Michael Hill International Limited

Results for announcement to the market

Reporting Period	6 months to 31 December 2008
Previous Reporting Period	6 months to 31 December 2007

	Amount $NZ'000	Percentage Change %
Revenue from ordinary activities	226,976	8.5%
Profit from ordinary activities after tax attributable to members	65,614	236.8%
Net profit for the period attributable to members	65,614	236.8%

	Amount per security	Imputed amount per security
Interim dividend for half-year ended 31 December 2008	1.0c	0.428571c
Record date	20 March 2009	
Dividend payment date	2 April 2009	

Michael Hill International Limited's accounts attached to this report have been reviewed and are not subject to any qualification. A copy of the review report applicable to the half year financial statements is attached to this announcement.

CHAIRMAN'S STATEMENT

Profit Announcement

Michael Hill International today announced an after tax profit of $65.614m for the six months ended 31 December 2008 compared to $19.480m for the previous corresponding period.

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

- Operating revenue of $226.976m up 8.5%
- Same store sales 0.7% up on same period last year
- EBIT of $21.317m down 30.8% on last year
- Margin impacted by the 30% fall in the AUD:USD exchange rate in the last quarter of 2008
- US acquisition costs of $1.001m incurred in the period
- US operating losses of $2.379m for the period
- Restructure of group in December 2008 resulting in a deferred tax credit of $52.942m
- Restructure consultancy costs of $1.162m expensed in the period
- Net profit before tax of $17.892m down 37.2% on last year
- Net profit after tax of $65.614m (includes the deferred tax credit of $52.942m)
- 25 new stores opened during the six months, including 17 in the US, and 1 closed
- Total of 234 stores open at 31 December 2008
- Fully imputed interim dividend of 1.0 cent per share

Reconciliation of profit before income tax for "abnormal" and "one-off" items

	2008	2007
	$000's	$000's
Profit before income tax	17,892	28,481
Add back:		
US acquisition costs	1,001	0
US trading losses for 4 months	2,379	0
Restructure costs	1,162	0
Margin loss on Xmas inventory orders due to fall in USD	4,274	0
"Adjusted" profit before income tax	26,708	28,481

New Zealand Retail Operations

The New Zealand retail segment revenue decreased by 7.6% to $49.585m for the six months with earnings before interest and tax (EBIT) of $6.846m, a decrease of 24.8% on the corresponding period last year.
Same store sales during the six months decreased by 9.3% (last year 3.0% decrease).
The operating surplus as a percentage of revenue decreased from 16.9% to 13.8%.
Trading conditions continued to be difficult for the company throughout the six months as the economic conditions restrained retail spending. The company has focussed on cost control to limit the impact of reduced sales on the bottom line.
There were 53 stores operating in New Zealand as at 31 December 2008.

- 1 new store opened in Masterton during the period.

Australian Retail Operations

The Australian retail segment increased its revenue by 4.7% to A$125.068m for the six months with EBIT of A$15.504m compared to A$15.728m for the previous corresponding period, a decrease of 1.4%.
Same store sales in local currency increased by 1.0% for the six months (last year 1.6% decrease).
The operating surplus as a percentage of revenue decreased from 13.2% to 12.4%.
The company is delighted at the performance of the Australian segment in light of such difficult trading conditions especially in the later part of the half.

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

- Toormina, NSW
- Narellan, NSW
- Marion, South Australia
- Ballarat, Victoria
- Bendigo, Victoria

One under performing store was closed during the period giving a total of 140 stores operating in Australia at 31 December 2008.

Canadian Retail Operations

The Canadian retail segment improved its revenue 3.5% for the six months to C$13.966m.
Same stores sales in local currency decreased 10.7% for the six months (last year 3.7% decrease).
There was an operating loss of C$0.444m for the six months compared to a profit of C$0.387m for the previous corresponding period.
Trading conditions in Canada have been difficult throughout the 6 months due to the worsening economic climate in North America.

2 new stores were opened during the period:

- Kildonan, Alberta
- Pickering, Ontario

There were 24 stores open as at 31 December 2008.

US Retail Operations

The company acquired 17 stores in Illinois and Missouri on the 3rd September 2008 from Whitehall Jewelers who were in Chapter 11 Bankruptcy.
The US retail segment achieved revenue of US$4.091m for the 4 months and there was an operating loss of US$1.408m for the same period. Whilst trading conditions are difficult in the US the directors are still confident this acquisition represents a good opportunity for the future.
There were 17 stores open as at 31 December 2008.

Group Restructure

The transfer of the intellectual property comprising the Michael Hill Jeweller System from New Zealand to Australia was completed on 15 December 2008. The intellectual property was transferred from Michael & Co Ltd, to its Australian subsidiary, Michael Hill Franchise Pty Ltd, for $294m. Consulting and advisory costs amounted to $1.162m for the period ended 31 December 2008.
As a result of the transaction, a deferred tax asset of $52.942m was recognised for future Australian taxation deductions available for certain intellectual property rights acquired. Further tax benefits relating to the inter company funding arrangements implemented for the transfer of the intellectual property, amounted to $0.260m for the period ended 31 December 2008.

Interim Dividend

The Directors are pleased to announce an interim dividend of 1.0¢ per share (2008 – 1.2¢), with full imputation credits attached for New Zealand shareholders and full franking credits for Australian shareholders. The dividend will be paid on Thursday, 2nd April 2009 with the record date being Friday, 20th March 2009.

Due to the internal restructuring of the group in December 2008, the company is unlikely to be in a position to fully impute dividends beyond 2009. Naturally this will depend on the performance of each segment in the future and also on the level of dividend to be paid in future periods.

Cash Flows / Balance Sheets

The Group has reported net operating cash flows of $14.984m for the six months, compared to $5.648m for the previous year. The increased surplus from operations, compared to last year, is a direct result of managing our inventory levels more tightly.

The Group's balance sheet continues to be sound with an equity ratio of 55.0% as at 31 December 2008 (42.5% in 2007) and a working capital ratio of 2.6:1 (1.8:1 in 2007).

Summary

The directors were satisfied with the result for the 6 months in light of the deteriorating economic conditions during the period. New Zealand and Canada in particular felt the brunt of the worsening global conditions however the Australia retail segment proved more resilient. The expansion into the US in September has adversely affected the half year result but the directors are confident this move will position the group well in the longer term.

The Group's philosophy of controlled profitable growth will continue and further new stores are being evaluated in all markets however in the current economic climate only the very best opportunities will be considered. As a consequence, store growth may slow over the next 12 months until there are signs of an economic turn around.

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

Michael Hill.

M. Hill 18/02/2009
Chairman
Internet Home Page - www.michaelhill.com
All inquiries should be made to Mike Parsell CEO phone +61 403 246655

STATEMENT OF FINANCIAL PERFORMANCE	Consolidated Statement of Financial Performance Current half year $NZ'000	% Change	Previous corresponding half year $NZ'000
Revenue			
Trading revenue	226,976	8.5%	209,191
Other revenue	769	(50.9%)	1,565
Total operating revenue	227,745	8.1%	210,756
Expenses			
Cost of goods sold	(89,820)	14.7%	(78,292)
Employee benefits expense	(54,691)	4.6%	(52,300)
Occupancy costs	(18,896)	26.5%	(14,934)
Depreciation and amortisation expense	(4,835)	18.2%	(4,090)
Loss on disposal of property, plant & equipment	(73)	265.0%	(20)
Other expenses	(38,012)	26.0%	(30,160)
Finance costs	(3,526)	42.2%	(2,479)
Profit before income tax	17,892	(37.2%)	28,481
Income tax credit / (expense)	47,722	(630.2%)	(9,001)
Profit attributable to members of Michael Hill International Limited	65,614	236.8%	19,480

INCLUDED IN STATEMENT OF FINANCIAL PERFORMANCE ABOVE			
Interest income	101	(37.7%)	162
Net foreign exchange gain	629	(55.2%)	1,403
Depreciation	(4,608)	20.4%	(3,826)
Amortisation	(227)	(14.3%)	(265)

EARNINGS PER SECURITY	Earnings Per Security Current half year Cents	Previous corresponding half year Cents
Basic EPS	17.16	5.10
Diluted EPS	17.13	5.07

DIVIDENDS	Dividends Current half year $NZ'000	Previous corresponding half year $NZ'000
Final dividend for the year ended 30 June 2008 of 2.0 cents (2007 - 16 cents) per fully paid share paid on 13 October 2008 (2007 - 15 October 2007).	7,661	6,096
Total dividends provided for or paid	7,661	6,096

STATEMENT OF FINANCIAL POSITION	Consolidated Statement of Financial Position At end of current half year $NZ'000	% Change	At end of previous half year $NZ'000
ASSETS			
Current Assets			
Cash and cash equivalents	19,935	130.4%	8,651
Trade and other receivables	10,921	35.9%	8,039
Inventories	143,290	2.4%	139,925
Total current assets	174,146	11.2%	156,615
Non-current assets			
Property, plant and equipment	35,950	5.9%	33,945
Deferred tax assets	61,801	661.6%	8,115
Intangible assets	660	(37.1%)	1,049
Total non-current assets	98,411	128.3%	43,109
Total assets	272,557	36.5%	199,724
LIABILITIES			
Current liabilities			
Trade and other payables	39,790	(13.2%)	45,840
Borrowings	24,583	(26.9%)	33,624
Current tax liabilities	1,995	(56.9%)	4,627
Provisions	1,922	8.2%	1,777
Total current liabilities	68,290	(20.5%)	85,868
Non-current liabilities			
Borrowings	53,244	90.4%	27,963
Provisions	1,080	2.6%	1,053
Total non-current liabilities	54,324	87.2%	29,016
Total liabilities	122,614	6.7%	114,884
Net assets	149,943	76.7%	84,840
EQUITY			
Contributed equity	3,850	51.5%	2,541
Reserves	5,175	906.8%	514
Retained profits	140,918	72.3%	81,785
Total equity	149,943	76.7%	84,840

NET TANGIBLE ASSETS	Net Tangible Assets Current half year $ / Share	Previous corresponding half year $ / Share
Net tangible assets	$0.39	$0.22

STATEMENT OF CASH FLOWS	Consolidated Statement of Cash flows: Current half year $NZ'000	Consolidated Statement of Cash flows: Previous corresponding half year $NZ'000
Cash flows from operating activities		
Receipts from customers (incl. GST)	245,010	229,220
Payments to suppliers and employees (incl. GST)	(215,679)	(210,377)
Interest received	101	165
Other revenue	556	474
Interest paid	(3,710)	(2,518)
Income tax paid	(4,365)	(3,261)
Net goods and services tax paid	(6,929)	(8,055)
Net cash inflow from operating activities	14,984	5,648
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	88	99
Payments for property, plant and equipment	(6,034)	(8,373)
Payments for intangibles		(109)
Net cash outflow from investing activities	(5,946)	(8,383)
Cash flows from financing activities		
Proceeds from borrowings	48,152	35,844
Repayment of borrowings	(40,929)	(24,960)
Share buyback		(2,360)
Proceeds from sale of treasury stock		149
Dividends paid to company's shareholders	(7,661)	(6,096)
Net cash inflow (outflow) from financing activities	(438)	2,577
Net (decrease) increase in cash and cash equivalents	8,600	(158)
Cash and cash equivalents at the beginning of the financial year	10,013	8,426
Effects of exchange rate changes on cash and cash equivalents	1,322	383
Cash and cash equivalents at the end of the half year	19,935	8,651

STATEMENT OF CHANGES IN EQUITY	Statement of Changes In Equity Current half year $NZ'000	Previous corresponding half year $NZ'000
Total equity at the beginning of the half year	91,001	72,504
Profit for the year	65,614	19,480
Exchange differences on translation of foreign operations	875	1,161
Total recognised income and expense for the half year	66,489	20,641
Transactions with equity holders in their capacity as equity holders		
Share buyback		(2,360)
Treasury stock movement		149
Dividends provided for or paid	(7,661)	(6,096)
Option reserve movement	114	2
Total equity at the end of the half year	149,943	84,840

ISSUED AND QUOTED SECURITIES	Issued Securities At end of current half year No. of Shares	At end of previous half year No. of Shares
Ordinary Shares:		
Fully Paid	383,053,190	381,053,190
Treasury stock held for employee share scheme	(584,290)	(584,290)
	382,468,900	380,468,900

Issued Options:	Issued	Quoted	Exercise Price	Expiry Date
Options issued 7 November 2007	4,750,000		$1.253	30/09/2017

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