michael hill

INTERNATIONAL LIMITED

HALF YEAR REPORT TO 31 DECEMBER 2013

CONTENTS

COMPANY PROFILE

Michael Hill International Limited owns the brand "Michael Hill" and operates 279 retail jewellery stores in Australia, New Zealand, Canada and the United States as at 31 December 2013.

The Company story began in 1979 when Michael and his wife Christine opened their first store in the New Zealand town of Whangarei, some 160 kilometres north of Auckland. Since then, our growth has been guided by our unique retail jewellery formula. Through dramatically different store design, a product range devoted exclusively to jewellery and development of high impact advertising, the Company rose to national prominence. In 1987, the Company was listed on the New Zealand Stock Exchange, the same year the Group expanded into Australia.

In 2002, the Group expanded into North America, opening our first stores in Vancouver, Canada. Our Canadian presence now includes stores in British Columbia, Alberta, Manitoba, Saskatchewan and Ontario.

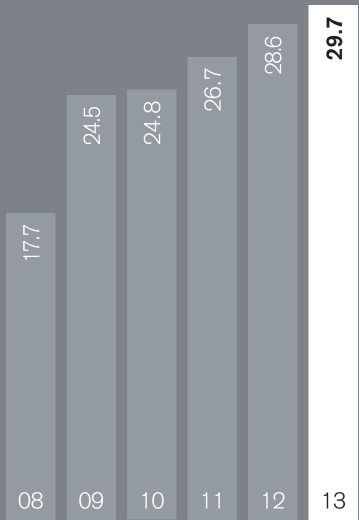
In September 2008, the Group entered the United States market.

As at 31 December 2013, the Group has 53 stores in New Zealand, 166 in Australia, 52 in Canada, and 8 stores in Chicago, USA. Around the world, the Group employs about 2,300 permanent employees across retail sales, manufacturing and administration roles. We have approximately 3,500 shareholders and we are proud of our consistently high returns to shareholders.

OUR OVERALL STRATEGIC GOAL IS TO GROW SHAREHOLDER WEALTH OVER TIME THROUGH OUR PHILOSOPHY OF CONTROLLED PROFITABLE GROWTH

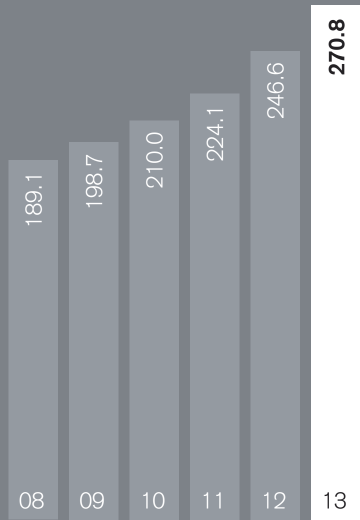
HIGHLIGHTS OF THE HALF YEAR

- Operating revenue of $270.750m up 9.8% on same period last year
- Same store sales were 4.7% up on same period last year
- Revenue collected from Professional Care Plans of $17.566m up 23.3% on same period last year
- EBIT of $29.748m up 4.1% on same period last year
- Net profit before tax of $28.485m up 5.1% on same period last year
- Interim dividend of 2.5 cents per share
- Equity ratio of 49.9% at 31 December 2013
- Total of 279 stores open at 31 December 2013
- 13 new stores opened and 1 closed during the period



EARNINGS BEFORE INTEREST AND TAX UP 4.1%

AU$ millions to 31 December



GROUP REVENUE UP 9.8%

AU$ millions to 31 December

KEY FACTS for the six months ended 31 December 2013

	31 Dec 13	31 Dec 12	±%
TRADING RESULTS (AU$000'S)			
Group revenue	**270,750**	246,645	9.8%
Earnings before interest and tax	**29,748**	28,584	4.1%
Group profit after tax	**16,245**	22,032	-26.3%
Net cash from operating activities	**(2,258)**	22,175	-110.2%
FINANCIAL POSITION AT YEAR END (AU$000'S)			
Contributed equity 383,041,606 ordinary shares	**3,651**	3,424	6.6%
Total equity	**185,373**	164,897	12.4%
Total assets	**371,186**	295,193	25.7%
Net debt	**46,148**	16,375	181.8%
NUMBER OF STORES 31 DECEMBER			
New Zealand	**53**	52	
Australia	**166**	160	
Canada	**52**	42	
United States	**8**	9	
Total	**279**	263	
DISTRIBUTION TO SHAREHOLDERS			
Interim dividend per ordinary share (NZ¢)	**2.5**	2.5	
KEY MEASURES			
Share price 31 December (NZ$)	**$1.39**	$1.23	
Basic earnings per share (AU¢)	**4.24**	5.76	
Interest expense cover (times)	**20.4**	18.9	
Equity ratio	**49.9%**	55.9%	
Current ratio	**1.7:1**	2.6:1	

FINANCIAL CALENDAR

Dividends Payable:
Interim - April,
Final - October

Financial Results Announced:
Half Year - February,
Annual - August

DIRECTORS' REPORT

CURRENCY

As announced to the market on 3 October 2013, Michael Hill International Ltd now reports in Australian dollars and will restate prior period comparative numbers accordingly.

PROFIT ANNOUNCEMENT

Michael Hill International Limited today announced an after tax profit of $16.245m for the six months ended 31 December 2013. Please note that a provision has now been provided for in relation to the tax dispute with the Australian Taxation Office as reported in our 2013 Annual Report. See note below for further details.

NEW ZEALAND RETAIL OPERATIONS

The New Zealand retail segment revenue decreased 3.5% to NZ$60.939m for the six months, with an operating surplus of NZ$12.365m, down 4.5% on the corresponding period last year. Same store sales in local currency during the six months decreased by 4.1% (up 3.0% last year). The operating surplus as a percentage of revenue was 20.3% (20.5% last year).

One store opened in New Zealand during the period at Ashburton, giving a total of 53 stores operating at 31 December 2013.

AUSTRALIAN RETAIL OPERATIONS

The Australian retail segment increased its revenue by 5.5% to $171.737m for the six months with an operating surplus of $29.002m, an increase of 3.6% on $27.986m for the previous corresponding period. Same store sales increased 1.4% for the six months (3.8% last year). The operating surplus as a percentage of revenue was 16.9% (17.2% last year).

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

- Craigieburn, Victoria
- Geraldton, Western Australia
- Hinkler, Queensland
- Woodgrove Melton, Victoria

No stores were closed during the period, giving a total of 166 stores operating at 31 December 2013.

CANADIAN RETAIL OPERATIONS

The Canadian retail segment increased its revenue by 28.5% for the six months to CA$37.869m and there was an operating surplus of CA$2.854m compared to CA$1.555m for the previous corresponding period. Same stores sales in local currency increased 7.9% for the six months (3.8% last year). The directors were particularly pleased with the progress of our Canadian business as it demonstrates the benefit of time in the market and a critical mass of stores being reached.

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

- Bayshore, Ontario
- Brentwood, British Columbia
- Dufferin, Ontario
- Guildford Town Centre, British Columbia
- Hillcrest, Ontario
- Medicine Hat Mall, Alberta
- Peter Pond, Alberta
- Place D'Orleans, Ontario

One store closed during the period at Guildford, giving a total of 52 stores operating at 31 December 2013.

US RETAIL OPERATIONS

The US retail segment decreased its revenue by 8.4% to US$5.030m for the six months and there was an operating loss of US$0.559m for the same period (US$1.266m last year). Note one store was closed in June 2013, hence the fall in revenue for the segment. Same stores sales in local currency increased 2.0% for the six months.

A total of eight stores were operating at 31 December 2013.

PROFESSIONAL CARE PLAN (PCP)

PCP sales for the half year were $17.566m. An amount of $8.312m has been included as revenue in the segment figures stated above from the current and prior periods.

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

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

The following figures are in AU$	Last Year	This Year
PCP sales collected for the year	$14.242m	$17.566m
PCP revenue brought to income for the year	$ 3.982m	$ 8.312m
Deferred revenue carried forward on balance sheet	$35.197m	$49.437m

DIRECTORS' REPORT cont.

OUTSTANDING TAX ISSUES FROM GROUP RESTRUCTURING IN 2008

The Group has two unresolved tax matters relating to the sale and financing of the intellectual property between New Zealand and Australian Group members, as reported in the 2013 Annual Report.

Discussions continue with the Inland Revenue Department within their dispute process framework, but it remains unclear when final resolution will be achieved in respect of this matter. The Board does not consider that this tax matter requires a provision in the Group's financial statements.

Significant progress has been made with the Australian Taxation Office but as yet no binding settlement agreement has been concluded, however compliance with financial reporting standards requires the Group to review its classification of this exposure. Therefore, a provision has now been made in respect of the previously disclosed issues with the Australian Tax Office (ATO). The Board will not provide further information on the settlement at this stage in order to not impair the outcome of the negotiations.

A further announcement will be made upon conclusion of any final agreement or if circumstances require further adjustment or re-classification of the provision.

DIVIDEND

The Directors have announced an interim dividend of 2.5¢ per share (2012 – 2.5¢), with no imputation credits attached for New Zealand shareholders and full franking credits for Australian shareholders. The dividend will be paid on Tuesday, 1 April 2014 with the record date being Monday, 24 March 2014.

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

Whilst the 2013-14 interim dividend is fully franked to Australian resident shareholders, it is possible that future dividends will only be partially franked due to the likelihood of future dividend payouts exceeding the level of tax liability in Australia. However, this position can change over time depending on a number of variables and the Company will keep the market informed each time a dividend is declared.

CASH FLOWS / BALANCE SHEETS

The Group has reported a net operating cash outflow of $2.258m for the six months, compared to a net operating cash inflow of $22.175m for the previous year. This reduction in operating cash flow has resulted primarily from a decision to trial a new bridal range of product in our US stores and in selected Canadian stores in early December. The new range is a key strategy in our North American expansion and has resulted in significant additional inventory being deployed during the first half. It is too early to comment on the results from this trial but the Directors are confident it will produce returns for the Group in the years to come. The excess inventory levels resulting from this trial will be corrected in the second half as surplus inventory is utilised across the Group to replenish levels at the balance of our stores not involved in the trial.

The deficit from operations is a result of:

Profit excluding non-cash items	$24.644m
Increase in inventory levels	($47.171)m
Increase in trade and other receivables	($8.937)m
Increase in trade and other payables	$18.618m
Increase in deferred revenues from Professional Care Plan	$9.210m
Other miscellaneous items	$1.378m
Net cash outflow for the year	($2.258)m

The Group's balance sheet continues to be sound with an equity ratio of 49.9% as at 31 December 2013 (55.9% in 2012).

APPOINTMENT OF NEW DIRECTOR

The Board is pleased to welcome Rob Fyfe to the board as a non-executive independent director from 6 January 2014. Rob is currently Executive Chairman of New Zealand merino wool clothing company Icebreaker and a board director of Antarctica New Zealand. Rob served as CEO of Air New Zealand between 2005 and 2012, a period that saw a resurgence in Air New Zealand to become one of the most recognized and awarded airlines in the world and one of the best financial performers in a tough industry. Prior to joining Air New Zealand, Rob had an international business career having worked in industries as diverse as television, banking and telecommunications in the UK, Ireland, Australia and New Zealand.

SUMMARY

The Directors are satisfied with the overall performance and they remain confident in the continued growth and profitability of the group.

Sir Michael Hill, Chairman
13/02/2014

111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel +61 7 3011 3333
Fax +61 7 3011 3100
ey.com/au

REVIEW REPORT TO THE SHAREHOLDERS OF MICHAEL HILL INTERNATIONAL LIMITED

We have reviewed the interim financial statements on pages 13 to 23. The interim financial statements provide information about the past financial performance of the Group and its financial position as at 31 December 2013. This information is stated in accordance with the accounting policies set out in the Group's annual financial statements dated 15 August 2013.

This report is made solely to the Group's shareholders, as a body, in accordance with Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. Our review has been undertaken so that we might state to the Group's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's shareholders as a body, for our review work, for this report, or for our findings.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation of interim financial statements which comply with generally accepted accounting practice in New Zealand as it relates to interim financial statements and which present fairly the financial position of the Group as at 31 December 2013 and the results of its operations and cash flows for the six month period ended on that date.

REVIEWER'S RESPONSIBILITIES

We are responsible for reviewing the interim financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the interim financial statements do not present fairly the matters to which they relate.

BASIS OF STATEMENT

A review is limited primarily to enquiries of Group personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, do not express an audit opinion.

We have reviewed the interim financial statements of the Group for the six months ended 31 December 2013 in accordance with the Review Engagement Standards issued by the External Reporting Board. These standards require that we plan and perform the review to obtain moderate assurance as to whether the statements are free of material misstatement whether caused by fraud or error. We also evaluated the overall adequacy of the presentation of information in the interim financial statements.

Ernst & Young provides taxation advice and risk advisory services to Michael Hill International Limited. Other than this and in our capacity as auditor we have no relationship with, or interest in, the company or any of its subsidiaries.

STATEMENT OF REVIEW FINDINGS

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements, set out on pages 13 to 23, do not fairly present the financial position of the Group as at 31 December 2013 and its financial performance and cash flows for the six month period ended on that date in accordance with generally accepted accounting practice in New Zealand as it relates to interim financial statements.

Our review was completed on 13 February 2014 and our findings are expressed as at that date.

Ernst + Young

Ernst & Young
Chartered Accountants
Brisbane

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2013

	31 Dec 13 **AU$000**	31 Dec 12 AU$000	Full year 30 Jun 13 AU$000
Revenue from continuing operations	**270,750**	246,645	440,225
Other income	**305**	143	332
Cost of goods sold	**(95,893)**	(89,060)	(159,681)
Employee benefits expense	**(68,960)**	(60,170)	(112,707)
Occupancy costs	**(22,996)**	(20,307)	(41,761)
Selling expenses	**(14,111)**	(14,588)	(24,707)
Marketing expenses	**(15,720)**	(13,809)	(24,360)
Depreciation and amortisation expense	**(6,206)**	(5,044)	(10,452)
Loss on disposal of property, plant and equipment	**(597)**	(27)	(100)
Other expenses	**(16,631)**	(15,171)	(26,464)
Finance costs	**(1,456)**	(1,516)	(2,588)
Profit before income tax	**28,485**	27,096	37,737
Income tax expense	**(12,240)**	(5,064)	(5,638)
Profit for the half-year	**16,245**	22,032	32,099
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences arising during the half-year	**7,319**	551	7,030
Total comprehensive income for the half-year	**23,564**	22,583	39,129
Total comprehensive income for the half-year is attributable to: owners of Michael Hill International Limited	**23,564**	22,583	39,129
Earnings per share attributable to the ordinary equity holders of the Company during the half-year attributable to continuing operations:			
Basic earnings per share	**4.24¢**	5.76¢	8.38¢
Diluted earnings per share	**4.17¢**	5.72¢	8.24¢

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

CONDENSED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

		Notes	31 Dec 13 AU$000	31 Dec 12 AU$000	30 June 13 AU$000	1 July 12 AU$000
ASSETS	**Current assets**					
	Cash and cash equivalents		**9,852**	10,625	10,461	9,488
	Trade and other receivables		**25,627**	16,876	15,653	9,319
	Inventories		**210,477**	169,251	154,293	147,089
	Total current assets		**245,956**	196,752	180,407	165,896
	Non-current assets					
	Trade and other receivables		**1,976**	555	1,092	-
	Property, plant and equipment	3	**54,578**	41,400	49,140	35,600
	Intangible assets	4	**5,991**	2,086	3,632	1,511
	Deferred tax assets		**60,216**	52,589	56,064	50,403
	Other non-current assets		**2,469**	1,811	2,000	1,139
	Total non-current assets		**125,230**	98,441	111,928	88,653
Total assets			**371,186**	295,193	292,335	254,549
LIABILITIES	**Current liabilities**					
	Trade and other payables		**61,273**	56,280	41,286	40,316
	Borrowings	5	**56,000**	-	-	-
	Current tax liabilities		**9,549**	4,948	2,706	4,189
	Provisions		**4,506**	3,749	3,844	3,044
	Deferred revenue		**17,297**	9,700	13,141	6,552
	Total current liabilities		**148,625**	74,677	60,977	54,101
	Non-current liabilities					
	Borrowings		**-**	27,000	28,000	26,000
	Provisions		**1,951**	1,586	1,680	1,622
	Deferred revenue		**35,237**	27,033	27,993	19,964
	Total non-current liabilities		**37,188**	55,619	57,673	47,586
Total liabilities			**185,813**	130,296	118,650	101,687
Net assets			**185,373**	164,897	173,685	152,862
EQUITY	Contributed equity	6	**3,651**	3,424	3,424	3,362
	Reserves		**9,806**	(5,397)	1,128	(6,016)
	Retained profits		**171,916**	166,870	169,133	155,516
Total equity			**185,373**	164,897	173,685	152,862

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

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2013

		Attributable to owners of Michael Hill International Limited				
	Notes	Contributed equity	Options reserve	Foreign currency translation reserve	Retained profits	Total equity
		AU$000	AU$000	AU$000	AU$000	AU$000
Balance at 1 July 2013		3,424	1,212	(84)	169,133	173,685
Profit for the period		-	-	-	16,245	16,245
Currency translation movements		-	-	7,319	-	7,319
		3,424	1,212	7,235	185,378	197,249
Transactions with owners in their capacity as owners:						
Employee shares issued	6	113	-	-	-	113
Issue of share capital - exercise of options		101	-	-	-	101
Transfer option reserve to contributed equity on exercise of options		13	(13)	-	-	-
Option expense through share based payments reserve	6	-	1,413	-	-	1,413
Cancellation of issued options		-	(41)	-	-	(41)
Dividends paid	7	-	-	-	(13,462)	(13,462)
Balance at 31 December 2013		3,651	2,571	7,235	171,916	185,373
Balance at 1 July 2012		3,362	1,098	(7,114)	155,516	152,862
Profit for the period		-	-	-	22,032	22,032
Currency translation movements		-	-	551	-	551
		3,362	1,098	(6,563)	177,548	175,445
Transactions with owners in their capacity as owners:						
Employee shares issued	6	62	-	-	-	62
Option expense through share based payments reserve	6	-	68	-	-	68
Dividends paid	7	-	-	-	(10,678)	(10,678)
Balance at 31 December 2012		3,424	1,166	(6,563)	166,870	164,897

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

CONDENSED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2013

	Notes	31 Dec 13 AU$000	31 Dec 12 AU$000
Cash flows from operating activities			
Receipts from customers (incl. of goods and services tax)		**302,675**	277,482
Payments to suppliers and employees (incl. of goods and services tax)		**(286,021)**	(235,368)
		16,654	42,114
Interest received		**193**	28
Other revenue		**305**	158
Interest paid		**(1,232)**	(1,411)
Income tax paid		**(4,928)**	(6,069)
Net goods and services tax paid		**(13,250)**	(12,645)
Net cash inflow / (outflow) from operating activities	10	**(2,258)**	22,175
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**15**	91
Payments for property, plant and equipment		**(11,333)**	(10,888)
Payments for intangible assets		**(2,129)**	(594)
Net cash inflow / (outflow) from investing activities		**(13,447)**	(11,391)
Cash flows from financing activities			
Proceeds from borrowings		**66,000**	57,000
Repayment of borrowings		**(38,000)**	(56,000)
Proceeds from sale of treasury stock		**102**	56
Share options exercised		**102**	-
Dividends paid to Company's shareholders	7	**(13,462)**	(10,678)
Net cash inflow / (outflow) from financing activities		**14,742**	(9,622)
Net increase / (decrease) in cash and cash equivalents		**(963)**	1,162
Cash and cash equivalents at the beginning of the half-year		**10,461**	9,488
Effects of exchange rate changes on cash and cash equivalents		**354**	(25)
Cash and cash equivalents at end of the half-year		**9,852**	10,625

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 Summary of significant accounting policies

The interim financial statements for the half-year ended 31 December 2013 have been prepared in accordance with NZ IAS 34 interim financial reporting and IAS 34 interim financial reporting.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013. The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Statutory base

Michael Hill International Limited is a public company registered under the Companies Act 1993 and is domiciled in New Zealand. The Company has its primary listing on the New Zealand Stock Exchange.

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

These consolidated financial statements have been approved for issue by the Board of Directors on 13 February 2014.

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

Presentation currency - change in accounting policy

The Group's revenues, profits and cash flows are primarily generated in Australian dollars (AUD), and are expected to remain principally denominated in Australian dollars in the future. During the year, the Group changed the currency in which it presents its consolidated financial statements from New Zealand dollars to Australian dollars, in order to better reflect the underlying performance of the Group.

A change in presentation currency is a change in accounting policy which is accounted for retrospectively. Statutory financial information included in the Group's half year report for the six months ended 31 December 2012 previously reported in New Zealand dollars has been restated into Australian dollars using the procedures outlined below:

- Assets and liabilities denominated in currencies other than AUD were translated into AUD at the closing rates of exchange on the last day of the relevant accounting period
- Revenues and expenses in currencies other than AUD were translated into AUD at the monthly average rate of exchange over the relevant accounting period;
- The cumulative translation reserves were set to nil at 30 June 2010, the date the current accounting system was implemented, and these reserves have been restated on the basis that the Group has reported in AUD since that date.
- Share capital, treasury stock and reserves were translated at the historic rates prevailing at 30 June 2010, and subsequent rates prevailing on the date of each transaction.
- In each case, the rates of exchange were consistent with those used by the Group in the relevant accounting period.

NOTE 2 Segment information

Identification and description of segments

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

The Executive Director and Executive Team consider, organise and manage the business from a geographic perspective, being the country of origin where the sale and service was performed. Discrete financial information about each of these operating businesses is reported to the Board and Executive Team monthly, via the preparation of the Group financial report.

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

Types of products and services

Michael Hill International Limited and its controlled entities operate predominately in the sale of jewellery and related services. As indicated above, the Group is organised and managed globally into geographic areas.

Major customers

Michael Hill International Limited and its controlled entities sells goods and provides services to a number of customers from which revenue is derived. There is no single customer from which the Group derives more than 10% of the total consolidated revenue.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the accounts and in the prior period.

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

Unallocated expenses include all expenses that do not relate directly to the relevant segment and include: manufacturing activities, warehouse and distribution, general corporate expenses, interest and company tax. Inter-segment pricing is at arm's length or market value.

	MHJ NEW ZEALAND		
	2013	2012	
	AU$000	AU$000	± %
Operating revenue			
Sales to customers	**54,229**	49,770	9.0%
Unallocated revenue			
Total operating revenue			
Segment results			
Operating surplus / (loss)	**11,081**	10,229	8.3%
Unallocated revenue less unallocated expenses			
Profit before income tax			
Income tax expense			
Profit for the year			
Segment assets	**45,496**	41,023	10.9%
Unallocated			
Total			
Segment liabilities	**20,136**	15,425	30.5%
Unallocated			
Total			
Segment acquisitions of property, plant & equipment and intangibles	**2,345**	961	144.0%
Unallocated			
Total			
Segment depreciation & amortisation expense	**952**	775	22.8%
Unallocated			
Total			

MHJ AUSTRALIA			MHJ CANADA			MHJ USA			GROUP		
2013	2012		**2013**	2012		**2013**	2012		**2013**	2012	
AU$000	AU$000	± %	**AU$000**	AU$000	± %	**AU$000**	AU$000	± %	**AU$000**	AU$000	± %
171,737	162,712	5.5%	**39,392**	28,545	38.0%	**5,486**	5,283	3.8%	**270,844**	246,310	10.0%
									(94)	335	(128.1%)
									270,750	246,645	9.8%
29,002	27,987	3.6%	**2,978**	1,486	100.4%	**(596)**	(1,221)	51.2%	**42,465**	38,481	10.4%
									(13,980)	(11,385)	22.8%
									28,485	27,096	5.1%
									(12,240)	(5,064)	141.7%
									16,245	22,032	(26.3%)
121,347	116,238	4.4%	**70,949**	36,334	95.3%	**15,501**	10,689	45.0%	**253,293**	204,284	24.0%
									117,893	90,909	29.7%
									371,186	295,193	25.7%
63,875	52,761	21.1%	**13,640**	10,260	32.9%	**2,711**	2,464	10.0%	**100,362**	80,910	24.0%
									85,451	49,386	73.0%
									185,813	130,296	42.6%
3,953	7,294	(45.8%)	**4,846**	2,104	130.3%	**291**	121	140.5%	**11,435**	10,480	9.1%
									2,027	1,002	102.3%
									13,462	11,482	17.2%
3,122	2,614	19.4%	**1,116**	772	44.6%	**247**	226	9.3%	**5,437**	4,387	23.9%
									769	657	17.0%
									6,206	5,044	23.0%

NOTE 3 Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2013, the Group acquired assets with a total cost of $11,333,000 (31 December 2012 - $10,888,000). Assets with a net book value of $612,000 were disposed of during the six months ended 31 December 2013 (31 December 2012 - $118,000), resulting in a net loss on disposal of $597,000 (31 December 2012 - $27,000 loss).

NOTE 4 Intangible assets

Acquisitions and disposals

During the six months ended 31 December 2013, the Group acquired assets with a total cost of $2,129,000 (31 December 2012 - $594,000). No assets were disposed of during the six months ended 31 December 2013 (31 December 2012 - nil).

NOTE 5 Current liabilities - Interest bearing liabilities

The borrowing facility currently in place with our banking provider is offered under a multi option facility that expires on 29 August 2014. The renewal of the facility was under negotiation over the balance date, and was signed on 10 February 2014. As the facility renewal had not been signed as at 31 December 2013, accounting standards require the reclassification of borrowing levels under the facility as a current liability. This reclassification is not linked to any covenant breaches under the facility, and has no impact on the Group's profit or retained earnings. It is expected that any borrowings under the renewed facility held at year end will be classified as a non-current liability.

NOTE 6 Contributed equity

	31 Dec 13 Shares	30 June 13 Shares	31 Dec 13 AU$000	30 June 13 AU$000
Share capital				
Ordinary shares				
Fully paid	**383,153,190**	383,053,190	**3,702**	3,515
Treasury stock held for employee share scheme	**(111,584)**	(203,646)	**(51)**	(91)
	383,041,606	382,849,544	**3,651**	3,424
Opening balance of ordinary shares issued	**383,053,190**	383,053,190	**3,515**	3,482
Issues of ordinary shares during the year				
Exercise of options	**100,000**	-	**101**	-
Transfer from option reserve	**-**	-	**13**	-
Employee share scheme issue	**92,062**	73,958	**113**	62
Transfer from treasury stock	**(92,062)**	(73,958)	**(40)**	(29)
Closing balance of ordinary shares issued	**383,153,190**	383,053,190	**3,702**	3,515

(a) Employee share scheme

During the half-year, 92,062 shares were issued to the Michael Hill International Limited Employee Share Scheme at an average price of NZD$1.26. The shares will be held by a Trustee for a one year period during which time any dividends derived will be paid to the employee.

Michael Hill International Limited acquired nil shares through on-market purchases on the New Zealand Stock Exchange during the half-year.

(b) Options

The Board has resolved to issue 5,900,000 share options during the 2014 financial year (including 2,400,000 share options to Mike Parsell in his capacity as CEO), to subscribe for ordinary shares in the Company to senior executives. The options were issued with an exercise price of $1.82, which was 30% above the volume weighted average market price of the Company's ordinary shares in the 20 business days following the announcement to the New Zealand Stock Exchange on 16 August 2013 of the Company's results for the year to 30 June 2013.

NOTE 7 Dividends

	31 Dec 13 AU$000	31 Dec 12 AU$000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2013 of NZ 4.0 cents (2012 - NZ 3.5 cents) per fully paid share paid on 4 October 2013 (2012 - 5 October 2012)	**13,462**	10,678
(b) Dividends not recognised at the end of the half-year		
In addition to the above dividends, since the end of the half-year the Directors have recommended the payment of an interim dividend of NZ 2.5 cents per fully paid ordinary share (2012 - NZ 2.5 cents). The aggregate amount of the proposed dividend expected to be paid on 1 April 2014 out of retained profits at 31 December 2013, but not recognised as a liability at the end of the half-year, is	**8,816**	7,804

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

NOTE 8 Contingencies

Contingent liabilities – tax matters

The Group has two unresolved tax matters relating to the sale and financing of the intellectual property between New Zealand and Australian Group members, as reported in the 2013 Annual Report.

Discussions continue with the Inland Revenue Department within their dispute process framework, but it remains unclear when final resolution will be achieved in respect of this matter. The Board does not consider that this tax matter requires a provision in the Group's financial statements.

No binding settlement agreement has been concluded with the Australian Taxation Office, but significant progress has been made and compliance with financial reporting standards has meant that the Board has re-visited its classification of the exposure. Therefore, a provision has been made in respect of the previously disclosed issues with the Australian Tax Office (ATO). The Board will not provide further information on the settlement at this stage in order to not impair the outcome of the negotiations. A further announcement will be made upon conclusion of any final agreement or if circumstances require further adjustment or re-classification of the provision.

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

NOTE 9 Events occurring after the reporting period

On 10 February 2014, the Group's multi option banking facility was renewed with our banking provider, which includes the borrowing facility. Additional details are included in note 5 to this interim financial report.

There were no other events occurring after balance date that would cause a material misstatement to the financial information presented in this interim financial report.

NOTE 10 Reconciliation of profit after income tax to net cash inflow from operating activities

	31 Dec 13 AU$000	31 Dec 12 AU$000
Profit for the half-year	**16,245**	22,032
Depreciation and amortisation	**6,206**	5,044
Non-cash employee benefits expense - share based payments	**1,393**	85
Other non-cash expenses	**59**	15
Net loss on sale of non-current assets	**597**	27
Net exchange differences	**144**	432
(Increase) / decrease in trade and other receivables	**(8,937)**	(7,502)
(Increase) / decrease in inventories	**(47,171)**	(22,391)
(Increase) / decrease in deferred tax asset	**4,395**	(2,531)
(Increase) / decrease in other non-current assets	**(413)**	(671)
(Decrease) / increase in trade and other payables	**18,618**	15,962
(Decrease) / increase in current tax liabilities	**(3,418)**	749
(Decrease) / increase in provisions	**814**	673
(Decrease) / increase in deferred revenue	**9,210**	10,251
Net cash inflow / (outflow) from operating activities	**(2,258)**	22,175

CORPORATE DIRECTORY

DIRECTORS
Sir Richard Michael Hill, K.N.Z.M.
(Chairman)
E.J. Hill B.Com., M.B.A. (Deputy Chair)
M.R. Parsell (Chief Executive Officer)
G.J. Gwynne
L.W. Peters M.B.A.,FFin.
G.W. Smith B.Comm., F.C.A., F.A.I.C.D.
Ann Christine Lady Hill Dip F.A.
R.I. Fyfe

COMPANY SECRETARY
W.K. Butler B.Com., F.C.I.S.

REGISTERED OFFICE
The Offices of Kensington Swan
Ground Floor
KPMG Building
18 Viaduct Harbour Avenue
Auckland
(All communications to
GPO Box 2922
Brisbane, QLD 4001, Australia)

CORPORATE HEAD OFFICE
Metroplex on Gateway
7 Smallwood Place
Murarrie, Qld 4172
GPO Box 2922
Brisbane, QLD 4001, Australia
Telephone 617 3114 3500
Fax 617 3399 0222

SHARE REGISTRAR
Computershare Investor Services Ltd
Level 2, 159 Hurstmere Rd
Takapuna
North Shore City
Investor Enquiries (09) 488 8777

SOLICITORS
Kensington Swan
PO Box 10246
Wellington
New Zealand

AUDITORS
Ernst & Young
Level 51
One One One
111 Eagle Street
Brisbane, QLD 4000
Australia

BANKERS
ANZ Banking Group (New
Zealand) Limited
Australia and New Zealand Banking
Group Limited
Bank of America N.A.
Bank of Montreal

WEBSITE
www.michaelhill.com
http://investor.michaelhill.com

EMAIL
inquiry@michaelhill.com.au

michael hill

michaelhill.com