery and diamond rings in Australasia.

To support the fine-tuning of our brand perception, a new store design has also been introduced. This design is much more aligned with our target market and features softer and more feminine colours and textures. The storefronts are very distinctively finished in limestone and timber coloured materials. The store design retains the successful elements of our previous concepts, while delivering a new and appealing look. At balance date ten stores had been completed under the new livery.

## **STORE OPENINGS**

In New Zealand one new store opened during the financial year. This was in the new Botany Downs shopping centre, in Auckland, which opened on the 3rd May 2001.

In Australia eight new stores opened in the financial year. These included Burwood, Sydney, which opened on the 4th August 2000; Chatswood, Sydney, on the 4th of September 2000; Morley, Perth, on the 19th of October 2000; Dandenong, Melbourne, on the 15th of November 2000; Forrest Hill, Melbourne, on the 15th of December; Wollongong, NSW, on the 15th of March 2001; Albury, NSW, on the 4th of April 2001; and Hornsby, Sydney, on the 31st of May 2001.

All of these were conventional sized stores with the exception of Dandenong and Albury, the first large format stores to open in Australia. These large format stores have been opened in shopping centres and the Company will fine-tune this concept before any further large format stores are opened.

In Australia, the Company currently has the potential to open 106 stores. We believe that this number will increase to 130 stores over the next five years with planned shopping centre refurbishments, extensions, and new shopping centre construction. This means the Company potentially has a further 56 stores available in Australia. In New Zealand there are a further four opportunities identified, which may open over the next three years.

The Company has strict criteria, which we strive to meet in the selection of new stores. The major performance hurdle is a 30% EBIT return on assets employed in new stores or initiatives. Including overheads, the Group achieved a total EBIT return of 19% on total assets employed this year.

There were 115 stores trading at the 30th of June, 74 in Australia and 41 in New Zealand. Capital expenditure on new stores totalled NZ\$2,769,000 for the financial year. This includes \$293,000 relating to the Rotorua large format store which replaced a conventional store.

## **STORE REFURBISHMENTS**

During the year two stores were refurbished in Australia. These included Erina Fair in NSW, where the existing store was relocated, and Mackay, in Northern Queensland where more retail space was acquired adjacent to the existing store and refitted.

In New Zealand we refurbished the Newmarket store in Auckland. Store refurbishments are a vital part of our strategy to improve the performance of our existing store base. As the Company continues to evolve and respond to our customers requirements we must innovate to ensure we stay at the leading edge of our industry. As our leases fall due, we take the opportunity to evaluate each store. The capital expenditure invested in refurbishing stores during the financial year totalled NZ\$373,000 for both countries.

## **MICHAEL HILL MANUFACTURING**

Michael Hill Manufacturing has two operations based in Brisbane and Whangarei. With these operations we have achieved vertical integration in one of the most critical areas of our business. Diamond and coloured stone and diamond rings account for over 30% of our total revenues. We introduce new designs in response to the latest trends, control and maximise quality, and lower costs. This gives the Company a tremendous competitive advantage.

This year the Australian division extended its vertical integration capabilities further with the introduction of a casting facility. This includes the very latest technology from around the world. This initiative was under taken with the goal of generating cost savings and efficiencies in excess of the required investment hurdle, to enhance our ability to respond to trends and requirements for new designs, and to improve our quality control over raw components and castings. We are pleased to report we expect a full payback on the investment through cost savings within a two-year period.

## **E-COMMERCE**

The Company is currently in the process of upgrading our Web sites. From a retail perspective, we primarily view the Internet as another distribution medium for Company

## GROUP OPERATIONS REVIEW cont.

information, product information, catalogues and general promotions. Our sites will be capable of online shopping, however we do not see this as a potential contributor to profit in the short or medium term. They are more designed to enhance our overall communication and brand strategy.

The Company is actively investigating the appropriate direction to take with other e-commerce initiatives, especially with internal communications and supply chain management.

### OUR PEOPLE

Our team remains the critical factor behind our success in both countries. Recently the company recognised our top sales performers from around Australia in a Gala awards evening held at Movie World on the Gold Coast, and earlier in the year their New Zealand counterparts celebrated their success in Queenstown. In September we also hosted our International Managers Conference in Rotorua, where the Managers of the Company shared in the Company vision, values and strategic direction for the future. The enthusiasm evident in the teams at these events was inspiring. The Company continues to develop our extensive training and development programs and insists that all new sales staff are fully inducted to ensure our high levels of customer service continue. Each new permanent staff member who joins the Company undergoes ninety hours of off the floor training in sales, customer service, product knowledge, and operations, as well as on the floor practical application of this training in the first four months of employment. Our aim is to ensure every customer enjoys the ultimate jewellery shopping experience.

### THE FUTURE

The future of Michael Hill Jeweller in both countries continues to look exciting over the coming years. However, the major challenges facing retailing over the coming financial year will be the Federal election in Australia, which may occur in November or December, and the outcome of the terrorist attacks in the United States of America. Both incidents have the potential to affect consumer confidence.

Regardless, our focus is to continue our expansion program in both countries with an emphasis on controlled, profitable growth. Six to ten new stores are planned for the current financial year. As we grow, we are mindful of our existing store performance and will continue to work hard on improving the performance of our comparable store base each year.

The two large format stores in Australia also present an additional opportunity for growth, providing the concept can reach the required rate of return over the next year or so.

Overall, the Company has substantial growth prospects ahead in the future. Our future success rests with the team, their commitment and enthusiasm to achieve our goals. I would like to thank each and every member of the team across the Group for their support, and for the effort and commitment they have contributed in achieving a record result for 2000/2001.



M.R. Parsell  
Chief Executive Officer



# CORPORATE GOVERNANCE

The Board acknowledges the need for and continued maintenance of the highest standards of corporate governance practice and ethical conduct by all Directors and employees of Michael Hill International Limited and its subsidiaries.

The Board endorses the overall principles embodied in the New Zealand Institute of Directors' "Code of Proper Practice for Directors". It has a majority of Independent Directors on the Board, to provide balance and a cross section of skills and experience.

## ROLE OF THE BOARD

The Board is responsible to shareholders for charting the direction of the Group by participation in the setting of objectives, strategy and key policy areas. It is then responsible for monitoring management's running of the business to ensure implementation is in accordance with the agreed framework. The Board delegates the conduct of the day-to-day affairs of the Company to the Chief Executive Officer within this framework.

The workings of the Board and its code of conduct are governed by the Company's constitution and a Board Operations Manual, committed to by all Directors. This manual sets out all the functions and operating procedures of the Board, including charters for each sub-committee. The Board Operations Manual also clearly sets out those matters that only the Board can make decisions on. These include dividend payments, solvency certificates, raising new capital, major borrowings, approval of the annual accounts, provision of information to shareholders, major capital expenditure, acquisitions, and approval of store leases.

Each year, the company produces a five year plan and an operating budget which are both reviewed and approved by the Board. Financial statements are prepared monthly and reviewed by the Board progressively through the year to monitor management's performance against the budget and five year plan.

## BOARD MEMBERSHIP

The Constitution currently sets the size of the Board at a minimum of three and a maximum of eight and at least two Directors must be resident in New Zealand. The Board currently comprises six Directors, comprising an Executive Chairman, a Chief Executive Officer, and four independent Directors. The Board met on six occasions in the financial year ended 30/6/01. Mr John Ryder retired at the Annual Meeting in November 2000 after 13 years on the Board, and Mrs Christine Hill was appointed to the Board in February 2001. Profiles of the current Directors appear on page 21 of this Report. Under the Company's constitution, one half of

all Directors must retire every year, but can be re-elected at an annual meeting if eligible.

The Company has no requirement for Directors to hold shares in the company but actively encourages them to do so.

## DIRECTORS' MEETINGS

The table below sets out the Board and sub-committee meetings attended by Directors during the course of the Financial Year.

	Board of Directors		Audit Committee		Remuneration Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
R.M. Hill	6	6			2	2
M.R. Parsell	6	6	3	3		
L.W. Peters	6	6	3	3	2	2
J.W.D. Ryder	3	3	1	1	1	1
G.J. Gwynne	6	6			2	2
M.R. Doyle	6	6	3	3	2	2
A.C. Hill	3	3			1	1

## BOARD REVIEW

During the course of the last financial year, the Board conducted a self assessment of its performance over the previous 12 months and a number of changes to policies and procedures were made as a result.

## BOARD COMMITTEES

The Board has established a number of sub-committees to guide and assist the Board with overseeing certain aspects of corporate governance - the audit process, determination of compensation issues and the structure of the Board itself. Each sub-committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

## AUDIT SUB-COMMITTEE

The Audit sub-committee, which is chaired by Murray Doyle and consists of Messrs Doyle and Peters, met three times during the year. The function of the Audit sub-committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993, regarding management's accountancy practices, policies and controls relative to the Group's financial position and to review and make appropriate inquiry into the audits of the Group's financial statements by both internal and external auditors. This responsibility includes advising on the appointment of the external auditor and reviewing the scope and quality of the audit. The audit sub-committee has the responsibility of monitoring the Group's Risk Management practices and procedures. The Group's auditors, both internal and external, have direct access to the committee



## CORPORATE GOVERNANCE cont.

and may discuss any matters in connection to audits, the Group's risk and control environment or any other matters relating to the Group's financial and non-financial affairs.

### REMUNERATION SUB-COMMITTEE

This sub-committee, chaired by Wayne Peters, comprises all Directors except M. Parsell. The function of the Remuneration sub-committee is to determine the Chief Executive's and Senior Managements' remuneration. This role also includes responsibility for share option schemes, incentive performance packages, and fringe benefit policies. The sub-committee also advises on proposals for significant company wide remuneration policies and programs. In carrying out this role, the sub-committee operates independently of Senior Management of the Company, and obtains independent advice on the appropriateness of the remuneration packages. The committee met on two occasions during the year.

This sub-committee also has the responsibility to review the performance of the Chief Executive Officer on an annual basis.

The committee has continued to structure Senior Management bonuses around a return on capital employed basis, to emphasise efficient use of capital.

### NOMINATIONS SUB-COMMITTEE

This sub-committee, chaired by Michael Hill, consists of the independent Directors and Michael Hill. The function of the sub-committee is to make recommendations to the Board regarding the most appropriate Board structure. It also advises on the appointment of additional Directors. Board membership is reviewed periodically to ensure the Board has an appropriate mix of qualifications, skills and experience. External advisors may be used to assist this process.

Any person who is to be considered as a Director of the Company must attend three Board meetings in the capacity of a Consultant before being eligible for appointment as a Director.

### SHARE TRADING BY DIRECTORS

The Board Operations manual sets out a procedure which must be followed by Directors when trading in Michael Hill International shares. Directors must notify and obtain the approval of the Company before trading in MHI shares and are only permitted to trade in two window periods. The window periods commence at the time the half yearly or yearly results are announced and expire five months after the end of the financial year or four months after the end of the half yearly accounting period of the company, as the case may be.

### CONFLICTS OF INTERESTS

The Board Operations manual sets out a procedure to be followed where Directors are faced with a conflict of interest. At all times a Director must be able to act in the interests of the organisation as a whole. The interests of associates, individual shareholders and the personal interests of the Director and his family must not be allowed to prevail over those of the Company and its shareholders generally.

## RISK MANAGEMENT

Michael Hill Jeweller is committed to the management of risk throughout its operations to protect its employees, assets, earnings and reputation. The Board has implemented a risk management framework which is designed to identify the sources of risks and opportunities, quantify the impact and implement processes to control and reduce risk and maximise opportunities. The Board recognises that its Risk Management Programme identifies both risk and opportunities for the Group.

Risk Management processes are subject to review by the Audit Committee. The Committee is supported by the Group's Internal Audit function, which has the responsibility for the maintenance of the framework, programmes, assessment and reporting to the Committee.

The Group has in place a Risk Management framework which involves:

- Management commitment
- Maintenance of a Group and individual Company Risk Registers
- Quarterly reporting by line management and analysis by the Group's Internal Audit function on the progress of mitigation plans
- On going identification of risk and opportunities
- Half yearly risk assessment and review by the Group's Internal Audit function
- Regular reporting to the Audit Committee
- Comprehensive annual insurance programme; and
- The establishment of appropriate policies and procedures.

### INSURANCE PROGRAMME

The Group has a comprehensive insurance programme which is a component within the Group's Risk Management programme. Insurance needs and coverage are scrutinised progressively to ensure the Company's risk profile and exposure is at appropriate levels.

### BUSINESS CONTINUITY PLANNING

During the past 12 months, the Group has developed and practiced a comprehensive Business Continuity Plan, in both Australia and New Zealand. The plan is flexible and can be used to handle a wide range of crisis situations that could arise in the course of business conducted by our Company.

### INTERNAL CONTROL

The Group has an internal audit function that has the responsibility in providing objective assurance activity designed to add value by ensuring the Group's compliance with its policies and procedures, assessment of controls and systems, recommendations on control and system improvements and involvement in system design.

The internal auditors have direct access to the Audit Committee members and report regularly to the Audit Subcommittee on their findings.

### ETHICAL STANDARDS

The Board acknowledges the need and insists on the highest standards of ethical conduct by all Directors and employees of the Michael Hill Jeweller Group. The Board has adopted a Code of Conduct, which sets out the minimum acceptable standards of behaviour expected of its Directors and employees of the Group in their dealings and relationships with its shareholders, customers, suppliers, and the community at large. A copy of the Code of Conduct appears on page 19.



# REVIEW STATEMENT TO THE MEMBERS OF MICHAEL HILL INTERNATIONAL LIMITED

We have reviewed the information contained in the Corporate Governance and Risk Management Statements for the year ended 30 June 2001. Our review was made in accordance with the Review Engagement Statement Standards issued by the Institute of Chartered Accountants of New Zealand.

## **DIRECTORS' RESPONSIBILITIES**

The Corporate Governance and Risk Management Statements are the responsibility of, and have been approved by the Directors.

## **REVIEWER'S RESPONSIBILITIES**

We have been engaged to carry out a review engagement to verify the information contained in the Corporate Governance and Risk Management Statements for the year ended 30 June 2001.

## **BASIS OF REVIEW**

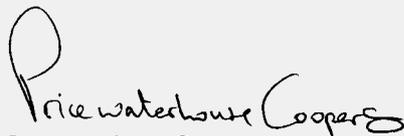
The review consisted of enquiry, analysis and discussion of information provided to us by Michael Hill International Limited. Our review included visits to Head Office where we:

- conducted interviews with management and staff
- obtained information regarding the basis of preparation of the information; and
- performed reviews of corporate records and other relevant source documentation.

A review does not constitute an audit and consequently we do not express an audit opinion.

## **REVIEW FINDINGS**

Based on our review, nothing has come to our attention that causes us to believe that the information contained in the accompanying Corporate Governance and Risk Management Statements have not been properly compiled and fairly presented, in all material respects.



PricewaterhouseCoopers

Chartered Accountants

Auckland, New Zealand

20 September 2001



# CORPORATE CODE OF CONDUCT

Michael Hill International believes that outstanding business performance must be supported by the highest standards of corporate behaviour towards our employees, customers, and other stakeholders. This Code of Conduct is a guide to help our Directors and employees live up to our high ethical standards.

Our Corporate Code of Conduct is supported by written policies and procedures on each of these standards, by providing training to employees on the details and importance of these standards, and by formal communication systems to ensure these standards are observed, discussed, and reinforced. Our management team will lead by example, demonstrating their commitment to this Code of Conduct at all times through their personal behaviour and through the guidance they provide to our staff.

## OUR EMPLOYEES

- Respect, fairness, honesty, courtesy, and good faith will guide all relations with employees.
- Opportunity without bias will be afforded each employee in relation to demonstrated ability, initiative, and potential.
- We will strive to create and maintain a work environment that fosters honesty, personal growth, teamwork, open communications, and dedication to our vision and values.
- We will strive to provide a safe workplace that at a minimum meets all health and safety laws and regulations.
- The privacy of an individual's records will be respected and will not be disclosed without appropriate authority unless there is a legal obligation to do so.

## OUR CUSTOMERS

- We support and uphold at all times the tradition and integrity of the jewellery industry, and conduct our business in such a manner that will reflect credit on our industry and us.
- All our marketing and advertising will be accurate and truthful.
- We are committed to providing the highest quality, service, and value to our customers. We provide a 5-Year Guarantee for all our jewellery which contains a diamond, and a 12-Month Guarantee for any jewellery item not containing a diamond. It is a Guarantee of quality of workmanship and materials. We provide a 30-Day Change of Mind Policy that is a money back guarantee on all purchases if for any reason the customer is not completely satisfied.
- We will protect customer information that is sensitive, private, or confidential just as carefully as our own.

## OUR BUSINESS PARTNERS

- Suppliers win our business based on product or service suitability, price, delivery, and quality. We also expect suppliers to have high ethical standards in their business practices.

## OUR SHAREHOLDERS

- We require honest and accurate recording and reporting of any and all information in order to make responsible

business decisions.

- All financial records and accounts will accurately reflect transactions and events, and conform both to required accounting principles and to our Company's system of internal controls. No false or artificial information will be tolerated.
- We will safeguard all sensitive information. We will not disclose inside information that has not been reported publicly.

## OUR COMMUNITIES

- We wish to be good corporate citizens and wish to build positive relationships with communities where we have a presence. Our efforts focus on the arts, local schools and charities, through periodic donations, including jewellery, to good causes.

## GOVERNMENTS

- In conducting business with due skill, care, and diligence, we seek always to comply with both the letter and spirit of relevant laws, rules, regulations, codes, and standards of good market practice in the countries we do business in.
- Our Company does not make political contributions and has no political affiliations.

## CONFLICTS OF INTEREST

- Employees will not accept anything of value from a customer, vendor, or business associate which would impair or be presumed to impair their judgement in business matters.
- The acceptance of gifts and gratuities is discouraged and any over \$50 must be entered in the Gifts Register held by the Financial Controller. We may accept meals/hospitality that are not lavish and are reasonable in the context of doing business. Guidelines to use for the acceptance of any gift are: Will this influence my decision making? Does it place me in obligation? Could it be seen as an inducement? How would this look if reported by the media?
- Our employees will avoid any conflict of interest professionally and personally which might prevail or appear to prevail over the interest of the Company.

## SPEAKING UP

- Employees who know, or have genuine suspicions of any breaches of our Code of Conduct, Policies & Procedures, or any legal violation in relation to work related issues should report such matters promptly to their manager. If the employee does not feel comfortable discussing the issue with their manager, they should talk to another member of management, the Internal Auditors, or Human Resources.
- Employees will not be blamed for speaking up. The Company will make proper efforts to protect the confidentiality of employees who do raise concerns. Any attempt to deter employees raising proper concerns will be treated as a serious disciplinary action.

Failure to abide by the Code and the law will lead to disciplinary measures appropriate to the violation.



**BOARD OF DIRECTORS**

(from left to right)

**MURRAY DOYLE**

**WAYNE PETERS**

**GARY GWYNNE**

**MICHAEL HILL**

**WAYNE BUTLER**

**MIKE PARSELL**

**CHRISTINE HILL**

## BOARD MEMBER PROFILES

### **MICHAEL HILL**

The founder of Michael Hill Jeweller Limited in 1979. He is Chairman of the Board. He has more than 41 years of experience in the jewellery industry, including 10 years of management experience before establishing his own business. Aged 62 years, he was appointed to the Board in 1987. Member of Remuneration and Nominations sub-committees.

### **MIKE PARSELL**

Chief Executive Officer of the Group, Mike spearheaded the Company's move into Australia in 1987. Aged 42, he has had extensive experience in the jewellery industry since 1976. Mike joined the Company in 1981 and was appointed to the Board in 1989, made joint Managing Director in 1995 and CEO in 2000.

### **GARY GWYNNE - Non Executive Director**

Gary has an extensive background in marketing, retailing and property development. He is currently a founder shareholder and Director of Prime Retail Properties, the owners of Dress-Smart Factory Outlet Shopping Centres. Aged 55, he was appointed to the Board in February 1998. Member of the Remuneration and Nominations sub-committees.

### **WAYNE PETERS - Non Executive Director**

Wayne, who is 41 and based in Australia, has 24 years of experience in retailing and investment management. He is currently CEO of Peters MacGregor Funds Management Ltd and a non-executive Director of Freedom Group Ltd. Member of the Audit, Remuneration and Nominations sub-committees, Wayne joined the Board in February 1999.

### **MURRAY DOYLE - Non Executive Director**

Murray is a Director and substantial shareholder in listed investment company Southern Capital Limited and Wellington department store Kirkcaldie and Stains Limited. He is also Chairman of the biotechnology company Blis Technology Limited. His previous experience was in the finance industry until 1998, when his stockbroking firm was purchased by Bankers Trust now Deutsche Bank. Aged 42, he is a member of the remuneration sub-committee and Chairman of the Audit sub-committee.

### **CHRISTINE HILL - Non Executive Director**

Christine has been associated with the Company since its formation in 1979 and has been closely involved with the artistic direction of the Group's store design and interior layouts over the years. Aged 61, Christine is a member of the Remuneration sub-committee.

### **COMPANY SECRETARY - WAYNE BUTLER**

He has a financial background and has worked for the Company for 15 years. Aged 54 years, he has been Secretary of the Board since 1987. Group Financial Controller.



**AUDITORS' REPORT TO THE SHAREHOLDERS OF MICHAEL HILL INTERNATIONAL LIMITED FOR THE YEAR ENDED 30 JUNE 2001**

We have audited the financial statements on pages 24 to 36. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2001 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 28 to 29.

**DIRECTORS' RESPONSIBILITIES**

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2001 and their financial performance and cashflows for the year ended on that date.

**AUDITORS' RESPONSIBILITIES**

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

**BASIS OF OPINION**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- The significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- Whether the accounting policies used and described on pages 28 to 29 are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We have conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by error or fraud. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm carries out other assignments on behalf of the Company and its subsidiaries in the areas of taxation and consulting advice. Other than in these capacities and in our capacity as auditors, we have no relationships with, or interests in, the Company or any of its subsidiaries.

**UNQUALIFIED OPINION**

We have obtained all the information and explanations we have required.

In our opinion:

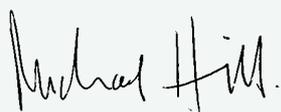
- Proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- The financial statements on pages 24 to 36:
  - Comply with generally accepted accounting practice in New Zealand; and
  - Give a true and fair view of the financial position of the Company and Group as at 30 June 2001 and their financial performance and cashflows for the year ended on that date.

Our audit was completed on 23 August 2001 and our unqualified opinion is expressed as at that date.

  
Chartered Accountants  
Auckland, N.Z.

**THE DIRECTORS ARE PLEASED TO PRESENT THE FINANCIAL  
STATEMENTS OF MICHAEL HILL INTERNATIONAL LIMITED  
FOR THE YEAR ENDED 30 JUNE 2001.**

The Board of Directors of Michael Hill International Limited authorised these Financial Statements for issue on 23 August 2001.



Michael Hill  
Chairman of Directors



Mike Parsell  
Chief Executive Officer/Director

Dated 23 August 2001



## FINANCIAL STATEMENTS

- 24 Statements of Financial Performance
- 24 Statements of Movements in Equity
- 25 Statements of Segmented Results
- 26 Statements of Financial Position
- 27 Statements of Cash Flows
- 28 Notes to the Financial Statements

## STATEMENTS OF FINANCIAL PERFORMANCE

For the year ended 30 June 2001

	Notes	Group		Parent	
		2001 \$000	2000 \$000	2001 \$000	2000 \$000
Revenue		189,168	181,983	5,380	4,922
Expenses		(174,038)	(166,466)	(655)	(606)
<b>Surplus before taxation</b>	2	15,130	15,517	4,725	4,316
Income tax expense	3	(5,091)	(5,578)	(76)	(103)
<b>Surplus for the year</b>		<b>\$ 10,039</b>	<b>\$ 9,939</b>	<b>\$ 4,649</b>	<b>\$ 4,213</b>

## STATEMENTS OF MOVEMENTS IN EQUITY

For the year ended 30 June 2001

	Notes	Group		Parent	
		2001 \$000	2000 \$000	2001 \$000	2000 \$000
<b>Equity - Opening balance</b>		42,587	37,051	10,979	11,982
<b>Surplus for the year</b>		10,039	9,939	4,649	4,213
<b>Foreign currency translation reserve movement</b>	7	(540)	508	0	0
<b>Investment property revaluation reserve movement</b>	7	0	305	0	0
<b>Total recognised revenue and expenses for the year</b>		9,499	10,752	4,649	4,213
<b>Dividends payable in cash - ordinary shares</b>	17	(2,518)	(5,216)	(2,518)	(5,216)
<b>Equity - Closing balance</b>		<b>\$ 49,568</b>	<b>\$ 42,587</b>	<b>\$ 13,110</b>	<b>\$ 10,979</b>

The final dividend for 2001 has not been accrued, refer to changes in Accounting Policies, page 29.

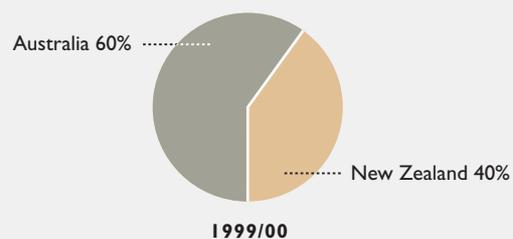
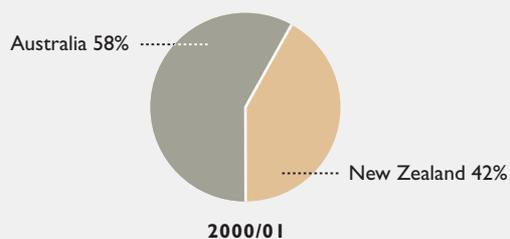
# STATEMENTS OF SEGMENTED RESULTS

For the year ended 30 June 2001

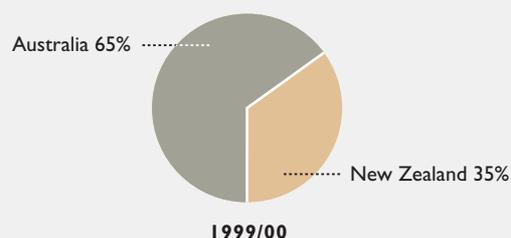
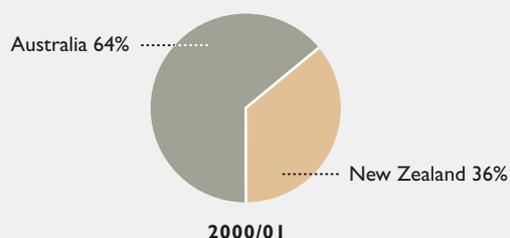
	MHJ New Zealand			MHJ Australia			Group		
	2001 \$000	2000 \$000	+/- %	2001 \$000	2000 \$000	+/- %	2001 \$000	2000 \$000	+/- %
<b>Operating revenue</b>									
Sales to customers	68,314	63,105	8.3%	120,854	118,878	1.7%	189,168	181,983	3.9%
Total revenue	68,314	63,105		120,854	118,878		189,168	181,983	
<b>Segment results</b>									
Operating	7,643	7,120	7.3%	10,354	10,678	-3.0%	17,997	17,798	1.1%
As % of revenue	11.2%	11.3%		8.6%	9%		9.5%	9.8%	
<b>Unallocated expenses</b>							(7,958)	(7,859)	
<b>Surplus for the year</b>							\$ 10,039	\$ 9,939	1.0%
<b>Segment assets</b>	29,066	30,569		61,890	51,288		90,956	81,857	
Unallocated assets							375	539	
Total assets							\$ 91,331	\$ 82,396	10.8%
<b>Segment liabilities</b>	4,598	5,890		37,161	31,026		41,759	36,916	
Unallocated liabilities							4	2,892	
Total liabilities							\$ 41,763	\$ 39,808	-4.9%

- Notes:**
1. The Company operates in two geographical segments - New Zealand and Australia.
  2. The Company's business relates solely to jewellery retailing and manufacturing.
  3. Unallocated expenses comprise interest, taxation and unallocated corporate costs.

## SEGMENT RESULTS BY COUNTRY



## OPERATING REVENUE BY COUNTRY



These statements are to be read in conjunction with the Notes on pages 28 - 36 and the Audit Report on page 22.

## STATEMENTS OF FINANCIAL POSITION

As at 30 June 2001

	Notes	Group		Parent	
		2001 \$000	2000 \$000	2001 \$000	2000 \$000
<b>Equity</b>					
Contributed capital	6	7,712	7,712	7,712	7,712
Other equity	7	41,856	34,875	5,398	3,267
<b>Total equity</b>		<b>49,568</b>	<b>42,587</b>	<b>13,110</b>	<b>10,979</b>
<b>Non-current liabilities</b>					
Deferred taxation	4	0	9	0	2
Term liabilities	8	27,525	21,859	0	0
Employee entitlements		978	802	0	0
<b>Total non-current liabilities</b>		<b>28,503</b>	<b>22,670</b>	<b>0</b>	<b>2</b>
<b>Current liabilities</b>					
Bank overdraft	14	0	219	16	2
Trade creditors		4,926	3,682	0	0
Accruals and provisions	15	7,910	7,495	35	32
Term liabilities repayable within twelve months	16	225	192	0	0
Taxation payable		199	2,657	0	0
Proposed dividend	17	0	2,892	0	2,892
<b>Total current liabilities</b>		<b>13,260</b>	<b>17,137</b>	<b>51</b>	<b>2,926</b>
<b>Total equity and liabilities</b>		<b>\$ 91,331</b>	<b>\$ 82,394</b>	<b>\$ 13,161</b>	<b>\$ 13,907</b>
<b>Non-current assets</b>					
Fixed assets	9	22,235	18,520	10	38
Investments	10	0	1,115	13,116	13,832
Future income tax benefit	4	417	0	4	0
Expenditure carried forward	11	76	125	0	0
Goodwill on consolidation		429	500	0	0
<b>Total non-current assets</b>		<b>23,157</b>	<b>20,260</b>	<b>13,130</b>	<b>13,870</b>
<b>Current assets</b>					
Cash on hand		637	0	0	0
Trade debtors	12	6,808	5,694	0	0
Other debtors and prepayments		1,404	1,894	0	0
Inventories	13	58,767	54,546	0	0
Property intended for sale		558	0	0	0
Taxation receivable		0	0	31	37
<b>Total current assets</b>		<b>68,174</b>	<b>62,134</b>	<b>31</b>	<b>37</b>
<b>Total assets</b>		<b>\$ 91,331</b>	<b>\$ 82,394</b>	<b>\$ 13,161</b>	<b>\$ 13,907</b>

These statements are to be read in conjunction with the Notes on pages 28 - 36 and the Audit Report on page 22.

## STATEMENTS OF CASH FLOWS

For the year ended 30 June 2001

Notes	Group		Parent		
	2001 \$000	2000 \$000	2001 \$000	2000 \$000	
<b>Cash flows from operating activities</b>					
Cash was provided from:					
Receipts from customers	187,974	182,489	0	0	
Dividends received	0	0	4,500	4,000	
Interest received	87	170	694	592	
Management fee received	0	0	190	330	
Rent received	95	103	0	0	
Cash was applied to:					
Payments to suppliers and employees	(170,117)	(161,252)	88	(211)	
Interest paid - short term	(85)	(66)	0	0	
- long term	(2,047)	(1,574)	0	0	
Income tax paid	(7,911)	(5,718)	(76)	(64)	
Net goods and services tax paid	(109)	62	0	0	
<b>Net cash flow from operating activities</b>	24	\$ 7,887	\$ 14,214	\$ 5,396	\$ 4,647
<b>Cash flows from investing activities</b>					
Cash was provided from:					
Proceeds from sales of fixed assets	178	146	0	0	
Cash was applied to:					
Purchase of fixed assets	(8,028)	(9,161)	0	(7)	
Purchase of key money	0	0	0	0	
<b>Net cash used in investing activities</b>		(\$ 7,850)	(\$ 9,015)	\$ 0	(\$ 7)
<b>Cash flows from financing activities</b>					
Cash was provided from:					
Proceeds of long term debt	5,000	0	0	0	
Proceeds of short term debt	2,500	0	0	0	
Cash was applied to:					
Dividends paid	(5,410)	(4,638)	(5,410)	(4,638)	
Repayment of long term debt	0	0	0	0	
Repayment of short term debt	(1,250)	0	0	0	
<b>Net cash flow used in financing activities</b>		\$ 840	(\$ 4,638)	(\$ 5,410)	(\$ 4,638)
<b>Net (decrease) / increase in cash held</b>		877	561	(14)	2
Effect of exchange rate changes on cash		(21)	9	0	0
Add cash at beginning of year		(219)	(789)	(2)	(4)
<b>Cash at end of year</b>		\$ 637	(\$ 219)	(\$ 16)	(\$ 2)

These statements are to be read in conjunction with the Notes on pages 28 - 36 and the Audit Report on page 22.

# NOTES TO THE FINANCIAL STATEMENTS

## I STATEMENT OF ACCOUNTING POLICIES

Michael Hill International Limited is a public company registered under the Companies Act 1993 and is listed on the New Zealand Stock Exchange.

The Financial statements are those of Michael Hill International Limited and its subsidiaries and are prepared and presented in accordance with the Companies Act 1993 and the Financial reporting Act 1993.

### General Accounting Policies

The general accounting policies recognised as appropriate for the measurement and reporting of results, cashflows and the financial position under the historical cost method, as modified by the revaluation of certain assets, have been followed in the preparation of these financial statements.

### Particular Accounting Policies

The following particular accounting policies which significantly affect the measurement of financial performance, financial position and cash flows have been applied:

#### a) Sales

Sales shown in the Statements of Financial Performance comprises amounts received from retail sales and amounts receivable on layby sales in the ordinary course of business. Sales are stated exclusive of Goods and Services Tax collected from customers.

#### b) Principles of Consolidation

The consolidated financial statements are prepared from the audited accounts of the Parent Company and its Subsidiaries as at 30 June 2001 using the purchase method. All significant transactions between Group Companies are eliminated on consolidation.

#### c) Depreciation

Depreciation is charged on a straight-line basis so as to write off the cost of the fixed assets, to their estimated residual value, over their expected useful lives.

The useful lives of the major classes of assets have been estimated as follows:

Buildings	40-50 years
Plant and Equipment	5-6 years
Motor Vehicles	5-6 years
Furniture and Fittings	6 years
Leasehold Improvements	6-10 years

#### d) Keymoney

Keymoney paid upon acquisition of shop leases is written off on a straight-line basis over the first term of the lease.

#### e) Goodwill

Goodwill represents the excess of the acquisition cost of businesses and subsidiary companies over the fair values of the identifiable net assets at the dates of acquisition. Goodwill is systematically amortised over periods, not exceeding twenty years, during which future benefits are expected to rise. The unamortised balance of goodwill is reviewed at each balance date and written off in the Statements of Financial Performance to the extent that it is no longer supported by probable future benefits.

#### f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is principally determined on a weighted average basis and in the case of manufactured goods includes direct materials, labour and production overheads appropriate to the stage of completion attained. Some inventories are subject to reservation of title.

#### g) Debtors

Debtors are stated at expected realisable value after providing for an estimate of income on layby sales which may not be realised due to cancellation of layby contracts in subsequent accounting periods.

#### h) Tax

The tax expense recognised for the year is based on the accounting surplus, adjusted for permanent differences between accounting and tax rules.

The impact of all timing differences between accounting and taxable income is recognised as deferred tax liability or asset. This is the comprehensive basis for the calculation of the deferred tax under the liability method.

A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

#### i) Statement of Cash Flows

The following is the definition of the terms used in the Statement of Cashflows:

- i) Cash means coins and notes, demand deposits and other highly liquid investments in which the Group has invested as part of its day-to-day cash management. Cash includes liabilities which are the negative form of the above, such as the bank overdraft. Cash does not include accounts receivable or payable, or any borrowing subject to a term facility.
- ii) Investing activities are those activities relating to the acquisition holding and disposal of fixed assets and of investments. Investments can include securities not falling within the definition of cash.
- iii) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- iv) Operating activities includes all transactions and other events that are not investing or financing activities.

#### j) Foreign Currency Transactions

Transactions in foreign currencies are converted to New Zealand dollars at the rates of exchange ruling on the dates of the transactions. Amounts receivable and payable in foreign currencies are translated to New Zealand dollars at the rates of exchange ruling at balance date or, where forward exchange cover has been obtained, at the settlement rate. Realised and unrealised gains and losses arising from exchange rate fluctuations in foreign currencies are included in the Statements of Financial Performance.

## NOTES TO THE FINANCIAL STATEMENTS cont.

Revenues and expenses of independent foreign operations are translated to New Zealand dollars at the exchange rates in effect at the time of the transaction, or at rates approximating them. Assets and liabilities are converted to New Zealand dollars at the rates of exchange ruling at balance date. Exchange differences arising from the translation of independent foreign operations are recognised in the foreign currency translation reserve.

**k) Leased Assets**

Operating lease payments and revenue are representative of the pattern of benefits derived from leased assets and accordingly are recognised in the Statements of Financial Performance in the periods in which they are incurred.

**l) Fixed Assets**

The cost of purchased fixed assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

**m) Financial Instruments**

Financial Instruments with off-balance sheet risk, have been entered into for the primary purpose of reducing exposure to fluctuation in interest rates. While financial instruments are subject to risk that market rates may change subsequent to

acquisition, such changes would generally be offset by opposite effects on the items hedged.

**n) Investments**

Investment properties are stated at market value as determined by independent registered valuers as at each balance date. Unrealised movements in the value of investment properties are included in the investment property revaluation reserve.

The property intended for sale (NZ Head Office building) is recorded at carrying amount at date of change of intention.

**Changes in Accounting Policies and Recently Issued Accounting Standards**

As at 30 June 2001, the Group changed its accounting policy in order to comply with the requirements of Financial Reporting Standard No. 5, Events After Balance Date (FRS-5). The Group changed its accounting policy with respect to the date of recognition of the liability to pay dividends to shareholders. Under the new policy, dividends are recognised at the date they are declared by the Directors. Formerly, a liability was recognised at balance date even if the dividend for that financial year had been declared after that date. Under the Standard, the restatement of prior periods is not acceptable. Certain comparatives have been amended to conform with the current year's presentation.

There have been no other changes in accounting policies.

**2 SURPLUS BEFORE TAXATION**

The surplus before taxation is stated

**After charging**

Fees paid to PricewaterhouseCoopers

- Audit fees

- Other professional services

Depreciation

Directors' fees

Donations

Expenditure carried forward written off

Goodwill on consolidation written off

Interest - Fixed loans

- Other

Increase / (decrease) in laybys provision

Rental and operating lease costs

Net foreign exchange loss / (gain)

Loss / (gain) on sale of fixed assets

**After crediting**

Dividend

Interest

Rental income

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
	128	122	0	0
	169	80	3	5
	4,279	4,264	28	28
	152	181	152	181
	25	5	20	3
	56	62	0	0
	71	71	0	0
	2,056	1,513	0	0
	86	91	0	0
	93	(66)	0	0
	11,931	10,576	0	0
	(81)	(141)	0	0
	105	251	0	0
	0	0	4,500	4,000
	88	170	4	0
	95	102	0	0

## NOTES TO THE FINANCIAL STATEMENTS cont.

**3 INCOME TAX EXPENSE**

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
The taxation provision has been calculated as follows				
Surplus for the year	\$ 15,130	\$ 15,518	\$ 4,725	\$ 4,316
Taxation on surplus for the year at 33% (2000 - 33%)	4,993	5,120	1,560	1,424
Plus / (less)				
Non-assessable income	0	0	(1,485)	(1,320)
Non-deductible expenditure	99	77	1	1
Under / (over) provision in prior years	(14)	1	0	(2)
Effect of change in Australian tax rate (36% to 34%)	(71)	114	0	0
Effect of difference in Australian tax rate (33% to 34%)	84	266	0	0
	<b>\$ 5,091</b>	<b>\$ 5,578</b>	<b>\$ 76</b>	<b>\$ 103</b>
The taxation charge is represented by:				
Tax payable in respect of current year	5,508	6,395	82	108
Deferred taxation	(417)	(817)	(6)	(5)
	<b>\$ 5,091</b>	<b>\$ 5,578</b>	<b>\$ 76</b>	<b>\$ 103</b>

**4 FUTURE INCOME TAX BENEFIT / (DEFERRED TAXATION)**

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Opening Balance	(9)	(800)	(2)	(7)
Plus / (less) - Movement in current year	417	817	6	5
Plus / (less) - Effect of exchange rate change on Australian opening balance	9	(26)	0	0
	<b>\$ 417</b>	<b>(\$ 9)</b>	<b>\$ 4</b>	<b>(\$ 2)</b>

**5 IMPUTATION CREDIT ACCOUNT**

	Parent	
	2001 \$000	2000 \$000
Opening Balance	1,403	1,646
Plus - Income tax paid	86	66
- Imputation credits attached to dividends received	2,216	1,970
Less - Imputation credits attached to dividends paid to shareholders	(2,659)	(2,279)
Closing balance	<b>\$ 1,046</b>	<b>\$ 1,403</b>
Imputation credits directly and indirectly available to members as at 30 June 2001		
Parent	1,046	1,403
Subsidiaries	3,854	3,586
	<b>\$ 4,900</b>	<b>\$ 4,989</b>

**6 CONTRIBUTED CAPITAL**

	Parent	
	2001 \$000	2000 \$000
Issued and paid in capital - 38,558,600 ordinary shares	\$ 7,712	\$ 7,712

There were no shares issued during the year ended 30 June 2001.

All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

**Share Options**

On the 9th October 2000, the Directors authorised the issue of 750,000 options to subscribe for Ordinary shares in the Company to five senior management personnel in the Company, including 300,000 to Mike Parsell in his capacity of CEO of the Company. The issue of options for Mike Parsell was subject to the approval of shareholders at the Annual meeting on the 17th November 2000, in accordance with the Company's constitution. The motion to issue options to Mike Parsell was passed at the Annual meeting.

## NOTES TO THE FINANCIAL STATEMENTS cont.

The exercise price of \$3.66 for all 750,000 options was set at 15% above the average weighted price of the Company's ordinary shares over the calendar month following the announcement by the Company to the New Zealand Stock Exchange of its results for the year ended 30 June 2000.

The options may be exercised in the period from 1 July 2003 to 30 June 2006 on the following basis:

- 1) In the period 1 July 2003 to 30 June 2004, the option holder may not exercise more than 25% of the entitlement.
- 2) In the period 1 July 2004 to 30 June 2005, the option holder may exercise the aggregate of 25% of his entitlement and any part of his entitlement not exercised in the previous period, so that not more than 50% of the option holder's entitlement is exercised prior to 30 June 2005.
- 3) In the period 1 July 2005 to 30 June 2006, the option holder may exercise such of his entitlement as has not previously been exercised.

The value of the options has been calculated using the Black-Scholes Option valuation model and the value derived of the options is NZ\$36,450 for the options available to Mike Parsell and NZ\$40,800 collectively for the other four option holders.

**7 OTHER EQUITY**

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
<b>Other equity includes</b>				
Other Reserves	3,650	3,650	3,650	3,650
Foreign currency translation reserve	(192)	348	0	0
Investment property revaluation reserve	561	561	0	0
Retained earnings	37,837	30,316	1,748	(383)
	<b>\$ 41,856</b>	<b>\$ 34,875</b>	<b>\$ 5,398</b>	<b>\$ 3,267</b>
<b>Foreign Currency translation reserve</b>				
Opening balance	348	(160)	0	0
Foreign exchange gain / (loss) on translation of net assets of Australian Subsidiaries	(540)	508	0	0
Closing balance	<b>(\$ 192)</b>	<b>\$ 348</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Investment property revaluation reserve</b>				
Opening balance	561	256	0	0
Revaluation during the year	0	305	0	0
Closing balance	<b>\$ 561</b>	<b>\$ 561</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Retained earnings</b>				
Opening balance	30,316	25,593	(383)	620
Surplus for the year	10,039	9,939	4,649	4,213
Dividends	(2,518)	(5,216)	(2,518)	(5,216)
Closing balance	<b>\$ 37,837</b>	<b>\$ 30,316</b>	<b>\$ 1,748</b>	<b>(\$ 383)</b>

The final dividend for 2001 has not been accrued, refer accounting policies.

**8 TERM LIABILITIES**

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Term liabilities fall due for repayment in the following periods:				
<b>Bank term loans</b>				
One to two years	225	192	0	0
Two to three years	225	192	0	0
Three to four years	225	192	0	0
Four to five years	225	192	0	0
Beyond five years	26,625	21,091	0	0
	<b>\$ 27,525</b>	<b>\$ 21,859</b>	<b>\$ 0</b>	<b>\$ 0</b>

These advances, together with the bank overdraft, are secured by floating charges over all the Group's assets. The Group utilises bank bills for financing the operations of the business. The ANZ Bank regards this finance as long term, subject to satisfactory annual reviews of the Group's operations. Interest rates applying 2001 - 5.0% to 7.8% (2000 - 5.1% to 7.8%).

## NOTES TO THE FINANCIAL STATEMENTS cont.

## 9 FIXED ASSETS

Group	2001			2000		
	Cost \$000	Accum Deprec \$000	Book Value \$000	Cost \$000	Accum Deprec \$000	Book Value \$000
Land	1,247	0	1,247	1,064	0	1,064
Buildings	4,361	110	4,251	2,904	30	2,874
Plant	2,812	1,491	1,321	2,751	1,488	1,263
Equipment	9,676	6,101	3,575	7,766	5,432	2,334
Furniture and fittings	7,802	4,380	3,422	7,082	4,140	2,942
Motor vehicles	1,675	583	1,092	1,708	535	1,173
Leasehold improvements	15,074	7,747	7,327	13,161	6,291	6,870
	<b>\$ 42,647</b>	<b>\$ 20,412</b>	<b>\$ 22,235</b>	<b>\$ 36,436</b>	<b>\$ 17,916</b>	<b>\$ 18,520</b>
<b>Parent Company</b>						
Plant	3	2	1	3	1	2
Equipment	10	5	5	10	3	7
Motor vehicles	126	122	4	126	97	29
	<b>\$ 139</b>	<b>\$ 129</b>	<b>\$ 10</b>	<b>\$ 139</b>	<b>\$ 101</b>	<b>\$ 38</b>

The latest available independent valuation by a registered valuer (Robisons, Whangarei, New Zealand and CB Richard Ellis, Brisbane, Australia ) in New Zealand and Australia is \$6,727,500 as at 30 June 2001 (2000 - \$715,000). The basis of the valuation was open market value for existing use.

The above assets provide a floating security for bank loans, as well as mortgage security over term loans. (Refer Note 8).

## 10 INVESTMENTS IN SUBSIDIARIES

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
<b>Subsidiary companies</b>				
Shares at cost	0	0	2,800	2,800
Plus advance to subsidiaries	0	0	10,316	11,031
	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 13,116</b>	<b>\$ 13,831</b>

## The subsidiary companies are:

	Activity	Shareholding
Michael Hill Jeweller Limited	Jewellery Retailer and Manufacturer	100%
Michael & Company Limited (formerly Michael Hill Shoes Limited)	Dormant Company	100%
Michael Hill Jeweller (Australia) Pty Limited	Jewellery Retailer	100%
Michael Hill (Wholesale) Pty Limited	Jewellery Wholesaler	100%
Michael Hill Manufacturing Pty Limited	Jewellery Manufacturer	100%
Michael Hill Trustee Company Limited	Trustee for staff share purchase scheme	100%

There were no subsidiary companies purchased or sold during the year ended 30 June 2001.

All subsidiaries have a 30 June balance date.

## Investment property

Investment properties at current value	\$ 0	\$ 1,115	\$ 0	\$ 0
<b>Total Investments</b>	<b>\$ 0</b>	<b>\$ 1,115</b>	<b>\$ 13,116</b>	<b>\$ 13,831</b>

NZ investment properties are valued annually by a registered valuer of land and buildings. (30 June 2001 - Robisons, Whangarei)

## NOTES TO THE FINANCIAL STATEMENTS cont.

**I 1 EXPENDITURE CARRIED FORWARD**

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Key money	76	125	0	0
	<b>\$ 76</b>	<b>\$ 125</b>	<b>\$ 0</b>	<b>\$ 0</b>

**I 2 TRADE DEBTORS**

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Trade debtors	7,396	6,189	0	0
Less laybys provision	588	495	0	0
	<b>\$ 6,808</b>	<b>\$ 5,694</b>	<b>\$ 0</b>	<b>\$ 0</b>

**I 3 INVENTORIES**

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Raw materials	4,084	3,573	0	0
Work in progress	21	25	0	0
Finished goods	50,730	47,851	0	0
Consumables	3,932	3,097	0	0
	<b>\$ 58,767</b>	<b>\$ 54,546</b>	<b>\$ 0</b>	<b>\$ 0</b>

**I 4 BANK OVERDRAFT**

The bank overdraft is secured by a floating charge over the Group's assets. 2001 - 8.25% (2000 - 8.75%)

**I 5 ACCRUALS AND PROVISIONS**

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Employee entitlements	4,033	3,680	0	0
Other accruals	3,877	3,815	0	32
	<b>\$ 7,910</b>	<b>\$ 7,495</b>	<b>\$ 0</b>	<b>\$ 32</b>

**I 6 TERM LIABILITIES REPAYABLE WITHIN TWELVE MONTHS**

Bank term loans (secured)	\$ 225	\$ 192	\$ 0	\$ 0
---------------------------	--------	--------	------	------

The current portion of the term loans are secured in the same manner, and bear the same rate of interest as the term portion set out in Note 9.

**I 7 DIVIDENDS PAID AND DECLARED**

	Group & Parent Company	
	2001 \$000	2000 \$000
Interim: Cash paid on 26 March 2001	2,518	2,324
Final dividend (recorded in 1999, paid in 2000)	0	2,892
	<b>\$ 2,518</b>	<b>\$ 5,216</b>

The Directors have declared a final dividend post year end of 8.5 cents per share to be paid for the year ended 30 June 2001 out of tax paid profits, on 29 October 2001. An interim dividend of 6.5 cents per share was paid on 26 March 2001. Full imputation credits attach to both dividends. Non-resident Shareholders also receive supplementary dividends. The company receives a tax credit equal to the amount of these supplementary dividends.

## NOTES TO THE FINANCIAL STATEMENTS cont.

**18 CAPITAL COMMITMENTS**

The Group and the Parent Company have no capital commitments at 30 June 2001 (2000 - Nil).

**19 CONTINGENT LIABILITIES**

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Guarantees to bankers and other financial institutions of subsidiary companies overdraft facilities and fixed assets	\$ 38,676	\$ 25,375	\$ 75	\$ 75

The Group and Parent Company have no other material contingent liabilities as at 30 June 2001 (2000 - nil).

**20 OPERATING LEASE OBLIGATIONS**

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	9,860	8,843	0	0
One to two years	8,406	6,981	0	0
Two to five years	13,954	10,624	0	0
Over five years	2,634	951	0	0
	\$ 34,854	\$ 27,399	\$ 0	\$ 0

**21 SUBSTANTIAL SECURITY SHAREHOLDERS**

The following shareholders hold 5% or more of the issued capital of the Company and have filed notices with the Company under the Securities Amendment Act 1988 that they are substantial security holders in the Company.

	No. of Ordinary Shares
R.M. Hill, A.C. Hill, R.M.J. Urlich (as trustees)	11,116,260
D.W. Hewitt, R.M.J. Urlich (as trustees)	8,446,636

Total number of ordinary shares on issue as at 31 August 2001 is 38,558,600.

**22 RELATED PARTY TRANSACTIONS**

Executive Directors are remunerated in their capacity as full-time employees of the Company. Directors' interests in the Company's shares are disclosed on page 37 of the Annual Report. Directors' received dividends on their holdings on the same terms as other shareholders.

## NOTES TO THE FINANCIAL STATEMENTS cont.

**23 FINANCIAL INSTRUMENTS****(a) Currency and interest rate risk**

Nature of activities and management policies with respect to financial instruments.

**(i) Currency**

The Group undertakes transactions denominated in foreign currencies from time to time and resulting from these activities exposures in foreign currency arise.

Foreign currency transactions are settled on the day they fall due at the exchange rate of the day. The Group uses forward exchange contracts to manage these exposures, from time to time.

Contracts outstanding at 30 June 2001 are \$ 32,734 (2000 - Nil).

**(ii) Interest rate**

The Group has a long term borrowing facility utilising three to six months bank bills. Forward rate agreements are utilised from time to time to hedge against interest rate fluctuations. The principal amount of Forward Rate Agreements outstanding at balance date was \$10,875,000 (2000 - \$4,743,590). The cash settlement requirements of Forward Rate Agreements have a market value of \$(55,736) (2000 - \$844).

Settlement amounts on maturity of Forward Rate Agreements are amortised over the period of the underlying liability by the financial instrument.

**(iii) Repricing analysis**

Cash on hand, debtors, expenditure carried forward, creditors and proposed dividends have been excluded in the tables below as they are not interest rate sensitive.

**Group repricing maturities - 2001**

	Effective Interest Rates	\$000 Less than 6 Months	\$000 6 to 12 Months	\$000 1 to 2 Years	\$000 2 to 5 Years	\$000 Total
<b>Liabilities</b>						
Term liabilities	5.96%	5,375	0	22,375	0	27,750
<b>Total liabilities</b>		5,375	0	22,375	0	27,750
Off Balance Sheet forward rate agreements		(10,875)	0	0	0	(10,875)
<b>Repricing gap</b>		(5,500)	0	22,375	0	16,875

**Group repricing maturities - 2000**

	Effective Interest Rates	\$000 Less than 6 Months	\$000 6 to 12 Months	\$000 1 to 2 Years	\$000 2 to 5 Years	\$000 Total
<b>Liabilities</b>						
Term liabilities	6.36%	641	11,154	10,256	0	22,051
<b>Total liabilities</b>		641	11,154	10,256	0	22,051
Off Balance Sheet forward rate agreements		(4,744)	0	0	0	(4,744)
<b>Repricing gap</b>		(4,103)	11,154	10,256	0	17,307

Parent Company financial assets and liabilities comprise investments, creditors and dividends payable which are not interest rate sensitive. The bank overdraft at 30 June 2001 is \$16,449 (2000 - \$2,665). Commercial bill facilities are currently utilised by the Group on 90 day terms, but are regarded by the bank as long term arrangements.

**(iv) Credit**

In the normal course of its business the Group incurs credit risk from trade debtors and other institutions. There are no significant concentrations of credit risk. The group has a credit policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures have been set and are monitored on a regular basis.

**(b) Fair Values**

The Group's financial assets and liabilities have estimated fair values equivalent to carrying value, with the exception of forward rate agreements with fair values disclosed in part (a) (ii) of this note.

## NOTES TO THE FINANCIAL STATEMENTS cont.

24 RECONCILIATION OF SURPLUS AFTER TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
<b>Reported surplus after taxation as per Statement of Financial Performance</b>	<b>10,039</b>	<b>9,939</b>	4,649	4,213
<b>Add / (less) items classified as investing or financial activities</b>				
Loss / (gain) on sale of fixed assets	105	251	0	0
<b>Add / (less) non cash items</b>				
Depreciation	4,280	4,264	28	28
Foreign currency movement	(72)	1,062	0	0
Deferred taxation	(417)	(792)	6	(5)
Amortisation of goodwill	71	71	0	0
Amortisation of expenditure carried forward	48	61	0	0
<b>Add / (less) movements in working capital items</b>				
Taxation payable	(2,408)	752	(6)	44
Debtors and prepayments	(1,117)	(3)	715	359
Creditors and accruals	2,400	1,658	4	8
Inventories	(5,042)	(3,049)	0	0
<b>Net cash flows from operating activities</b>	<b>\$ 7,887</b>	<b>\$ 14,214</b>	<b>\$ 5,396</b>	<b>\$ 4,647</b>

## 25 STOCK EXCHANGE LISTING REQUIREMENTS - SUPPLY OF INFORMATION

Where matters noted in Listing requirements 10.4.2 are not applicable to the current reporting period, no reference is made to them.

## 26 EVENTS OCCURRING AFTER BALANCE DATE

On the 3rd of September 2001, the NZ head office building was sold with an agreement to lease back. As the agreement was entered into after balance date, the financial effect has not been recognised in the financial statements.

## DIRECTORS' INTERESTS IN TRANSACTIONS

Per section 211(e) of the Companies Act 1993, the Directors have made the following entries in the Interests Register during the 12 months ended 30 June 2001, and will therefore be interested in all transactions between these companies and Michael Hill International and its subsidiaries.

L.W. Peters	Freedom Group Limited
-------------	-----------------------

## ANALYSIS OF SHAREHOLDING

## SHAREHOLDING BY RANGE OF SHARES AS AT 31 AUGUST 2001

	No. of Holders	% of Holders	No. of Shares
1 - 999	575	26	271,544
1,000 - 4,999	1,301	59	2,724,585
5,000 - 9,999	201	9	1,252,722
10,000 & over	137	6	34,309,749
<b>Total</b>	<b>2,214</b>	<b>100%</b>	<b>38,558,600</b>

## GEOGRAPHICAL SPLIT OF SHAREHOLDERS AS AT 31 AUGUST 2001

	No. of Holders	% of Holders	No. of Shares
Northland	303	14	21,171,860
Auckland	511	23	4,375,147
Wellington	165	7	7,694,009
Rest of North Island	818	37	1,911,477
South Island	350	16	1,494,027
Overseas	67	3	1,912,080
<b>Total</b>	<b>2,214</b>	<b>100%</b>	<b>38,558,600</b>

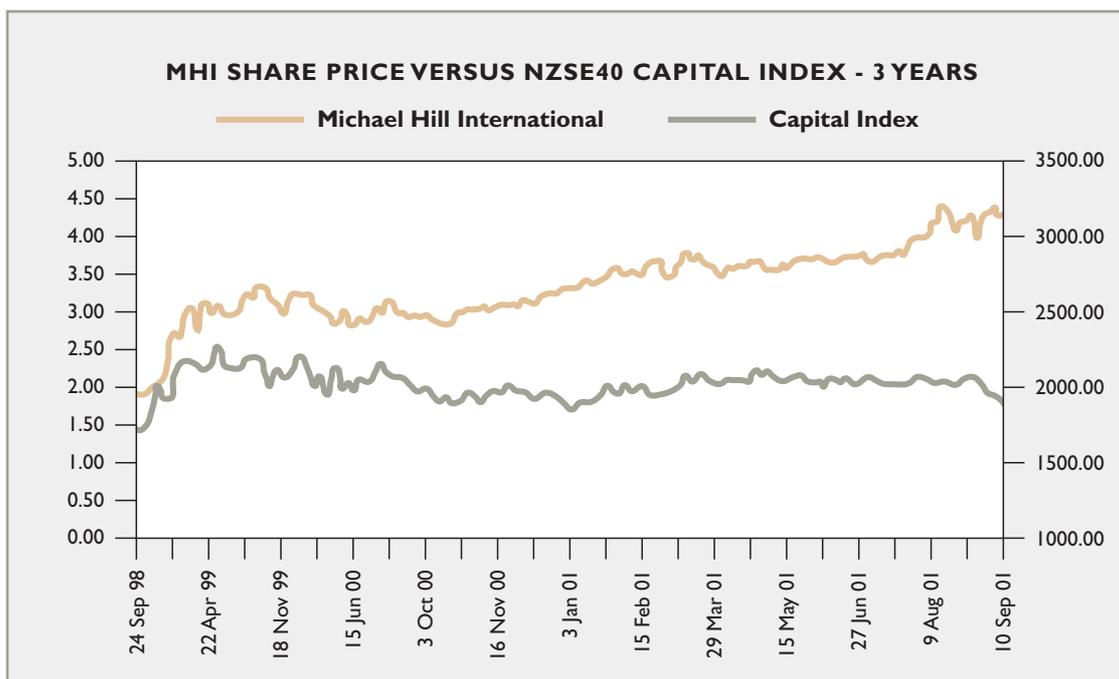
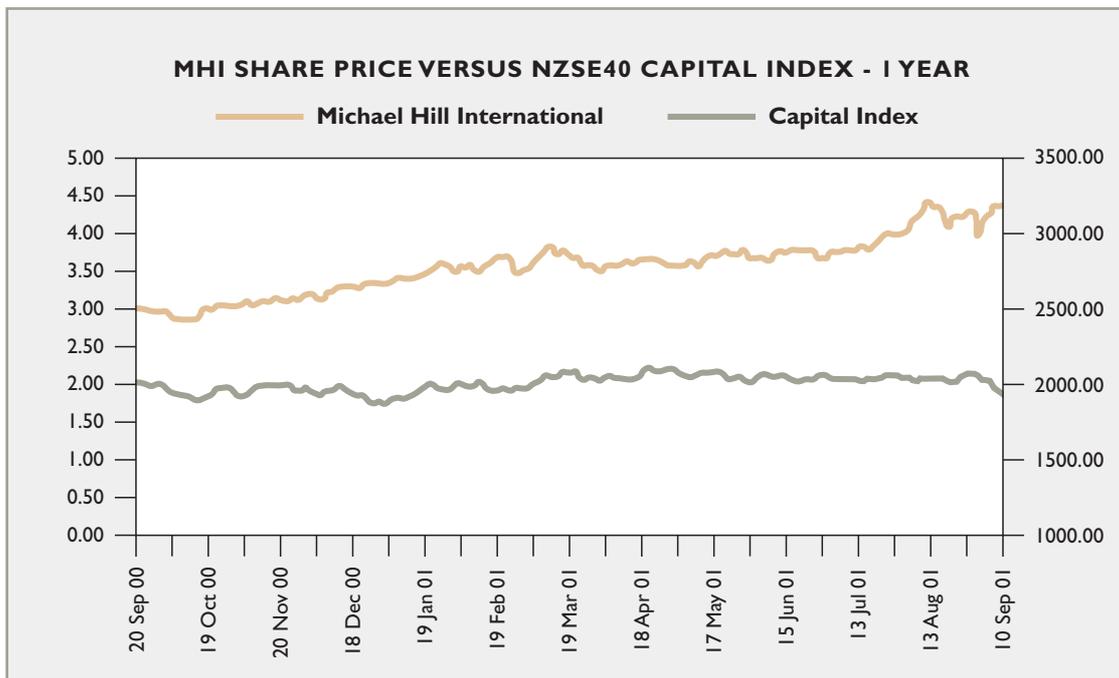
## TWENTY LARGEST SHAREHOLDERS AS AT 31 AUGUST 2001

	Ordinary Shares	% of Shares
R.M. Hill, A.C. Hill, R.M.J. Urlich (as trustees)	11,116,260	28.82
D.W. Hewitt, R.M.J. Urlich (as trustees)	8,446,636	21.90
Frater Williams Custodial Services Ltd.	1,650,378	4.28
The Trustees, Executors and Agency Co. of N.Z.	1,588,139	4.12
Accident Rehabilitation and Compensation Insurance Corp.	1,293,000	3.35
NZGT Nominees Ltd.	1,033,663	2.68
NZGT Nominees Ltd. - AIF Equity Fund	752,435	1.95
Peters MacGregor Pty. Ltd.	736,700	1.91
Cogent Nominees Ltd.	666,855	1.72
AMP Life Ltd.	621,232	1.61
I.H. Bode, B.H. Sole, A.P. Kent, J.J. Kent	603,035	1.56
Frater Williams Custodial Services Ltd.	494,224	1.28
R.M. Hill, A.C. Hill, R.M.J. Urlich	356,630	0.92
R.L. Parsell	356,025	0.92
ANZ Nominees Ltd.	350,000	0.90
Guardian Trust Investment Nominees Ltd.	331,569	0.85
Peters MacGregor Investments Pty. Ltd.	263,300	0.68
W.K. Butler, R.M.J. Urlich, R.J. Halliday	166,195	0.43
Frater Williams Custodial Services Ltd.	156,364	0.40
T.C. Hopley & J.R. Hopley	143,400	0.37
	<b>31,126,340</b>	<b>80.65</b>

## DIRECTORS' AND ASSOCIATED INTERESTS' SHARE HOLDINGS AS AT 30 JUNE

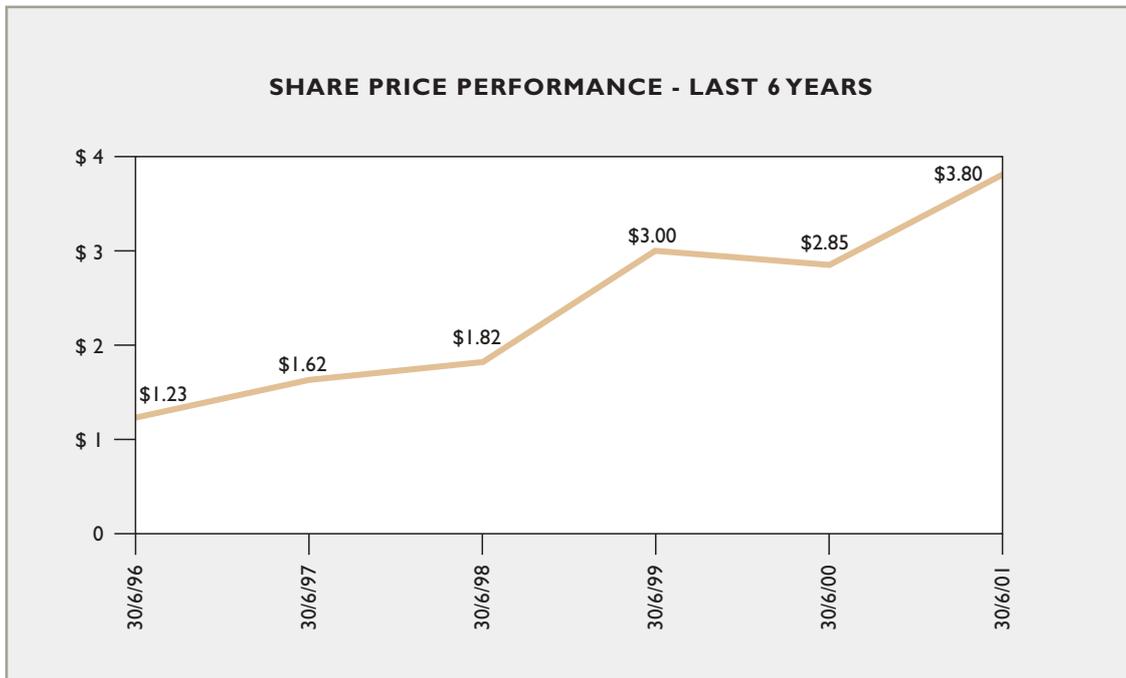
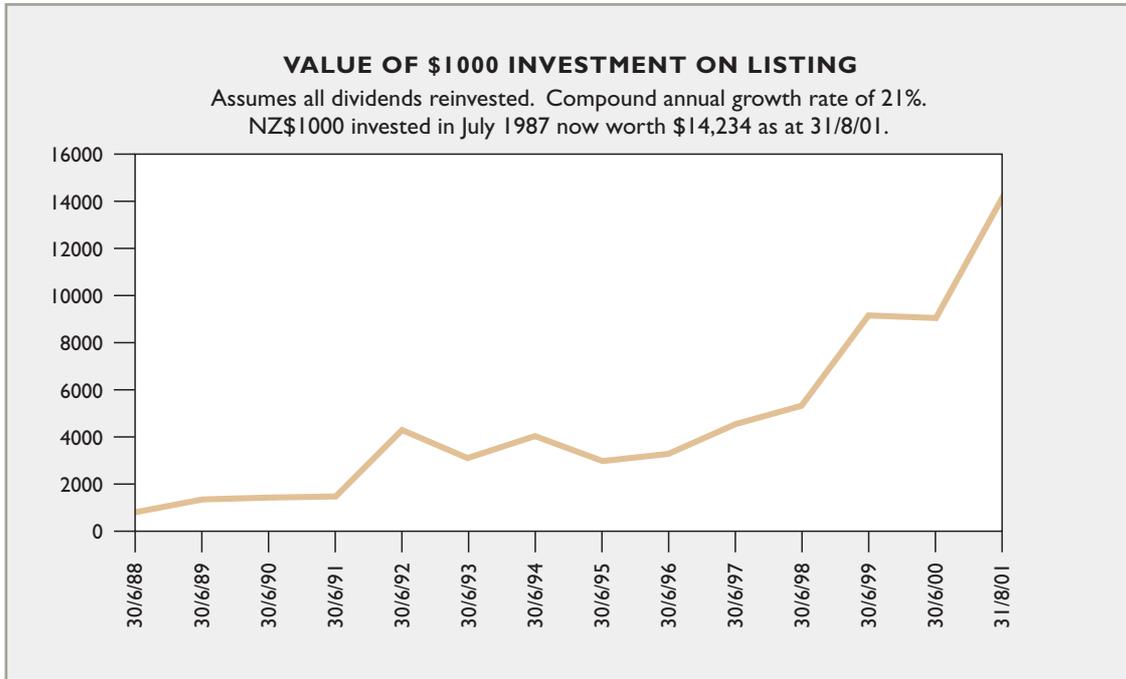
Ordinary Shares	Associated Interests		Own Name		Total	
	2001	2000	2001	2000	2001	2000
R.M. Hill & A.C. Hill	20,001,441	20,001,441	-	-	20,001,441	20,001,441
M.R. Parsell	375,040	376,627	26,089	24,502	401,129	401,129
G.J. Gwynne	100,000	-	5,000	5,000	105,000	5,000
L.W. Peters	1,100,000	1,500,400	-	-	1,100,000	1,500,400
M.R. Doyle	100,000	100,000	-	-	100,000	100,000

## SHARE PRICE PERFORMANCE



	High	Low	As at 30/6/01			
<b>Prices for Shares traded during the year</b>	\$ 3.95	\$ 2.86	\$ 3.80			
	2001	2000	1999	1998	1997	1996
<b>Six year comparative review of prices for shares as at 30 June.</b>	\$ 3.80	\$ 2.85	\$ 3.00	\$ 1.82	\$ 1.63	\$ 1.23

## SHARE PRICE PERFORMANCE cont.



## STORE OUTLETS - AUSTRALIA

### QUEENSLAND



Cavill Avenue	Matthew Lynch, Paradise Centre, Surfers Paradise, Gold Coast
Loganholme	Debbie Sheldon, Logan Hyperdome, Loganholme, Brisbane
Robina	Jan Ingham, Robina Town Centre, Robina
Toowoomba	Jasmine Harrison, Clifford Gardens Shopping Centre, Toowoomba
Cairns	Rod McLean, Earlville Shopping Centre, Cairns
Mt Ommaney	Richard Price, Mt Ommaney Shopping Centre, Mt Ommaney, Brisbane
Myer Centre	Suean Buckley, Myer Centre, Queen Street Mall, Brisbane
Toombul	Patsy Day, Westfield Shoppingtown Toombul, Nundah, Brisbane
Chermside	Karen Pukulas, Westfield Shoppingtown Chermside, Chermside, Brisbane
Upper Mt Gravatt	Kim Watson, Garden City Shopping Centre, Upper Mt Gravatt, Brisbane
Ipswich	Rachael Wright, Ipswich City Square, Ipswich
Indooroopilly	Lynne Alexander, Westfield Shoppingtown Indooroopilly, Indooroopilly, Brisbane
Capalaba Park	Tracey Phillips, Capalaba Park Shopping Centre, Capalaba, Brisbane
Strathpine	Adam Johnson, Westfield Shoppingtown Strathpine, Strathpine, Brisbane
Southport	Mark Walshaw, Australia Fair Shopping Centre, Southport, Gold Coast
Broadbeach	Gerald Adam, Pacific Fair Shopping Centre, Broadbeach, Gold Coast
Mackay	Brett Murray, Canelands Shopping Centre, Mackay
Browns Plains	Brett Halliday, Grand Plaza Shopping Centre, Browns Plains, Brisbane
Townsville	Warwick Nicholson, The Willows Shopping Centre, Townsville
Maroochydore	Kathleen Kelly, Sunshine Plaza Shopping Centre, Maroochydore, Sunshine Coast
Rockhampton	Paul Aruldoss, Rockhampton Shopping Fair, Rockhampton
Kawana Waters	Adrienne Brandon, Kawana Shopping World, Kawana, Sunshine Coast
Bundaberg	Andrew Warwick, Sugarland Shopping Centre, Bundaberg
Stones Corner	Kaylene Gray, Stones Corner, Brisbane
Morayfield	David Patterson, Morayfield Shopping Centre, Morayfield, Brisbane
Brookside	Jillian Wise, Brookside Shopping Centre, Mitchelton, Brisbane
Carindale	Tim Spreadborough, Carindale Regional Shopping Centre, Carindale, Brisbane

### AUSTRALIAN CAPITAL TERRITORY

Woden	Sue Simpson, Woden Plaza, Woden
Canberra Centre	Michael Mulholland, City Walk, Canberra
Belconnen	Jim Warren, Belconnen Mall, Belconnen

### NEW SOUTH WALES

Parramatta	Pitsa Waters, Westfield Shoppingtown Parramatta, Parramatta, Sydney
Miranda	Mark Kovicz, Westfield Shoppingtown Miranda, Miranda, Sydney
Roselands	Rose Lloyd, Roselands Shopping Centre, Roselands, Sydney
Liverpool	Terese Hillard, Westfield Shoppingtown Liverpool, Liverpool, Sydney
North Ryde	Scott Christie, Macquarie Centre, North Ryde, Sydney
Penrith	Jenny Ryan, Penrith Plaza, Penrith, Sydney
Castle Hill	Raj Nair, Castle Towers Shopping Centre, Castle Hill, Sydney
Blacktown	Donovan Bell, Westpoint Shopping Centre, Blacktown, Sydney
Warringah	Dean Lloyd, Warringah Mall Shopping Centre, Brookvale, Sydney
Campbelltown	Peta McClure, The Mall Queen Street, Campbelltown, Sydney
Bondi Junction	Jeff Hart, Bondi Junction Plaza, Bondi Junction, Sydney
Erina	Cindy Salmon, Erina Fair, Erina, Central Coast
Fairfield	Josie Montalto, Fairfield Forum Shopping Centre, Fairfield, Sydney
Port Macquarie	Penny Rebecchi, Settlement City Shopping Centre, Port Macquarie, Central Coast
Jesmond	Melissa Stewart, Stockland Mall, Jesmond, Newcastle
Tuggerah	Jason Dunn, Westfield Shoppingtown Tuggerah, Tuggerah, Central Coast
Mt Druitt	Romel Santos, Markettown Mt Druitt, Mt Druitt, Sydney
Charlestown	Anthony Matthews, Charlestown Square, Charlestown, Newcastle
Coffs Harbour	Jim Colley, Park Beach Plaza, Coffs Harbour, Central Coast
Warrawong	Tracy Henry-Smith, Westfield Shoppingtown Warrawong, Warrawong, Wollongong
Tweed Heads	Jodi Warner, Tweed City Shopping Centre, Tweed Heads
Bankstown	Nadine Kolinac, Bankstown Square, Bankstown, Sydney
Shell Harbour	Samantha Darling, Shell Harbour Square, Shell Harbour, Wollongong
Wagga Wagga	Chris Richardson, Sturt Mall, Wagga Wagga
Macarthur Square	Christina Blachnig, Macarthur Square Shopping Centre, Campbelltown, Sydney
Dubbo	Marilyn Buttsworth, Macquarie Street, Dubbo
Warriewood	Amanda Clemson, Warriewood Shopping Centre, Warriewood, Sydney
Burwood	Daniela Blazevska, Westfield Shoppingtown Burwood, Burwood, Sydney
Chatswood	Elizabeth Sackey, Westfield Shoppingtown Chatswood, Chatswood, Sydney
Wollongong	Jeanette Underwood, Crown Central, Wollongong, South Coast
Hornsby	Melissa Jackson, Westfield Shoppingtown Northgate, Hornsby, Sydney
Albury/Wodonga	Ian Henderson, West End Plaza, Albury
Tamworth	Kylie Davidson, Tamworth Shoppingworld, Tamworth

## VICTORIA

Eastlands	Simon Coutts-Bain, Eastlands Shopping Centre, Ringwood, Melbourne
Greensborough	Kylie Ayre, Greensborough Plaza, Greensborough, Melbourne
Maribyrnong	Dianne Peters, Highpoint Shopping Centre, Maribyrnong, Melbourne
Chirnside	Cherie Years, Chirnside Park Shopping Centre, Chirnside, Melbourne
Airport West	Sue Wignal, Westfield Shoppingtown Airport West, Airport West, Melbourne
Geelong	Mark Elford, Corio Village, Corio, Geelong
Fountain Gate Melbourne	Nicole Berkerley, Westfield Shoppingtown Fountain Gate, Fountain Gate, Melbourne
The Glen	The Glen Shopping Centre, Glen Waverley, Melbourne
Dandenong	Jamie Martin, Dandenong Plaza, Dandenong, Melbourne
Forest Hill	Olivia Moore, Forest Hill Chase, Forest Hill, Melbourne

## NORTHERN TERRITORY

Darwin	Bronwyn Taylor, Casuarina Square Shopping Centre, Darwin
--------	--

## WESTERN AUSTRALIA

Morley	Nicola Greene, Westfield Shoppingtown Galleria, Morley, Perth
Cannington	Darcy Harkins, Westfield Shoppingtown Carousel, Cannington, Perth

## STORE OUTLETS - NEW ZEALAND

### NORTH ISLAND

Whangarei	Althena Flavell-Birch, 24 Cameron Street, Whangarei
Browns Bay	Olga Golenkova, 26 Clyde Road, Browns Bay, Auckland
Greg Smith	Albany Mega Centre, Auckland
Takapuna	Rowena McNamara, 3 Hurstmere Road, Auckland
Queen Street	Kirk Robinson, 44 Queen Street, Auckland
Newmarket	Vicki Cato, 218 Broadway, Auckland
St Lukes	Wayne Bullock, Westfield Shoppingtown St Lukes, Auckland
Lynnmall	Lynda Savage, Lynnmall Shopping Centre, Auckland
Pakuranga	Tony Ho, Westfield Shoppingtown Pakuranga, Auckland
Mt Wellington	Kathryn Scott, Harvey Norman Centre, Mt Wellington Highway, Auckland
Botany	Jillian Gubb, 24 Town Centre Drive, Botany Town Centre, Auckland
Manukau	Shane Dance, Westfield Shoppingtown Manukau, Auckland
Henderson	Coralie De Andrad, Westfield Shoppingtown West City, Auckland
Westgate	Galina Hirtzel, Westgate Shopping Centre, Auckland
Chartwell	Ranee Bowden, Westfield Shoppingtown Chartwell, Hamilton
Hamilton	Sally Every, Cnr Victoria & Ward Street, Hamilton
Tauranga	Chris Teague, 61 Devonport Road, Tauranga
Rotorua	Greg Lilley, Rotorua Central, Amohau Street, Rotorua
Bayfair	Bronwyn Butler, Shop 601, Bayfair Plaza, Mt Maunganui
Gisborne	Angela Mana, 118 Gladstone Rd, Gisborne
New Plymouth	Leah James, 32-36 Currie Street, New Plymouth
Hastings	Michael Raine, 225 West Heretaunga Street, Hastings
Napier	Gillian Russell, Ocean Boulevard Mall, Napier
Wanganui	Amber Eyre, 99 Victoria Avenue, Wanganui
Palmerston North	Aaron Waters, 102 The Square, Palmerston North
Coastlands	Shelley Szedlack, Coastlands Shopping Centre, Paraparaumu
Porirua	Toni Roberts, North City Shopping Centre, Porirua, Wellington
Lower Hutt	Lynda Singleton, Westfield Shoppingtown Queensgate, Lower Hutt
Johnsonville	Heather Crossan, Johnsonville Shopping Centre, Wellington
Cuba Mall	Lois Law, 70 Cuba Mall, Manner Street, Wellington
Lambton Quay	Trish Longstaff, 342 Lambton Quay, Wellington
<b>Specialist Antique and Estate Outlet</b>	
Newmarket	Peter Downey, 218 Broadway, Auckland

### SOUTH ISLAND

Nelson	Nadine Cameron, 174 Trafalgar Street, Nelson
Cashel Street	Linda Dixon, Cnr Shades Arcade & Cashel Street, Christchurch
Merivale	Donalda Barr, Merivale Mall, 189 Papanui Road, Christchurch
Riccarton	Robert Lee, Westfield Shoppingtown Riccarton, Christchurch
Eastgate	Joanne Cantrick, Eastgate Shopping Centre, Christchurch
Northlands	Brent Hutchinson, Northlands Shopping Centre, 55 Main North Rd, Christchurch
Hornby	Pip Reilly, Hornby Shopping Centre, Hornby
Timaru	Wendy Mackrell, 202 Stafford Street, Timaru
Dunedin	Sonya Chalmers, 250 George Street, Dunedin
Invercargill	Nicky Toshach, 66 Esk Street, Invercargill
Queenstown	Melanie Cole, 23 Rees Street, Queenstown

# NOTICE OF ANNUAL MEETING

Notice is hereby given that the Annual Meeting of Shareholders of Michael Hill International Limited ("the Company") will be held at the Albany North Harbour Stadium on 16 November 2001 at 2pm.

## **BUSINESS**

The business of the meeting will be:

### **1 FINANCIAL STATEMENTS AND REPORTS**

To receive and consider the Annual Report including the Financial Statements and the Auditor's Report for the period ended 30 June 2001.

### **2 RE-ELECTION OF MICHAEL ROBIN PARSELL, LESLIE WAYNE PETERS AND ANN CHRISTINE HILL AS DIRECTORS**

To consider, and if thought fit, to re-elect Michael Robin Parsell, Leslie Wayne Peters and Ann Christine Hill as Directors of the Company by passing the following Ordinary Resolutions:

- a. "That Michael Robin Parsell be re-elected as a Director of the Company."
- b. "That Leslie Wayne Peters be re-elected as a Director of the Company."
- c. "That Ann Christine Hill be re-elected as a Director of the Company."

See *Explanatory Note*.

### **3 AUDITORS**

To record that the Company's Auditors, PriceWaterhouseCoopers are automatically reappointed as auditors pursuant to Section 200 of the Companies Act 1993 and to consider, and if thought fit, to pass the following Ordinary Resolution: "That the Directors be authorised to fix the remuneration of the auditors for the ensuing year:"

### **4 DIRECTORS' REMUNERATION**

To consider, and if thought fit, to pass the following Ordinary Resolution setting the maximum level of directors' annual remuneration, which will apply until altered by a further ordinary resolution of shareholders:

"That the maximum amount of annual directors' fees payable to all directors in their capacity as directors shall be \$215,000, until such time as this amount may be altered by a further ordinary resolution of shareholders".

See *Explanatory Note*.

*In accordance with Listing Rule 9.3.1, no non-executive director nor any of their Associated Persons may vote on this resolution.*

### **5 OTHER BUSINESS**

To consider any other ordinary business which may be properly brought before the meeting.

## **PROXIES**

Any Shareholder entitled to attend and vote at the meeting may vote either by being present in person, or by proxy. A proxy must be appointed by a written notice signed by the Shareholder. An appropriate form is attached. A proxy need not be a Shareholder of the Company but is entitled to attend and be heard as if the proxy were a Shareholder. To be effective, the proxy must be deposited at the registered office of the Company, Third Floor, Michael Hill Building, 25 Rathbone Street, Whangarei, no later than 48 hours before the start of the meeting. Postal voting is not permitted.

## **CORPORATE REPRESENTATIVES**

A corporation which is a Shareholder may appoint a person to attend the meeting on its behalf in the same manner as that in which it could appoint a proxy.

By order of the Board of Directors



WK Butler  
Company Secretary  
15th October 2001

## EXPLANATORY NOTE

### **RESOLUTION 2 - RE-ELECTION OF MICHAEL ROBIN PARSELL, LESLIE WAYNE PETERS AND ANN CHRISTINE HILL AS DIRECTORS**

Michael Robin Parsell, Leslie Wayne Peters and Ann Christine Hill are currently Directors of the Company. Michael Robin Parsell and Leslie Wayne Peters retire by rotation in accordance with clause 33.5 of the Company's Constitution, and Ann Christine Hill, having been appointed by the Board during the year, retires in accordance with clause 33.3 of the Company's Constitution. Each, being eligible, offers themselves for re-election.

### **RESOLUTION 4 - DIRECTORS' REMUNERATION**

The directors seek the approval of shareholders to an increase in the maximum aggregate remuneration that is able to be paid to non-executive directors to \$215,000. Executive directors do not receive any additional payment over and above their remuneration received in their capacities as executives.

The current maximum aggregate remuneration is \$130,000. This was last set at the Annual Meeting in November 1999. The increase is therefore \$85,000 from the base figure last approved by shareholders in general meeting. For the year ended 30/6/01, each of our four non-executive directors was paid at a rate of \$35,000 per annum, which was allowed for under the Company's constitution. It is proposed that the level of fees for each of our three New Zealand resident directors will increase from \$35,000 per annum to \$50,000. Our Australian resident director would be paid A\$50,000.

Since 1999, the Company has experienced strong growth in both revenue and profits. In particular the Company has continued to significantly grow its Australian operations with the result that for the twelve months ending 30 June 2001, the Australian company generated 64% of the Group's revenue and 58% of its profits. The Company is accordingly truly an Australasian company. In proposing the increase in directors' fees, the Board has had regard to this increased Australasian focus, and has set the figure at a level which would enable payment of directors' fees at approximately the average of the mean level of base directors' fees for New Zealand and Australian directors of publicly listed companies. Research carried out by Korn Ferry and available to the Board indicates these averages are approximately NZD\$34,000 and AUD\$53,000, before taking into account any extra fees payable by companies for participation on board sub-committees. The Company is not proposing to pay extra remuneration to non-executive directors for serving on such sub-committees.



## CORPORATE DIRECTORY

### DIRECTORS

R.M. Hill (Chairman)  
M.R. Parsell (Chief Executive Officer)  
G.J. Gwynne  
L.W. Peters A.D.Bus., M.B.A., A.S.I.A., M.A.I.C.D.  
M.R. Doyle  
A.C. Hill

### COMPANY SECRETARY

W.K. Butler B.Com., C.A., A.C.I.S., A.C.I.M.

### REGISTERED OFFICE

3rd Floor  
Michael Hill Building  
25 Rathbone St  
PO Box 38  
Whangarei  
New Zealand  
Telephone (09) 430 4810  
Fax (09) 430 3578

### AUSTRALIAN HEAD OFFICE

Metroplex on Gateway  
7 Smallwood Place  
Murarrie  
Brisbane  
Telephone (07) 3399 0200

### SHARE REGISTRAR

Computershare Registry Services  
Level 3, 277 Broadway  
Newmarket  
Auckland

### SOLICITORS

KPMG Legal  
PO Box 10246  
Wellington  
New Zealand

### AUDITORS

PricewaterhouseCoopers  
23-29 Albert Street  
Private Bag 92162  
Auckland  
New Zealand

PricewaterhouseCoopers  
Waterfront Place  
1 Eagle Street  
Brisbane  
Australia

### BANKERS

ANZ Banking Group (New Zealand) Limited  
ANZ Banking Group (Australia) Limited

### INTERNET

[www.michaelhill.co.nz](http://www.michaelhill.co.nz)

## MANAGEMENT DIRECTORY

Mike Parsell (Chief Executive Officer)

### NEW ZEALAND MANAGEMENT

Kevin Phillips (General Manager)  
Wayne Butler B.Com., C.A., A.C.I.S., A.C.I.M. (Group/N.Z.  
Financial Controller, Company Secretary)  
Graeme MacDonald (Northern Regional Manager)  
Brigid Rivers (Central Regional Manager)  
Mark Johnston (Southern Regional Manager)  
Laurie Mayo (Manufacturing Division Manager)

### AUSTRALIAN MANAGEMENT

Paul Williams B.B.S. (Retail Operations Manager)  
Phil Taylor A.C.A., A.C.I.M., A.I.M.M. (Financial Controller/  
Company Secretary)  
Brenda Watson (New South Wales Regional Manager)  
Adam Biermann (New South Wales Regional Manager)  
Ron Roma (New South Wales Regional Manager)  
Judy Robison (Queensland Regional Manager)  
Joe De Aizpurua (Queensland Regional Manager)  
Kevin Stock (Victorian Regional Manager)  
Darcy Harkins (Western Australia Regional Manager)  
Peter Service (Manufacturing Division Manager)

## FINANCIAL CALENDAR

### ANNUAL MEETING

Friday, 16 November 2001 at 2.00pm  
Albany North Harbour Stadium, Auckland

### DIVIDENDS PAYABLE

Interim - March  
Final - October

### FINANCIAL RESULTS ANNOUNCED

Half Year - February  
Annual - August





*a month to do as you please*



**Michael Hill**  
J E W E L L E R

