

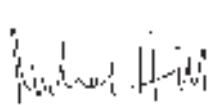
Michael Hill
INTERNATIONAL LTD

annual report 2006

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THE DIRECTORS ARE PLEASED TO PRESENT THE ANNUAL REPORT OF MICHAEL HILL INTERNATIONAL LIMITED FOR THE YEAR ENDED 30 JUNE 2006



Michael Hill
Chairman of Directors
23 August 2006



Mike Parsell
Chief Executive Officer/Director
23 August 2006



COMPANY PROFILE

Michael Hill International operates Michael Hill Jeweller - a retail jewellery chain catering principally for the middle section of the jewellery market, with 177 stores between Australia, New Zealand and Canada as at 30 June 2006.

The Company also specialises in higher priced diamond jewellery. The Company had its origins 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. In 2002, the Company started expansion in Canada, opening its first 4 stores in Vancouver.

Today the group employs over 1,800 full and part time staff in retailing, manufacturing and administration. It has approximately 2,900 shareholders and remains the most profitable publicly listed retail jeweller in Australia/New Zealand.

A woman with long dark hair, wearing a colorful, patterned dress and multiple necklaces, looks directly at the camera. In the background, two men in suits are visible; one is standing and talking to another, and a third man is lying on the floor, suggesting a scene of corporate intrigue or a staged event.

*our overall
strategic goal*

TO GROW SHAREHOLDER WEALTH OVER TIME
THROUGH OUR PHILOSOPHY OF CONTROLLED
PROFITABLE GROWTH

OUR VALUES & GUIDING PRINCIPLES

CUSTOMER SATISFACTION IS OUR PASSION, OUR LOVE AND OUR LIFE

- Care for every customer, as you would like to be cared for yourself.
- Exceed their expectations - whatever it takes!
- Remember it's not a sale. It's a celebration!
- We are all living advertisements for our brand. We create the magic.
- Create lifetime customers through the highest standards in customer service.
- Customer complaints are an opportunity to win a customer for life.

OUR PEOPLE MAKE OUR COMPANY

- Employ exceptional people for the gifts they bring us - energy, passion, willingness, intelligence and enthusiasm.
- Develop, coach and empower them to achieve their full potential.
- Create an environment that encourages excitement, fun, and open communication.
- Celebrate and reward success.
- Endeavour to promote from within.
- Our team's success ensures the company's success.

ENCOURAGE INNOVATION AND USE COMMON SENSE

- Push the limits - if there is a better way, find it!
- Keep our systems relevant and simple.
- Challenge bureaucracy and red tape.
- Innovation is often born from our mistakes and the lessons learned - have a go!
- Embrace change - it brings opportunities.
- Speak up! Constructive questioning of our methods, policies, and thinking is healthy.

TAKE OWNERSHIP OF YOUR BUSINESS

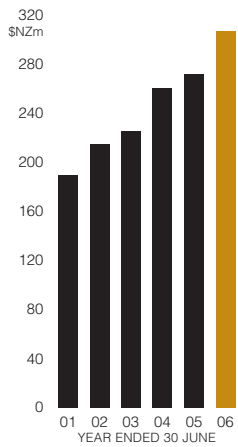
- Act and think as if this was your own business.
- Make decisions in the best interests of your customers and your team.
- Be responsible for the company's profitability and growth.
- Search for great ideas and share them across the company.
- Our systems provide the platform for successful growth so follow them strictly.

BE HONEST AND ETHICAL

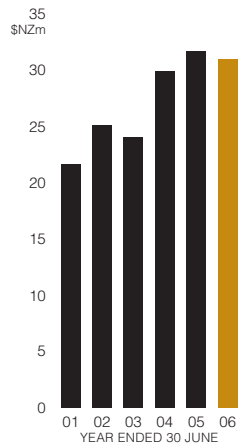
- Always act honestly and ethically displaying the upmost integrity.
- Protect and enhance our brands integrity.
- Show mutual respect in all dealings with people in and outside the company.
- Compete fairly and professionally at all times.

OUR MISSION

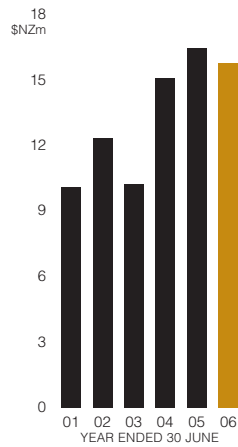
Our mission is to be the most people focused jeweller in the world.



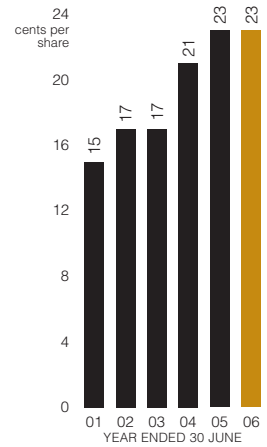
GROUP REVENUE UP 12.2%



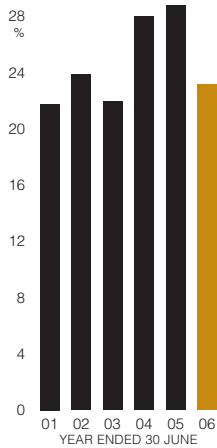
PROFIT BEFORE DEPRECIATION, AMORTISATION AND INTEREST (EBITDA) DOWN 2.1%



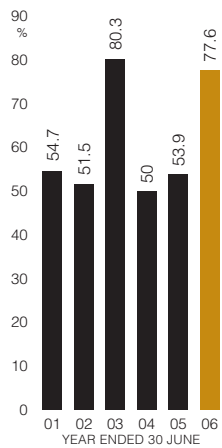
NET PROFIT AFTER TAX DOWN 4.2% (BEFORE ABNORMALS)



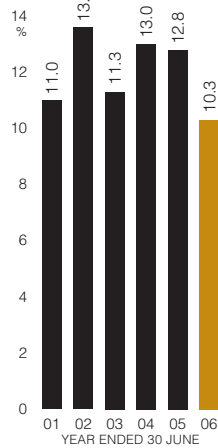
ORDINARY DIVIDEND 23c



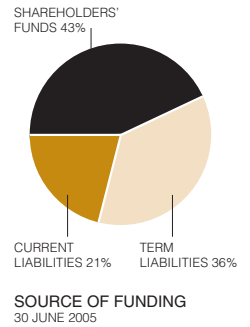
RETURN ON AVERAGE SHAREHOLDERS' FUNDS 23.2%



GEARING RATIO 77.6%

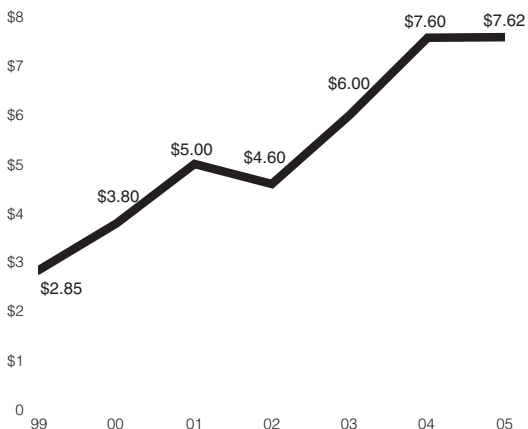


RETURN ON AVERAGE ASSETS 10.3%

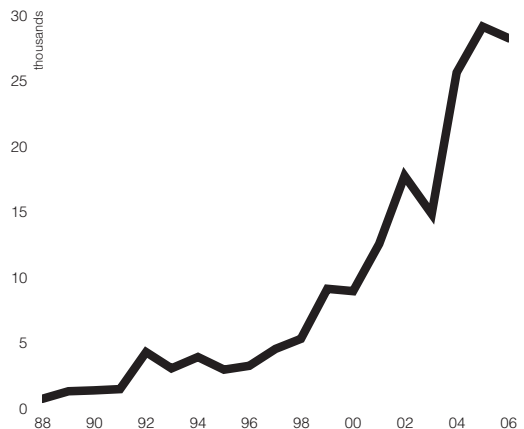


SOURCE OF FUNDING 30 JUNE 2005

2005 and 2006 figures are presented under NZIFRS and are not directly comparable to prior periods as these are under previous NZGAAP.



SHARE PRICE PERFORMANCE - LAST 7 YEARS AS AT 30 JUNE



VALUE OF \$1000 ON LISTING ASSUMES ALL DIVIDENDS REINVESTED. COMPOUND ANNUAL GROWTH RATE OF 19.2%. NZ\$1000 INVESTED IN JULY 1987 NOW WORTH \$28,282 AS AT 30 AUGUST 2006.

PERFORMANCE HIGHLIGHTS

- Group revenue up 12.2% to \$306,374,000
- Group Profit after tax of \$15,774,000 (down 4.1% on previous year)
- Difficult trading conditions in all 3 markets especially in final three quarters of year with a rising world gold price
- 23.2 % return on average Shareholders' funds for the year (2005 - 28.8%)
- Dividend for year maintained at 23 cents per share
- 23 new stores opened groupwide (14 in previous year)
- Canada continues good progress with expansion into Alberta Province

KEY FACTS

YEAR ENDED 30 JUNE, NZ\$000's UNLESS STATED	2006	2005	% change
TRADING RESULTS			
Group Revenue	306,374	273,151	+12.2%
Earnings before interest and tax	24,345	25,898	-6.0%
Group profit after tax	15,774	16,442	-4.1%
- First half	11,701	12,353	-5.3%
- Second half	4,073	4,089	-0.4%
Net cash from operating activities	-2,360	10,221	-123.1%
FINANCIAL POSITION AT YEAR END			
Contributed equity 39,232,946 ordinary shares	13,858	11,575	+19.7%
Total equity	74,759	61,080	+22.4%
Total assets	174,338	131,146	+32.9%
Net debt	58,046	32,929	+76.3%
Capital expenditure - cash	10,193	8,173	+24.7%
NUMBER OF STORES 30 JUNE			
New Zealand	49	47	
Australia	116	102	
Canada	12	7	
Total	177	156	
DISTRIBUTION TO SHAREHOLDERS			
Dividends - including final dividend			
- Per ordinary share	23.0¢	23.0¢	
- Times covered by surplus after tax	1.75	1.86	
SHARE PRICE			
30 June	\$7.62	\$7.60	
KEY DATA PER SHARE			
Basic earnings per share	40.8¢	42.7¢	
Diluted earnings per share	40.5¢	41.7¢	
KEY MEASURES			
Same store sales up			
- New Zealand	+2.4%	-1.0%	
- Australia A\$	-1.3%	+1.6%	
- Canada C\$	+6.9%	+5.1%	
Return on average shareholders' funds	23.2%	28.8%	
Interest expense cover (times)	7.4	9.7	
Gearing ratio - net borrowings to equity	77.6%	53.9%	
Equity ratio	42.9%	46.6%	
Current ratio	3.8:1	3.5:1	



CHAIRMAN'S REVIEW



Dear Shareholders,

Michael Hill International delivered a net after tax profit of \$15,774,000 for the 2005/06 financial year, which was 4.1% down on the previous year. The Group's revenues of \$306,374,000 were 12.2% up on the previous year.

The profit achieved represents an excellent 23.2% return on average shareholders' funds, with our average return over the past 3 years being 27.0%.

During the year, we have undertaken a restructuring of our I.T. systems, merchandising has been centralised, accounting systems upgraded and manufacturing streamlined to become globally competitive. Our Head Office in Brisbane, which includes our manufacturing operation will double in size this coming year and a lot of planning has been done on how this will function efficiently.

We opened 23 new stores during the year (16 in Australia, 2 in New Zealand and 5 in Canada). We commenced our expansion into other provinces in Canada, with the opening of our first store in Sunridge Mall in Calgary, Alberta. Since the end of the financial year, we have also opened a further store in Edmonton, 3 hours north of Calgary, and at this stage the move into Alberta province looks very promising indeed.

Although it has been a challenging year with difficult trading conditions and rising gold prices, we feel we are in a good position to benefit in a weaker market by increasing our stock holdings in diamond rings. We will remain focused on exemplary salesmanship and begin branding our own products under the Michael Hill name.

The Group continues to have a strong balance sheet. Gearing (net debt/equity) at 30 June 2006 of 77.6% was up from 53.9% last year as a result of an increase in our diamond ring range to be more competitive, the opening of 23 new stores and stock holdings for stores that will be opened in 2006/07.

Operating cash outflows in 2005/06 of \$2,360,000 (2004/05 inflow of \$10,221,000) were impacted by increases in working capital requirements explained previously.

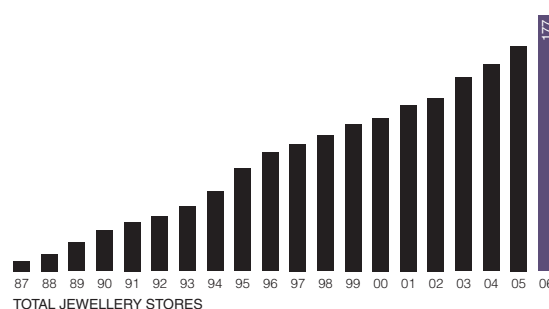
For shareholders, we have maintained our dividend at 23 cents for the year (fully imputed), with the final dividend of 14 cents being paid on the 16th October, 2006.

The full imputation of dividends for our New Zealand shareholder base may not be possible in future years due to the continued growth in company profits in markets outside New Zealand. This is difficult to predict due to the dynamics of international transfer pricing and the unpredictability of each market's contribution to the Group's profits. However it is inevitable under current tax legislation that full imputation will not continue far beyond the 2005/06 financial year.

We are confident that our philosophy of controlled profitable growth, combined with our unique proven retail formula, will strengthen the group as we gain experience in different markets.

Thanks to a great Board and an inspirational team at MHJ.

Michael Hill
Chairman





A REVIEW OF THE PRIORITIES FROM LAST YEAR

Priorities

To open another twenty stores across all markets.

To implement an appropriate support structure in Canada to allow continued growth in the Canadian business in order to achieve a break-even position by June 2007.

To achieve further same store sales and EBIT growth through a strong focus on our customers, our people, and our brand.

To deliver an average return on shareholders funds in excess of 26%.

Results

> Twenty three new stores were opened during the year and two closed.

> Total sales improved 57.0% with same store sales increasing 6.9% (in local currency). EBIT loss improved from C\$767,000 to C\$746,000. Infrastructure was increased in Canada to position it to break-even in the 2006/07 year. Warehouse and distribution functions were centralised to Brisbane.

> Same store sales in each country (in local currency) were as follows; an increase of 6.9% in Canada, 2.4% in New Zealand, and down 1.3% in Australia.

> The result for 2005/06 represented a return on average shareholder funds of 23.2%.

Chief Executive Officer's REVIEW OF OPERATIONS



OVERVIEW OF THE FINANCIAL YEAR'S RESULTS

The result for 2005/06 of \$15.774m was down on the previous year by 4.1%.

This result was achieved against a back drop of very difficult trading conditions especially in Australia during the last three quarters of the year. The impact of higher interest rates, rising

petrol and gold prices all combined to dampen discretionary spending in Australia. This was particularly the case in New South Wales and Victoria.

After a record profit in 2004/05 the company pushed on with significant store growth during 2005/06 resulting in 23 new stores being opened and 2 non performing stores being closed. However a drop in same store sales in Australia of 1.3% combined with additional store costs and an increase in support centre costs due to infrastructure changes, compounded to pull our profit down for the year.

The centralisation of our Australasian supply chain in 2004/05 which includes the buying function, warehousing and distribution, made the supply chain more efficient during 2005/06. The Canadian company's warehouse and distribution functions were centralised to Australia in late 2005, completing our global supply chain strategy. This strategy will deliver savings over time due to economies of scale and allows the country management teams to be more focused on our core retail activities, while allowing the support services team to focus on providing the appropriate products and services to our international retail network. This strategy has resulted in increasing the speed and frequency of stock replenishment to all stores from our Brisbane warehouse. We have developed systems to deliver this centralised model which encompasses multi-currency and multi-country as well as automated customs and duty capabilities.

With this work now complete, we can focus more effectively on sourcing of our product ranges in order to maximise margins from improved buying power and streamlined processes.

During the year, the company also made some significant decisions with respect to our product ranges to assist in positioning the brand further from our competitors.

The first strategy was to increase our range of diamond rings and jewellery which we view as an important and growing part of our business. However this has resulted in an increase to our inventory levels in order to grow the categories and to allow for new product launches while the discontinued ranges are cleared.

The second decision was to discontinue most of the major watch brands we have held for many years. The company has chosen to build further on the success of our own Michael Hill brand and in the coming twelve months will roll out a full range of Michael Hill watches which will enable us to achieve improved margins and respond to fashion trends more rapidly.

SEGMENT RESULTS

In 2004/05 the company redefined its geographical reporting segments to better reflect the financial performance of each segment. The segments now reported on reflect the performance of the company's retail operations in each geographic segment and exclude non-core retail activities such as manufacturing, wholesale and distribution, as well as other general corporate expenses.

In the segment tables below, the operating surplus numbers for 2002 and 2003 have not been restated.

AUSTRALIA - A TESTING YEAR

OPERATING RESULTS

AUSTRALIA (NZ \$'000)	2006	2005	2004	2003	2002
Revenue	199,412	176,697	166,872	138,710	133,462
Operating surplus	15,677	17,707	16,530	12,377	12,879
As a % of revenue	7.9%	10.0%	9.9%	8.9%	9.6%
Average assets employed	94,107	69,843	65,414	69,346	64,064
Return on assets	16.7%	25.3%	25.3%	17.8%	20.1%
Number of stores	116	102	93	84	77
Exchange rate for profit translation	0.89	0.92	0.88	0.89	0.82

Our Australian operation struggled for revenue over the last three quarters of the 05/06 year due to a tightening economy and also due to margin erosion from rising world gold prices. In Australian dollars, total sales increased 10.2% to AUD\$177,477,000 and same store sales fell 1.3%. The operating surplus decreased 14.4% to AUD\$13,952,000 and represented 7.9% of sales (2005 - 10.0% of sales).

Sixteen new stores were opened in Australia during the year and two non performing stores were closed. During the financial year we established our first stores in to Adelaide in South Australia. The sixteen new stores were opened at:

- Innaloo, Western Australia
- St Ives, Sydney, NSW
- Merrylands, Sydney, NSW
- Elizabeth Shopping Centre, Adelaide, South Australia
- Glendale, Central Coast, NSW
- Plumpton, NSW
- Southgate, Sydney, NSW
- Bayside North, Frankston, Victoria
- Helensvale, Gold Coast, QLD
- Arndale, South Australia
- Mandurah, West Australia
- Tea Tree Plaza, South Australia
- Wetherill Park, Sydney, NSW
- Colonnades, South Australia
- Southland, Victoria
- Karingal, Victoria

In total there were 116 stores trading as at June 30 in Australia.

The company still has significant expansion opportunities left in Australia and we feel confident that at least forty more stores can still be opened in Australia which provides the group with excellent growth prospects in the future.

Our priority this year is to lift performance in our existing store base.

CONTINUED >



we have expanded

TO CALGARY, ALBERTA - HOME OF WORLD FAMOUS
STAMPEDE. CANADA NOW BOASTS 12 STORES.

NEW ZEALAND'S PERFORMANCE STEADY

OPERATING RESULTS

NEW ZEALAND (NZ \$'000)	2006	2005	2004	2003	2002
Revenue	91,036	87,301	86,322	83,784	80,643
Operating surplus	10,180	10,044	9,879	10,644	10,134
As a % of revenue	11.1%	11.5%	11.4%	12.7%	12.6%
Average assets employed	37,332	33,945	33,682	29,404	28,935
Return on assets	27.3%	29.8%	29.3%	36.2%	35.0%
Number of stores	49	47	46	46	43

New Zealand's performance during the year was very pleasing with total sales increasing 4.3% to \$91,036,000 and the operating surplus up from \$10,044,000 to \$10,180,000. The surplus as a percentage of sales was slightly down on last year at 11.1%.

Two new stores opened in New Zealand during the year at Richmond in the South Island and at Whakatane in the North Island.

Our focus in New Zealand in 2006/07 is to continue to work on lifting the performance of the existing store base. We will do this through continued concentration on the basics which drive our business and through our improved product mix and ranges.

CANADA EXPANDS TO ALBERTA

OPERATING RESULTS

CANADA (NZ \$'000)	2006	2005	2004	2003
Revenue	15,671	8,936	5,859	2,308
Operating surplus	-957	-882	-980	-1,802
As a % of revenue	-6.1%	-9.8%	-16.7%	-78.0%
Average assets employed	9,481	5,024	4,351	5,195
Number of stores	12	7	4	4
Exchange rate for profit translation	0.78	0.87	0.84	0.80

Total Sales in Canadian dollars grew by 57.2% to C\$12,223,000 and same store sales increased by 6.9%. The seven stores that traded for the full year reached average sales of C\$1,314,000 per store, which is very encouraging. The operating loss in Canada improved from C\$767,000 to C\$746,000.

This static bottom line result reflects our move to strengthen our management resources in Canada including the appointment of an additional Regional Manager to facilitate our expansion into Calgary in the province of Alberta.

During the year we opened a further five new stores in British Columbia and Alberta. These were in the following centres;

- Sunridge Mall in Calgary, Alberta
- Cottonwood in Chilliwack, British Columbia
- Woodgrove in Nanaimo, British Columbia
- Richmond Centre in Vancouver, British Columbia
- Cherry Lane in Penticton, British Columbia

In the current financial year we plan to open a further six new stores in British Columbia and Alberta.

Although we are still progressing cautiously we believe Canada has an exciting future and should reach break-even in the 2006/07 year.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Michael Hill International Ltd adopted these standards early and reported for the first time under these standards for the year ended 30 June 2006.

Comparative information presented in the financial statements has been restated to conform to the requirements of the new standards, and the financial impact of that adoption has been disclosed.

OUR PRIORITIES

Our main priorities for the 2006/07 financial year are as follows:

- To deliver a return on average shareholders funds in excess of 25%.
- To open a further 20 stores across the three markets.
- To increase our same store sales and EBIT particularly in Australia.
- To reach a breakeven result in Canada.

THANKS TO AN INCREDIBLE TEAM

This year proved to be one of the more challenging years we have ever faced. Trading was difficult at best, however our team rose to the challenge and produced a very admirable result while positioning the business well for any up turn in economic conditions. I would like to thank each one of our dedicated team, now totalling over 1,800 people across three countries. Each one of them shares our vision passionately and makes it a reality every day on the shop floor, where it counts. Congratulations on meeting the challenges we have faced this year and thank you for your contribution to our continued success.



Mike Parsell
Chief Executive Officer

FINANCIAL REVIEW - discussion and analysis

FINANCIAL PERFORMANCE

The Group's surplus after tax was \$15.774m a 4.1% decrease on last year's surplus. Total sales went up from \$273.151m to \$306.374m, a 12.2% increase.

The New Zealand retail segment achieved a same store sales increase of 2.4% and an increased segment result of NZ\$10.180m up from NZ\$10.044m the previous year.

The Australian retail segment suffered from difficult trading conditions for much of the last 3 quarters and ended the year with same store sales down 1.3% in Australian dollars. The segment result was NZ\$15.677m compared to NZ\$17.707m the previous year.

The Canadian same store sales improved 6.9% for the year in Canadian dollars. Total sales increased 57.2% to C\$12.223m. The operating loss in Canada reduced from C\$767,000 to C\$746,000 in its third full year of operation. However, expansion into Alberta necessitated additional retail management resource being put in place and this impacted on the segments result. The directors are satisfied with this result and more stores are planned in Canada for 2006/07.

The above flat retail performance together with increased overheads at the corporate support centre in Brisbane delivered a lower surplus for the group. However we are well positioned to leverage the store growth of 23 stores achieved during the year and to continue our philosophy of controlled profitable growth in 2006/07.

CASH FLOW

Net cash outflow from operating activities amounted to \$2.360m compared to net cash inflows of \$10.221m last year.

Key drivers for this increased outflow from operating activities were:

- an increase in payments to suppliers of \$62.708m a 22.8% increase on last year due mainly to the stocking of 23 new stores during the year (14 stores last year) and also increased investment in stock ranges for existing stores. A higher world gold price also impacted negatively on the company's cash flow.
- an increase in income tax paid of \$2.856m, an increase of 36.6% due to the increase in taxable profits in 2004/05 and resulting tax paid during the 2005/06 year.

Net cash outflow relating to investing activities was up by \$1.564m to \$10.408m.

The key driver for the increased investing activity was the cost of constructing 23 new stores during the year compared to 14 the previous year.

Net cash inflow from financing activities was \$9.092m compared to a net outflow of \$8.107m last year. This increased net inflow was due to the company raising bank debt to help fund our expansion during the year and fund extensions to our product ranges.

BALANCE SHEET

Net assets increased from \$61.080m at the end of the previous year to \$74.759m this year. Long term borrowings increased to \$62.134m from \$40.163m last year. The equity ratio at year end was 42.9% compared to 46.6% last year. Total assets went up from \$131.146m to \$174.338m due principally to inventories increasing by \$39.514m.

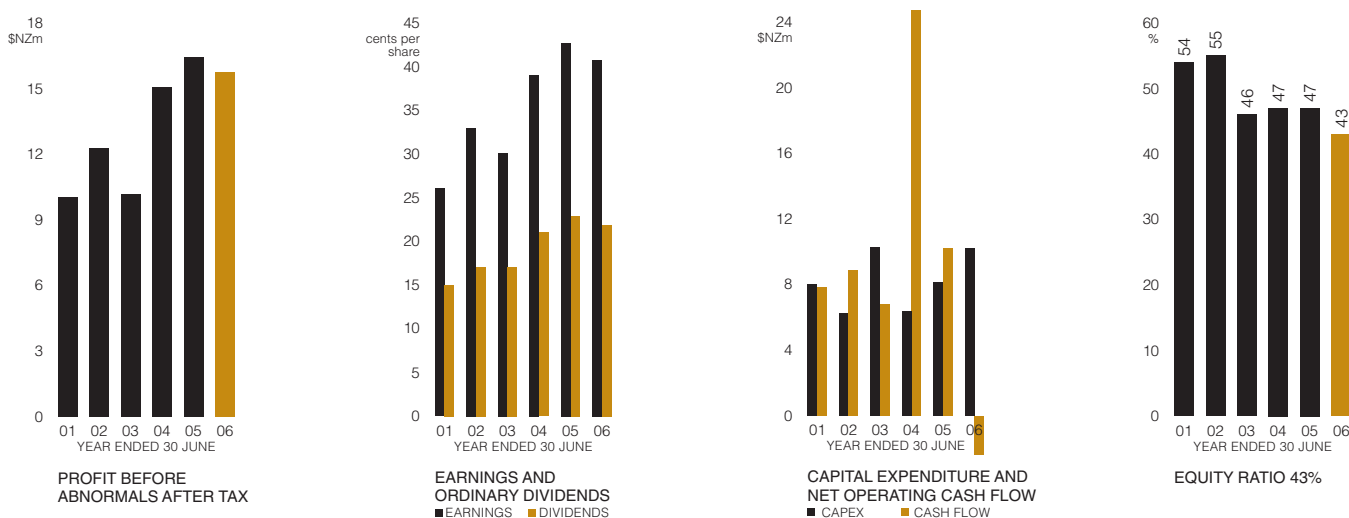
The working capital ratio increased from 3.5:1 last year to 3.8:1 at 30 June 2006.

Events after balance date

There were no events after balance sheet date requiring disclosure.

Shareholders' returns

- Declared dividends total 23 cents per share the same as in 2005/06.
- Shares traded between \$6.55 and \$8.11 ending the year at \$7.62.
- Return on average equity was 23.2% compared to 28.8% last year.
- Return on average total assets was 10.3% compared to 12.8% last year.



TREND Statement

FINANCIAL PERFORMANCE	NZIFRS	NZIFRS restated	NZIFRS restated				
	2006	2005	2004	2003	2002	2001	2000
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Group revenue	306,374	273,151	259,777	224,802	214,105	189,168	181,983
Profit before depreciation, amortisation and interest (EBITDA)	31,059	31,734	29,892	24,022	25,623	21,590	21,348
Depreciation and amortisation	6,714	5,836	6,100	5,165	4,965	4,406	4,397
Profit before interest and tax	24,345	25,898	23,792	18,857	20,658	17,184	16,951
Net interest	1,834	1,632	1,729	2,220	1,960	2,054	1,434
Profit before taxation	22,511	24,266	22,063	16,637	18,698	15,130	15,517
Income tax expense	6,737	7,824	7,003	5,067	5,992	5,091	5,578
Operating profit after tax attributable to members	15,774	16,442	15,060	11,570	12,706	10,039	9,939
Net operating cash flow	-2,360	10,221	24,779	6,789	8,871	7,887	14,214
Ordinary dividends per share paid out	8,926	8,496	6,944	14,266*	5,978	2,518	5,216

* includes a special dividend of \$7,710,000.

FINANCIAL POSITION	2006	2005	2004	2003	2002	2001	2000
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cash	4,088	7,234	14,017	2,294	685	637	-
Other current assets	133,582	95,556	84,176	83,161	77,825	67,537	62,134
Other non-current assets	27,846	21,470	19,490	21,877	16,449	22,235	19,635
Deferred tax assets	7,285	5,087	4,117	1,598	1,061	417	-
Total tangible assets	172,801	129,347	121,800	108,930	96,020	90,826	81,769
Intangible assets	1,537	1,799	1,470	298	393	505	625
Total assets	174,338	131,146	123,270	109,228	96,413	91,331	82,394
Current interest bearing debt	-	-	-	172	174	225	192
Other liabilities	36,441	28,975	28,586	15,530	13,917	13,031	17,747
Total current liabilities	36,441	28,975	28,586	15,702	14,091	13,256	17,939
Term borrowings	62,134	40,163	40,604	42,299	27,965	27,525	21,859
Deferred taxation liabilities	-	-	-	-	-	-	9
Other long term liabilities	1,004	928	915	1,179	1,029	978	-
Total liabilities	99,579	70,066	70,105	59,180	43,085	41,759	39,807
Net assets	74,759	61,080	53,165	50,048	53,328	49,572	42,587
Reserves and retained profits	60,901	49,505	42,031	43,036	46,031	41,860	34,875
Paid up capital	14,235	12,031	11,134	7,712	7,712	7,712	7,712
Treasury stock	(377)	(456)	-	(700)	(415)	-	-
Total shareholder equity	74,759	61,080	53,165	50,048	53,328	49,572	42,587
Per ordinary share							
Basic earnings per share before abnormals	40.8¢	42.7¢	39.1¢	26.6¢	32.0¢	26.03¢	25.8¢
Basic earnings per share after abnormals	40.8¢	42.7¢	39.1¢	30.0¢	33.0¢	26.03¢	25.8¢
Diluted earnings per share	40.5¢	41.7¢	38.2¢	29.3¢	32.2¢	-	-
Dividends declared per share - interim	9¢	9¢	8¢	7¢	7¢	6.5¢	6.0¢
- final	14¢	14¢	13¢	10¢	10¢	8.5¢	7.5¢
Net Tangible asset backing	\$ 1.87	\$1.54	\$1.49	\$1.29	\$1.37	\$1.27	\$1.09
ANALYTICAL INFORMATION							
EBITDA to sales	10.1%	11.6%	11.5%	10.7%	12.0%	11.4%	11.7%
EBIT to sales	7.9%	9.5%	9.2%	8.4%	9.6%	9.1%	9.3%
Profit after tax to sales	5.1%	6.0%	5.8%	5.1%	5.9%	5.3%	5.5%
EBIT to total assets	14.0%	19.7%	19.1%	17.3%	21.4%	18.8%	20.6%
Return on average shareholders funds	23.2%	28.8%	29.2%	22.0%	23.9%	21.8%	24.9%
Current assets to current liabilities	3.8	3.5	3.4	5.4	5.6	5.1	3.5
EBIT interest expense cover	7.4	9.7	8.4	8.5	10.5	8.4	11.8
Effective tax rate	29.9%	32.2%	31.7%	30.5%	32.0%	33.6%	35.9%
Gearing							
Net borrowings to equity	77.6%	53.9%	50.0%	80.3%	51.5%	54.7%	51.8%
Equity	42.9%	46.6%	42.6%	45.8%	55.3%	54.3%	51.7%
Other							
Ordinary shares							
Shares issued at year end excl. treasury stock	39,232,946	38,617,164	38,537,512	38,419,162	38,471,352	38,558,600	38,558,600
Treasury stock at year end	75,654	91,436	121,088	139,438	87,248	-	-
Jewellery stores at year end	177	156	143	134	120	115	106
Exchange rate for translating Australian results	0.89	0.92	0.88	0.89	0.82	0.79	0.80
Exchange rate for translating Canadian results	0.78	0.87	0.84	0.80	-	-	-

PEOPLE DEVELOPMENT

GLOBAL HR STRATEGY

A global management strategy Talent 2022 was introduced last year to develop a pool of high potential managers in line with our growth plans for the next 10 years. The key features are:

- sponsorship of talented Store Managers who complete a tailor-made development program
- global career discussions to establish a Manager's commitment, drive and motivation for career advancement
- a commitment to bi-annual professional development workshops for key talent in all countries
- Succession planning linked to the group strategy for global growth over the next decade
- A focus on recruitment of external Talent "Top-Up", including graduate recruitment to strengthen leadership capability across the group

CAREERS EVENINGS

Strategic focus for 2005/06 has been concentrated on recruiting the right people for the right position, specifically, Managers in Training, for future growth. The most successful mode of recruitment globally has been Careers Evenings which have had a dual purpose both attracting potential high calibre recruits and driving brand awareness. Across the three countries, 16 Careers Evenings were conducted attracting close to 1000 people interested in a career with Michael Hill.

HUMAN RESOURCES ON THE GROUND IN CANADA

This year saw the introduction of a Human Resources Manager into Canada, whose major responsibilities have been to support retail to recruit, assess and retain the right people in our business. In Canada there were two critical areas of focus, employment and training of Managers to support the growth of stores in our newest country. Intensive recruitment and training programs were implemented, enabling the country to grow from 5 stores to 12 stores in two Provinces in 2005/06.

Over the last twelve months MHJ Canada has claimed a competitive edge over other Canadian retailers, where we are considered an Employer of Choice for the remuneration, training and career opportunities on offer.

TRAINING & DEVELOPMENT

Last year the Human Resources Department conducted 52 formal training workshops across Australia, New Zealand and Canada for 750 plus Managers in Training, Store Managers and Regional Managers. In addition, our stores conducted in excess of 9000 sessions specifically focused on selling skill development and business growth.

CONTINUED >

The management team

Grant Prest
NEW SOUTH WALES REGIONAL
MANAGER

Tracy Dunn
NEW SOUTH WALES REGIONAL
MANAGER

Simon Coutts-Bain
NEW SOUTH WALES REGIONAL
MANAGER

Brett Halliday
QUEENSLAND REGIONAL MANAGER

Suean Buckley
QUEENSLAND REGIONAL MANAGER

Greg Nel
VICTORIA/TASMANIA/STH AUSTRALIA
REGIONAL MANAGER

Kathleen Kelly
VICTORIA REGIONAL MANAGER

James Elliot
WESTERN AUSTRALIA REGIONAL
MANAGER

Shane Dance
NORTHERN REGIONAL MANAGER - NZ

Greg Smith
CENTRAL REGIONAL MANAGER - NZ

Nadine Cameron
SOUTHERN REGIONAL MANAGER - NZ

Brenda Watson
REGIONAL MANAGER - BRITISH
COLUMBIA

Leah Hurst
REGIONAL MANAGER - ALBERTA

Sue Szylvester
GROUP ADVERTISING MANAGER

Lisa Marland
GROUP RETAIL HUMAN RESOURCES
MANAGER

Susan Morrison
GROUP TALENT DEVELOPMENT
MANAGER

Karen Jacklin
HUMAN RESOURCES MANAGER
SUPPORT CENTRE

Tony Lum
TRAINING & COMMUNICATIONS
MANAGER

Cliff Mason
GROUP DISTRIBUTION MANAGER

Joe De Aizpurua
GROUP MANUFACTURING MANAGER

Jane Sheehy
DEVELOPMENT PROJECTS MANAGER

Craig Bowen
IT SUPPORT MANAGER - AUSTRALIA

Tony Springford
IT SUPPORT MANAGER - NEW
ZEALAND

Tanya Cain
GROUP FINANCE MANAGER

Andrew Sparrow
SENIOR FINANCIAL ACCOUNTANT

Paul Little
GROUP FINANCIAL CONTROLLER

Kandi Govender
GROUP INTERNAL AUDIT MANAGER

Tom Lima
NEW STORES/REFIT MANAGER



GROUP EXECUTIVE TEAM

FROM LEFT TO RIGHT:

Adrian Murphy GROUP SUPPLY CHAIN EXECUTIVE

Ross McKinnon CHIEF INFORMATION OFFICER

Darcy Harkins RETAIL GENERAL MANAGER - NEW ZEALAND

Phil Taylor CHIEF FINANCIAL OFFICER

Emma Hill RETAIL GENERAL MANAGER - CANADA

Kevin Stock RETAIL GENERAL MANAGER - AUSTRALIA

Mike Parsell CHIEF EXECUTIVE OFFICER

2006 AMERICAN EXPRESS "REWARDS FOR EXCELLENCE"

In June 2005, the Michael Hill Jeweller Training & Communications Team attended the annual Rewards for Excellence Awards, at the Sofitel Wentworth in Sydney. Michael Hill Jeweller was nominated by the National Retail Association for the Training & Human Resource Initiative sponsored by the Department of Education, Science and Training. After submitting our Nationally Accredited Professional Selling System and coaching & development framework to the judging panel, Michael Hill Jeweller was awarded with the highly coveted Merit Award. This award specifically recognises our commitment to people development at a national level.



This year we introduced 2 new Training awards to specifically recognise the individual Managers who were truly committed to the development of their teams. Brett Halliday from Western Australia took out the Regional Manager category for his commitment to developing future store managers, with Cindy Salmon from Myer Australia taking out the Store Manager category. Both Managers committed themselves and the teams to using the company training packages to produce highly skilled and effective teams.

Once again, 2005 proved to be an extremely successful year and the annual managers' conference provided our employees with an opportunity to celebrate their achievement.

PLATINUM CLUB

Bangkok hosted this year's Platinum Club celebrations.

Ten of the 11 extremely talented sales professionals who achieved the ultimate level in sales visited 3 of our major suppliers and took in the sights and sounds of this truly amazing city. Six days of education and entertainment was the climax to a year of extremely hard work.

GOLD CLUB

This year Gold Club was celebrated in Christchurch (29 delegates), Sydney (90 delegates) and Vancouver (1 delegate). Hui Xu from Metrotown became our very first Canadian Gold Club member - a truly wonderful achievement for the Canadian Team. All of the Gold Clubbers celebrated in style at black tie functions, dancing the night away after being recognised by the company and their peers.

MICHAEL HILL JEWELLER MANAGERS' CONFERENCE

The idyllic and centrally located Four Points Sheraton in Cockle Bay, Sydney Australia was the host of the MHJ Annual International Conference. 219 Managers celebrated the successes of 2005 and focused on the strategies required to continue growing the business throughout 2006 and into the future. With a host of internal and external speakers, Conference 2005 focused on the development of talent within the company.

The awards night held at Water's Edge, under the famous Sydney Harbour Bridge, was the highlight of the conference. This year Lisa Giardina and the team from the Greensborough store in Australia was recognised as the best overall financial performers of the year. Kylie Spiteri from Werribee, Australia and Sally Every from Albany, New Zealand followed consecutively in second and third place. For Excellence in Service at the Support Centre, Human Resources were awarded first place.

STRATEGIC DIRECTIONS

Over the next 12 months, the Human Resources Department will continue to focus on strategies to support both recruitment and development of key talent at a number of levels, in order to support our expansion plans.

Our approach to planning "people" strategies includes:

- **Recruitment Focus** - implementation of individual country recruitment plans tailored for each market to address the different and individual needs across the group
- **Training DVDs** - development of a suite of in-house DVDs aligned to the MHJ Professional Selling System to support stores with sales coaching and training
- **New HR Retail Business Model** - introduction of an operationally focused Human Resources model to support Retail on the ground as a business partner
- **2007 Graduate Programme** - launch of an inaugural MHJ Graduate Programme to attract high potential managers to retail
- **Talent Management** - continued recruitment of high potential managers through the introduction of an MHJ leadership model and implementation of a global Regional Management system

WE GIVE BACK *to the community*

NATIONAL BREAST CANCER FOUNDATION

October is commonly known as International Breast Cancer Awareness month throughout Australia and New Zealand. Here at Michael Hill we are very proud to support these campaigns. 90% of our customers and approximately 85% of our staff are female so awareness of breast cancer is very close to our hearts.

Last year we sold a Michael Hill watch with a pink and white strap and also gave away a free pair of earrings with every watch purchase during October. Twenty dollars from every sale went to the Foundations in Australia and New Zealand with NZ\$44,385 being raised for this worthy cause.

This year, our international watch buyer has produced a stunning Michael Hill crystal set watch, accompanied by a free pair of earrings, with twenty dollars from every sale helping the fight against breast cancer. October 2006 will once again see Michael Hill Jeweller proudly participating in this fundraising activity.

HOPE JEWELLERY & WORLDS GREATEST SHAVE

In support of the Leukaemia Foundations in Australia, New Zealand and Canada we manufactured a stunning pair of sterling silver and pink cubic zirconia earrings. For every dazzling pair of earrings purchased \$20 was donated to these foundations.

We also conducted the Worlds Greatest Shave with 22 support centre staff including the CEO shaving their heads. Radio station B105FM from Brisbane set up a live morning broadcast for the shave. In total Michael Hill Jeweller donated NZ\$43,855 to these foundations. We would like to say 'thank you' to all our customers who helped support Michael Hill Jeweller in these promotions.

COMMUNITY NEWS

On top of our global support to charities, the retail stores throughout the company also support a variety of local communities, schools and hospitals with donations. In excess of NZ\$15,000 has been donated with either product or gift vouchers.

MICHAEL HILL INTERNATIONAL VIOLIN COMPETITION

The fourth Michael Hill International Violin Competition starts in June 2007, with entries being called for from 1 December, 2006. The competition is seeking the world's brightest young violin stars of the future, who will play before a panel of acclaimed international judges. The grand winner will receive NZ\$40,000 cash prize plus a Naxos recording contract and a winner's tour of New Zealand in 2008.





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".

The Board believes that its corporate governance policies and procedures do not materially differ from those detailed in the NZX Best Practice Code.

There have been no changes made to the Corporate Governance practices since last year.

THE BOARD IS ACCOUNTABLE FOR THE PERFORMANCE OF THE GROUP

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, and acquisitions.

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 non-executive Directors. The Board met on five occasions in the financial year ended 30 June 2006. Profiles of the current Directors appear on page 27 of this Report. Under the Company's constitution, and the NZX Listing rules, one third of all Directors must retire every year, but can be re-elected at an annual meeting if eligible. Newly appointed Directors must seek re-election

at the first annual meeting of shareholders following their appointment.

The Company has no requirement for Directors to hold shares in the company but actively encourages them to do so and all current Directors have a substantial holding in the company.

INDEPENDENT DIRECTORS

Under the NZX Listing rules, the Company is obliged to have at least two independent directors.

An independent Director has been defined in the NZX rules as a "Director who is not an executive of the Issuer and who has no Disqualifying Relationship."

A Disqualifying Relationship means any direct or indirect interest or relationship that could reasonably influence, in a material way, the Director's decisions in relation to the Issuer.

The Company has determined that Gary Gwynne and Murray Doyle are independent Directors under the NZX rules.

DIRECTORS' SHAREHOLDINGS - See Page 73

DIRECTORS' MEETINGS

The number of meetings held throughout the past year is detailed below. The agenda for meetings is prepared by the Company Secretary in conjunction with the Chairman and the Chief Executive Officer. Any member of the Board may request the addition of an item to the agenda. Board papers are circulated to Directors a week in advance of 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	5	5			2	2
M.R. Parsell	5	5				
L.W. Peters	5	5	2	2	2	2
G.J. Gwynne	5	4	2	2	2	2
M.R. Doyle	5	5	2	2	2	2
A.C. Hill	5	5			2	2

THE WORK OF DIRECTORS

Non-executive directors normally spend around 22 days per year on board and sub-committee meetings. The length of meetings varies between one to two days. Board meetings are held in different locations in Australia and New Zealand.

BOARD REVIEW

During the course of the last financial year, the Chairman reviewed the performance of the Directors and the workings of the Board. There were no substantial changes made to any of the Board's processes as a result of this review.

CHIEF EXECUTIVE OFFICE PERFORMANCE REVIEW

The Board regularly reviews the performance of the Chief Executive Officer. This evaluation is based on the performance of the business, the accomplishment of strategic and operational objectives and other non quantitative measures.

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. The provision of such advice, if required, would be arranged in consultation with the Chairman. In circumstances where a Director was to obtain separate advice from that obtained on behalf of the Group, that advice would normally be provided to all Directors.

AUDIT SUB-COMMITTEE

The Audit sub-committee, which is chaired by Murray Doyle and consists of Messrs Doyle, Peters and Gwynne, met twice 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 to ensure that policies and processes exist to effectively identify, manage and monitor principle business risks. The Group's auditors, both internal and external, along with other relevant senior executives, attend all meetings 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.

This committee also approves any non audit work carried out by the Company's auditors, and ensures that the lead partner in the audit firm is rotated every five years. The committee will also approve all major accounting policy changes.

At least once a year, the Chairman and non-executive Directors on this Committee meet with the external auditors privately without the presence of Company executives.

REMUNERATION SUB-COMMITTEE

This sub-committee, chaired by Wayne Peters, comprises all Directors except Mike Parsell. The function of the Remuneration sub-committee is to determine the Chief Executive's and Senior Management's remuneration. This role also includes responsibility for

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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 non-executive 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 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	800,000	\$6,000,000	25-31/8/05
	8,000	\$60,750	8/9/05
	9,000	\$67,500	15/9/05
	50,000	\$375,547	5-18/10/05
	17,738	\$137,469	7-11/11/05
	42,262	\$336,992	29-30/11/05
	431,032	\$2,931,017	20/2/06
	55,000	\$374,000	20/2/06
	4,858	\$33,753	28/2/06
	31,810	\$234,666	11-20/4/06
G.J. Gwynne	8,600	\$64,500	26/8/05
	3,400	\$24,990	28/9/05
	13,000	\$97,500	5/10/05
	11,000	\$74,800	20/2/06
M.R.Parsell	300,000	\$1,098,000	30/6/06*
M.R Doyle	75,000	\$510,000	23/2/06
	50,000	\$350,000	27/2/06
	15,000	\$111,600	4/3/06

*options exercised

NON-EXECUTIVE DIRECTORS' FEES

Fees for non-executive directors are based on the nature of their work and their responsibilities. Over the past three years the company has become a truly global company with 73% of the Group's stores in Australia and Canada. Shareholders at the Annual Meeting in November 2004 approved a maximum amount of \$250,000 to be paid to Directors. Each NZ resident Director is currently paid \$60,000 per annum and our Australian resident Director A\$60,000 per annum. No equity incentives are offered to non-executive Directors.

Under the Company's new constitution adopted in November 2004, shareholders will now be required to approve all retirement benefits for directors other than for directors who were in office on or before 1 May 2004 and who have continued to hold office. It is not the intention to pay any such retirement allowances.

SHARE PURCHASE SCHEME

The Company has a Share Purchase Scheme for Management in operation. The scheme was designed to encourage Store Managers, Regional Managers and other senior employees of the Company to purchase shares in the Company. In order to provide a pool of shares for eligible employees to purchase, the Company from time to time will buy Michael Hill International shares on the New Zealand Stock Exchange.

On the 27th of March 2006, the Company sold 15,782 shares to 12 employees of the company. The rules of the scheme provide for the Company to on sell shares to purchasing employees at a 10% discount to the weighted average price for the ordinary shares during the 10 working day period ending 2 working days immediately prior to the date on which the Company offers shares to the employees. The discount is deemed to be "financial assistance" under the Companies Act 1993. The total discount relating to the issue of shares was \$17,202. After taking the discount into account, the purchasing employees paid \$97,196 for the shares which was equivalent to an average acquisition price of \$6.16 per share.

The Trustees of the scheme hold the shares for a restrictive period of one year, which is to promote the concept of encouraging long-term investing in the Company. The company holds a further 75,654 shares which are held as "Treasury Stock" and will be used for the next issue of shares under the scheme in September 2007.

SHARE OPTIONS

There were no new options issued to staff during the year. 600,000 options were exercised during the year at an exercise price of \$3.66. There are 200,000 options outstanding to employees as at 30 June 2006. Further information on options outstanding to employees are included in note 32 to the Financial Statements on page 60.

COMMUNICATION WITH SHAREHOLDERS

Michael Hill International places high importance on communication with shareholders.

A half year and annual report is published each year and posted on the MHI website. Announcements to the New Zealand Stock Exchange and the media are also posted on the website as are copies of presentations for Analysts which are done once a year in conjunction with the release of the annual results for the year.

The Company Secretary takes primary responsibility for communications with the New Zealand Stock Exchange in relation to listing rule obligations and disclosure obligations.

Shareholders may raise matters for discussion at Annual meetings and have the ultimate control in corporate governance by voting Directors on or off the Board.

CONTINUOUS DISCLOSURE POLICY

With the introduction of the new NZX continuous disclosure rules from December 2002, the Board has adopted the following procedure:

1. At each Board meeting, a standard agenda item is now considered - "Does the Company have anything to disclose?" The Board considers the information in its possession and decides appropriately whether any information needs to be disclosed to the market.

2. Between Board meetings, management will bring to the attention of the Directors any information they believe should be disclosed to the market for their consideration.

3. The Company now discloses revenue figures for the group to the market for the first and third quarters in advance of the earnings announcement. For the second and fourth quarters, sales figures are released with the earnings results. In the all important Christmas trading period, an announcement on sales alone for the second quarter without reference to profitability could result in misinterpretation by the market. The Board considers it sensible to combine the sales and earnings release for the second and fourth quarters in order that the market understands how sales translated into earnings.

4. In the 12 months ended June 2006, the Company has made the following disclosures to NZX under the continuous disclosure rules:

- | | |
|-------------------|---|
| 3 August 2005 | Announcement to NZX re Director nominations opening/closing dates |
| 19 August 2005 | Preliminary full year revenue and profit announcement to NZX for 12 months to 30/6/05 |
| 31 August 2005 | Notice to NZX re exercise of 50,000 options at \$3.66. |
| 30 September 2005 | Annual Report released to NZX and shareholders. |

CONTINUED >



3 October 2005	Notice to NZX re exercise of 100,000 options at \$3.66.
6 October 2005	Release of revenue figures for 3 months ended 30 September 2005.
7 November 2005	Notice to NZX of resolutions passed at Annual Meeting on 4 November 2005 and notification of Independent Directors.
10 January 2006	6 months Trading Update to 31 December 2005 released to NZX.
16 February 2006	Preliminary half year profit announcement to NZX and interim dividend announcement.
27 March 2006	Notice to NZX re issue of 15,782 shares to staff at \$6.16 under the Company's share purchase scheme.
28 March 2006	Issue of half year report to NZX and shareholders.
11 April 2006	Release of sales figures for 9 months ended 31 March 2006.
19 June 2006	Notice of change of registered office and address for service.
30 June 2006	Notice of exercise of 300,000 options by Mike Parsell (Director) and 150,000 options by an employee at \$3.66.

The Company believes it has complied with the NZX Continuous disclosure rules.

EXTERNAL AUDIT INDEPENDENCE POLICY

The Group has adopted the following policy to ensure that audit independence is maintained, both in fact and appearance, such that Michael Hill International's external financial reporting is viewed as being highly reliable and credible.

The policy covers the following areas:

- Provision of non audit services by the external auditors
- Fees and billings by the auditors
- Hiring of staff from the audit firm

PROVISION OF NON AUDIT SERVICES BY THE EXTERNAL AUDITING FIRM

Our external auditing firm should not undertake any role not permitted under IFAC (International Federation of Accountants) regulations regarding independence of auditors. Under the IFAC guidelines, the table below sets out the type of non audit work that Michael Hill International will allow its external auditing firm to perform.

BOOKKEEPING

Prohibited, other than in emergency situations. Managerial decision making prohibited.

VALUATIONS

Prohibited.

TAX SERVICES

Permitted, as not seen to threaten independence

PROVISION OF IT SYSTEMS

Design and implementation of financial IT systems prohibited.

STAFF SECONDMENT FROM AUDITORS

These are permitted with safeguards. No management decision making. Signing agreements or discretionary authority to commit MHI is not allowed.

LITIGATION SUPPORT SERVICES

Permitted with safeguards.

LEGAL SERVICES

Permitted where immaterial to the financial statements.

EXECUTIVE SEARCH AND SELECTION

Permitted with safeguards. Making selection for MHI prohibited.

CORPORATE FINANCE

Permitted with safeguards. Promoting, dealing in or underwriting MHI Securities prohibited.

The safeguards put in place will be specific to the circumstances of each case. The general rule to be applied is whether an independent third party would consider the safeguards reasonable.

FEES AND BILLINGS

All audit and non audit fees are to be reported to the Audit committee annually. Non audit fees greater than \$25,000 should be reviewed by the Chief Financial Officer and reported to the Audit committee for approval. (For the 2005/06 financial year audit fees amounting to \$245,000 and fees for other professional services amounting to \$365,000 were paid to PricewaterhouseCoopers)

HIRING OF STAFF FROM THE EXTERNAL AUDITING FIRM

The hiring by Michael Hill Jeweller of any partner or audit manager must first be approved by the Chairman of the Audit committee. There are no other restrictions on the hiring of staff from the audit firm.

risk management report



Michael Hill International Limited is committed to the management of risk throughout its operations in order to protect our employees, assets, earnings and reputation.

RISK MANAGEMENT PROCESS

The Board of Directors are responsible for Risk Management which starts each year with the development, review and approval of a strategic plan incorporating assessment of opportunities and risks associated with these opportunities.

These strategic plans are reviewed and discussed at each board meeting to ensure risks associated with the approved plans and projects are reviewed and managed.

A formal risk management workshop by the group executives is planned each year to update the risk register which is included in the Audit Sub-Committee agenda.

BUSINESS CONTINUITY PLAN

The Group has an existing Business Continuity Plan which will be reviewed in the coming year and updated accordingly.

INSURANCE PROGRAM

The Group has a comprehensive global insurance program which supports the risk management process. This program is reviewed annually to ensure it reflects the groups' exposures and risk profile.

INTERNAL AUDIT

The Group has an Internal Audit function that is responsible for developing a comprehensive continuous audit program and for performing internal audit reviews which support the Groups Risk Management process. The internal auditors have a direct communication line to the Board Audit Sub-Committee should they deem it necessary to report any matter to the Sub-Committee. The Internal Audit Manager attends the Audit Sub-Committee meetings and presents their report.

CODE OF ETHICS

Our Board of Directors believes that good risk management is supported by the highest standards of corporate behavior towards our employees, customers and other stakeholders. The Code of Ethics is a guide to help our Directors and employees live up to high ethical standards and responsibilities towards our fellow employees, customers and other stakeholders.



CORPORATE code of ethics

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 ethics is a guide to help our Directors and employees live up to our high ethical standards.

Our Corporate Code of Ethics 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 Directors and Management team will lead by example, demonstrating their commitment to this Code of Ethics at all times through their personal behaviour and through the guidance they provide to our staff.

In general, all Directors and employees are expected to act honestly in all their business dealings and to act in the best interests of the Company at all times.

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 proper 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 five 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.

COMPANY PROPERTY AND ASSETS

- Our Directors and Employees will properly use company assets and safeguard and protect any company property under their care.

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.

SHARE TRADING BY DIRECTORS AND OFFICERS IN MHI SHARES

- The Company does not condone any form of insider trading by Directors or officers.
- 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 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. The NZX must also be notified within 5 days of any trading taking place.

- From the 3rd May 2004, all Officers of the Company (as defined by the Securities Amendment Act 2003) must also disclose to the company and to the NZX within 5 days, any dealings in MHI shares. They are also subject to the same "trading windows" as Directors as defined above.

CONFLICTS OF INTERESTS

- Employees will not accept anything of value from a customer, vendor, or business associate which would impair or be presumed to impair their judgment 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 Controllers. 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 interests of the Company.
- Directors' conflicts of interests are dealt with in the Board Operations Manual. 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.

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 of Ethics and the law will lead to disciplinary measures appropriate to the violation.



AT MHJ HEAD OFFICE IN SUNNY BRISBANE:
WAYNE PETERS, MURRAY DOYLE,
CHRISTINE HILL, WAYNE BUTLER,
MIKE PARSELL, GARY GWYNNE,
MICHAEL HILL

BOARD MEMBER profiles

MICHAEL HILL

The founder of Michael Hill Jeweller in 1979. He is Chairman of the Board. He had 23 years of jewellery retailing experience before establishing his own business. He was appointed to the Board in 1987. Member of the Remuneration and Nominations sub-committees.

MIKE PARSELL

Chief Executive Officer of the Group. Mike spearheaded the Company's move into Australia in 1987. 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 & Independent Director: Gary has an extensive background in marketing, retailing and property development. He is currently a Director of Prime Retail Management, the operators of Dress Smart Factory Shopping Centres and a Director of Overland Footwear Company. He was appointed to the Board in February 1998. Member of the Audit, Remuneration and Nominations sub-committees.

WAYNE PETERS

Non Executive Director: Wayne, who is based in Australia, has 28 years of retailing and investment management experience. He is Chairman and Chief Investment Officer of Peters MacGregor Capital Management Pty Ltd and Chairman of ASX listed Peters MacGregor Investments Ltd. Member of the Audit and Nominations sub-committees and Chairman of the Remuneration sub-committee, Wayne joined the board in February 1999.

MURRAY DOYLE

Non Executive and Independent Director: Murray is a Director of Aspiring Asset Management Limited and Wellington department store Kirkcaldie and Stains Limited. His previous experience was in the finance industry until 1998, when his stockbroking firm was purchased by Bankers Trust now Deutsche Bank. He is a member of the remuneration sub-committee and Chairman of the Audit sub-committee. He joined the board in February 2000.

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. Christine is a member of the Remuneration sub-committee, and joined the Board in 2001.

Company Secretary,
WAYNE BUTLER

Wayne has a financial background and has worked for the Company for 20 years. He has been Secretary of the Board since 1987.

STATUTORY REPORT of the directors

The Directors have pleasure in submitting to shareholders the 19th Annual Report and audited accounts of the Company for the year ended 30 June 2006.

BUSINESS ACTIVITIES

The group's sole business activities during the 2005/06 financial year continued to be jewellery retailing and manufacturing.

CONSOLIDATED FINANCIAL RESULTS

The Group has recorded a tax paid profit of \$15,774,000 for the year ended 30 June 2006 (2005 - \$16,442,000). This profit was achieved on total group revenue of \$306,374,000 (2005 - \$273,151,000). The Group adopted New Zealand International Financial Reporting Standards (NZIFRS) from 1 July 2005. This resulted in restating June 2005 comparatives.

The accounts for the year ended 30 June 2006 have been presented in accordance with the accounting principles and policies detailed on pages 37 to 43 of this report.

	2006 \$000	2005 \$000
Total group revenue	306,374	273,151
Profit before income tax	22,511	24,266
Income tax expense	(6,737)	(7,824)
Profit after income tax	15,774	16,442
Dividends paid	(8,926)	(8,496)
Net profit retained	6,848	7,946

SHAREHOLDERS' FUNDS/RESERVES

Total Shareholders' Funds of the Group now stand at \$74,759,000 – an increase of \$13,679,000 over the previous year.

The Group's reserves at 30 June 2006 totalled \$60,901,000.

	\$000
The Group's reserves at 30 June 2005 were	49,505
To which was added:	
Operating profit after income tax for the year	15,774
Exchange differences on translation of foreign operations	4,539
Option Reserve movement	9
From which was deducted:	
Ordinary Dividends paid	(8,926)
Leaving Reserves at 30 June 2006 at	\$ 60,901
These comprise:	
Retained earnings	56,811
Other reserves	4,090
	\$ 60,901

ACCOUNTING POLICIES

There have been no changes in accounting policies during the year with the exception of the adoption of NZIFRS.

DIVIDENDS

Your Directors paid an interim dividend of 9 cents per share, with full imputation credits and franking credits attached on the 3rd April 2006. Overseas shareholders were also paid a supplementary dividend. On the 23rd August 2006, your Directors declared a final dividend of 14 cents per share payable on the 16th October 2006. The share register will close at 5:00pm on the 6th October 2006 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 ordinary dividend for the year was 23 cents (fully imputed), the same as the previous year. The payout represents 57.2% of the tax paid profit of the group.

DIRECTORS

M.R.Parsell and M.R.Doyle retire by rotation and being eligible offer themselves for re-election.

DIRECTORS' REMUNERATION

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

	2006 \$000	2005 \$000
Parent Company		
R.M. Hill *	\$144	\$144
M.R. Parsell *	A\$555	A\$633
G.J. Gwynne	\$60	\$60
L.W. Peters	A\$60	A\$60
M.R. Doyle	\$60	\$60
A.C. Hill	\$60	\$60

*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:-



\$000	2006	2005
NZ\$100,000 - \$110,000	8	6
NZ\$110,000 - \$120,000	11	8
NZ\$120,000 - \$130,000	12	7
NZ\$130,000 - \$140,000	8	5
NZ\$140,000 - \$150,000	3	3
NZ\$150,000 - \$160,000	3	5
NZ\$160,000 - \$170,000	1	2
NZ\$170,000 - \$180,000	0	2
NZ\$180,000 - \$190,000	2	4
NZ\$200,000 - \$210,000	4	2
NZ\$210,000 - \$220,000	2	1
NZ\$220,000 - \$230,000	0	2
NZ\$230,000 - \$240,000	1	1
NZ\$250,000 - \$260,000	1	1
NZ\$270,000 - \$280,000	0	1
NZ\$280,000 - \$290,000	1	2
NZ\$300,000 - \$310,000	1	1
NZ\$310,000 - \$320,000	1	0
NZ\$320,000 - \$330,000	2	0
NZ\$350,000 - \$360,000	1	0
NZ\$390,000 - \$400,000	0	1

Australian remuneration has been converted into New Zealand dollars at the exchange rate used for translating the Australian profits into New Zealand dollars, 0.89 (2005 - 0.92). Canadian remuneration on the same basis at 0.78 (2005 - 0.87).

INFORMATION ON DIRECTORS

The qualifications and experience of the Directors are shown on page 27.

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 cash flows.

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 auditor's report, which sets out their opinion and the basis of that opinion is set out on page 30 of this report.

DONATIONS

The total of donations made during the year amounted to \$51,000.

INTERESTS REGISTER

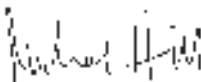
The following new entry was made in the Interests Register during the year:

Murray Doyle - Director of Aspiring Asset Management

ANNUAL REPORT AWARDS

The Company was awarded a silver medal for the fourth consecutive year in the Australasian Reporting Awards, which covers all companies in both Australia and New Zealand. The Board again extends its congratulations to the dedicated team who compiled and designed last year's report

On behalf of the Directors,



R.M. Hill



M.R. Parsell



AUDITORS' REPORT

to the shareholders of Michael Hill International Limited

We have audited the financial statements on pages 31 to 71. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2006 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 37 to 43.

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 2006 and their financial performance and cash flows 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:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We 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 fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors.

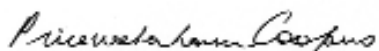
UNQUALIFIED OPINION

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

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 31 to 71:
 - (i) comply with generally accepted accounting practice in New Zealand;
 - (ii) comply with International Financial Reporting Standards; and
 - (iii) give a true and fair view of the financial position of the Company and Group as at 30 June 2006 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 23 August 2006 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Brisbane

I, Robert Roach, am currently a member of The Institute of Chartered Accountants in Australia and my membership number is 20656.

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Michael Hill International Ltd for the year ended 30 June 2006. I was responsible for the execution of the audit and delivery of our firm's auditors' report. The audit work was completed on 23 August 2006 and an unqualified opinion was issued.



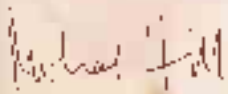
Robert Roach



financial statements

- 32 Income Statements
- 33 Statements of Changes in Equity
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- 35 Balance Sheets
- 36 Cash Flow Statements
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THE DIRECTORS ARE PLEASED TO PRESENT THE FINANCIAL STATEMENTS OF MICHAEL HILL INTERNATIONAL LIMITED FOR THE YEAR ENDED 30 JUNE 2006. THE BOARD OF DIRECTORS OF MICHAEL HILL INTERNATIONAL LIMITED AUTHORISED THESE FINANCIAL STATEMENTS FOR ISSUE ON 23 AUGUST 2006.



MICHAEL HILL
CHAIRMAN OF DIRECTORS



MIKE PARSELL
CHIEF EXECUTIVE OFFICER/DIRECTOR

income statements

for the year ended 30 June 2006

	NOTES	GROUP		PARENT	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Revenue from continuing operations	3	306,374	273,151	18,233	9,000
Other income	4	3,040	1,584	64	20
Cost of goods sold		(131,429)	(119,721)	-	-
Employee benefits expense		(74,972)	(64,995)	(99)	(251)
Occupancy costs	5	(22,718)	(19,175)	-	-
Depreciation and amortisation expense	5	(6,714)	(5,836)	(22)	(35)
Loss on disposal of property, plant and equipment	5	(106)	(220)	-	-
Other expenses		(47,653)	(37,839)	(755)	(778)
Finance costs		(3,311)	(2,683)	(7)	(287)
Profit before income tax		22,511	24,266	17,414	7,669
Income tax (expense) / benefit	6	(6,737)	(7,824)	222	419
Profit for the year		15,774	16,442	17,636	8,088
Profit attributable to members of Michael Hill International Ltd		\$ 15,774	\$ 16,442	\$ 17,636	\$ 8,088
Earnings per share for profit attributable to the ordinary equity holders of the Company during the year:					
Basic earnings per share	31	40.8¢	42.7¢		
Diluted earnings per share	31	40.5¢	41.7¢		

statements of changes in equity

for the year ended 30 June 2006

NOTES	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Total equity at the beginning of the financial year	61,080	53,165	12,926	12,884
Exchange differences on translation of foreign operations recognised directly in equity	22 4,539	(481)	-	-
Profit for the year	15,774	16,442	17,636	8,088
Total recognised income and expense for the year	20,313	15,961	17,636	8,088
Transactions with equity holders in their capacity as equity holders:				
Contribution of equity	21 2,204	293	2,204	293
Treasury stock movement	21 79	148	79	148
Dividends provided for or paid	23 (8,926)	(8,496)	(8,926)	(8,496)
Options reserve	22 9	9	9	9
	(6,634)	(8,046)	(6,634)	(8,046)
Total equity at the end of the financial year	\$ 74,759	\$ 61,080	\$ 23,928	\$ 12,926

The above statements should be read in conjunction with the Notes on pages 37 - 71 and the Audit Report on page 30.

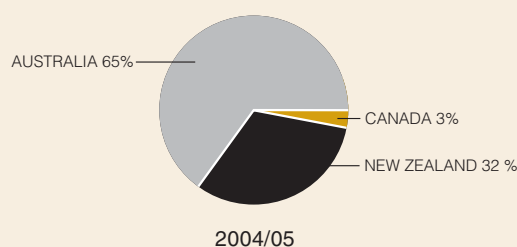
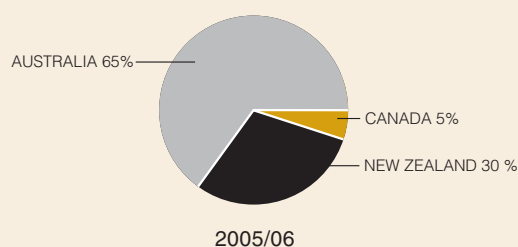
statement of segmented results

for the year ended 30 June 2006

	MHJ NEW ZEALAND			MHJ AUSTRALIA			MHJ CANADA			GROUP		
	2006 \$000	2005 \$000	+/- %	2006 \$000	2005 \$000	+/- %	2006 \$000	2005 \$000	+/- %	2006 \$000	2005 \$000	+/- %
Operating revenue												
Sales to customers	91,036	87,301	4.3%	199,412	176,697	12.9%	15,671	8,936	75.4%	306,119	272,934	12.2%
Unallocated revenue										255	217	17.5%
Total segment revenue	\$91,036	\$87,301	4.3%	\$199,412	\$176,697	12.9%	\$15,671	\$8,936	75.4%	\$306,374	\$273,151	12.2%
Segment results												
Operating surplus	10,180	10,044	1.4%	15,677	17,707	-11.5%	(957)	(882)	-8.5%	24,900	26,869	-7.3%
Unallocated revenue less unallocated expenses										(2,389)	(2,603)	-8.2%
Profit before income tax										22,511	24,266	-7.2%
Income tax expense										(6,737)	(7,824)	13.9%
Profit for the year										\$15,774		
Segment assets	41,025	33,640	22.0%	114,373	73,842	54.9%	13,148	5,814	126.1%	168,546	113,296	48.8%
Unallocated										5,792	17,850	-67.6%
Total										\$174,338	\$131,146	32.9%
Segment liabilities	5,666	6,130	-7.6%	89,810	60,442	48.6%	2,027	628	222.8%	97,503	67,200	45.1%
Unallocated										2,076	2,866	-27.6%
Total										\$99,579	\$70,066	42.1%
Segment acquisitions of property, plant & equipment and intangibles	1,817	2,332	-22.1%	4,012	3,714	8.0%	1,328	626	112.1%	7,157	6,672	7.3%
Unallocated										3,467	2,481	39.7%
Total										\$10,624	\$9,153	16.1%
Segment depreciation and amortisation expense	1,536	1,361	12.9%	3,261	2,702	20.7%	250	135	85.2%	5,047	4,198	20.2%
Unallocated										1,667	1,638	1.8%
Total										\$6,714	\$5,836	15.0%
Segment impairment of property, plant & equipment				14	-	-				14	-	-
Unallocated										-	-	-
Total										\$14	-	-

- Notes:**
- The Company operates in 3 geographical segments; New Zealand, Australia and Canada and is managed on a global basis.
 - Michael Hill International Limited and its controlled entities operate predominantly in one business segment being the sale of jewellery and related services.
 - Inter segment pricing is at arm's length or market value.
 - Unallocated expenses include all expenses that do not relate directly to the relevant segment and include: manufacturing activities, warehouse and distribution, interest, company taxation and general corporate expenses.

OPERATING REVENUE BY COUNTRY



The above statement should be read in conjunction with the Notes on pages 37 - 71 and the Audit Report on page 30.

balance sheets

as at 30 June 2006

	NOTES	GROUP		PARENT	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
ASSETS					
Current assets					
Cash and cash equivalents	7	4,088	7,234	-	-
Trade and other receivables	8	10,809	13,019	20,425	9,870
Inventories	9	122,051	82,537	-	-
Current tax receivables	10	722	-	708	197
Total current assets		137,670	102,790	21,133	10,067
Non-current assets					
Property, plant and equipment	11	27,846	21,470	72	94
Deferred tax assets	12	7,285	5,087	(3)	46
Intangible assets	13	1,537	1,799	-	-
Investments in subsidiaries	14	-	-	2,800	2,800
Total non-current assets		36,668	28,356	2,869	2,940
Total assets		\$ 174,338	\$ 131,146	\$ 24,002	\$ 13,007
LIABILITIES					
Current liabilities					
Trade and other payables	15	35,036	25,233	72	68
Borrowings	16	-	-	2	13
Current tax liabilities	17	-	2,596	-	-
Provisions	18	1,405	1,146	-	-
Total current liabilities		36,441	28,975	74	81
Non-current liabilities					
Borrowings	19	62,134	40,163	-	-
Provisions	20	1,004	928	-	-
Total non-current liabilities		63,138	41,091	-	-
Total liabilities		\$ 99,579	\$ 70,066	\$ 74	\$ 81
Net assets		\$ 74,759	\$ 61,080	\$ 23,928	\$ 12,926
EQUITY					
Contributed equity	21	13,858	11,575	13,858	11,575
Reserves	22(a)	4,090	(458)	32	23
Retained profits	22(b)	56,811	49,963	10,038	1,328
		74,759	61,080	23,928	12,926
Total equity		\$ 74,759	\$ 61,080	\$ 23,928	\$ 12,926

The above balance sheets should be read in conjunction with the Notes on pages 37 - 71 and the Audit Report on page 30.

cash flow statements

for the year ended 30 June 2006

	NOTES	GROUP		PARENT	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Cash flows from operating activities					
Receipts from customers (incl. of goods & services tax)		349,249	295,553	-	-
Payments to suppliers and employees (incl. of goods & services tax)		(337,175)	(274,467)	(847)	(813)
		12,074	21,086	(847)	(813)
Dividends received		-	-	18,233	9,000
Interest received		1,557	984	-	5
Other revenue		104	137	-	-
Interest paid		(3,087)	(2,711)	(7)	(287)
Income tax paid		(10,639)	(7,783)	(239)	250
Net goods and services tax paid		(2,369)	(1,492)	-	0
Net cash (outflow) inflow from operating activities	30	(\$ 2,360)	\$ 10,221	\$ 17,140	\$ 8,155
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		216	309	2	40
Payments for property, plant and equipment		(10,193)	(8,173)	(2)	(94)
Payments for intangible assets		(431)	(980)	-	-
Net cash (outflow) inflow from investing activities		(\$ 10,408)	(\$ 8,844)	-	(\$ 54)
Cash flows from financing activities					
Proceeds from borrowings		15,730	-	-	-
Proceeds from sale of treasury stock		97	206	97	206
Payments from share options exercised		2,191	183	2,191	183
Dividends paid to company's shareholders	23	(8,926)	(8,496)	(8,926)	(8,496)
Intercompany advance		-	-	(10,491)	-
Net cash inflow (outflow) from financing activities		\$ 9,092	(\$ 8,107)	(\$ 17,129)	(\$ 8,107)
Net (decrease) increase in cash and cash equivalents		(3,676)	(6,730)	11	(6)
Cash and cash equivalents at the beginning of the financial year		7,234	14,017	(13)	(7)
Effects of exchange rate changes on cash and cash equivalents		530	(53)	-	-
Cash and cash equivalents at end of year	7	\$ 4,088	\$ 7,234	(\$ 2)	(\$ 13)
Financing arrangements	19				

notes to the financial statements

for the year ended 30 June 2006

NOTE 1 Summary of significant accounting policies

(a) BASIS OF PREPARATION

The financial statements for the year ended 30 June 2006 have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-orientated entities.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Entities reporting

The consolidated financial statements of the Group are for the economic entity comprising Michael Hill International Limited and its subsidiaries.

The Parent company and the consolidated entity are designated as profit-orientated entities for financial reporting purposes.

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 financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

These consolidated financial statements have been approved for issue by the Board of Directors on 23 August 2006.

The reporting currency used in the preparation of these consolidated financial statements is New Zealand dollars, rounded to the nearest thousands.

Application of NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards

These financial statements are the Group's first financial statements to be prepared in accordance with NZ IFRS *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. Financial statements of Michael Hill International Limited until 30 June 2005 had been prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS). NZ FRS differs in certain respects from NZ IFRS. When preparing Michael Hill International Limited 2006 financial statements, management has amended certain accounting and valuation methods applied in the NZ FRS financial statements to comply with NZ IFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under NZ IFRS 1 only to apply NZ IAS 32 and NZ IAS 39 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous NZ FRS to NZ IFRS on the Group's equity and its net income are given in note 33.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. In the Directors' opinion, there are no significant accounting estimates and judgements in preparing the accounts.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007. Management have assessed these amendments and they are considered not relevant to the Group's operations.

(b) PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Michael Hill International Limited ('company' or 'parent entity') as at 30 June 2006 and the results of all subsidiaries for the year then ended. Michael Hill International Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-

*notes to the
financial statements* continued

NOTE 1 Summary of significant accounting policies cont.

consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Michael Hill International Limited.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated and parent financial statements are presented in New Zealand dollars, which is Michael Hill International Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of foreign entities are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(e) REVENUE RECOGNITION

(i) Sales of goods - retail

Sales of goods and services are recognised when a Group entity delivers a product or renders a service to the customer. Retail sales are usually in cash, payment plan or by credit card. The recorded revenue is the gross amount of sale (excluding GST), including credit card fees payable for the transaction. Such fees are included in distribution costs.

It is the Group's policy to sell its products to the end customer with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

(ii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(f) INCOME TAX

notes to the financial statements continued

NOTE 1 Summary of significant accounting policies cont.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax is provided in full, using the liability method, on temporary differences between the tax bases of asset and liabilities and their carrying amounts.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(g) LEASES

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(h) IMPAIRMENT OF ASSETS

At each reporting date (including interim reporting dates), the Group assesses whether there is any indication that an asset may be impaired. Where such an indication is identified, the Group estimates the recoverable amount of the asset and recognises an impairment loss where the recoverable amount is less than the carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use.

In addition, at least annually, goodwill and intangible assets with indefinite useful lives are tested for impairment by comparing their estimated recoverable amounts with their carrying amounts. Where the recoverable amount exceeds the carrying amount of an asset, an impairment loss is recognised.

(i) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective

interest rate. The amount of the provision is recognised in the income statement.

(k) INVENTORIES

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

(m) INVESTMENTS AND OTHER FINANCIAL ASSETS

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

notes to the financial statements continued

NOTE 1 Summary of significant accounting policies cont.

(n) DERIVATIVES

From 1 July 2004 to 30 June 2005

The group has taken the exemption available under NZ IFRS 1 to apply NZ IAS 32 and NZ IAS 39 from 1 July 2005. The group has applied previous NZ GAAP in the comparative information on financial instruments within the scope of NZ IAS 32 and NZ IAS 39.

The following sets out how derivatives are accounted for under previous NZ FRS.

Interest rate swaps

The net amount receivable or payable under interest rate swap agreements is progressively recognised over the period to settlement. The amount recognised is accounted for as an adjustment to interest and finance charges during the period and included in other debtors or other creditors at each reporting date. Where an interest rate swap is terminated early and the underlying hedged transaction is:

- (i) still expected to occur as designated: the gains or losses arising on the swap upon its early termination continue to be deferred and are progressively recognised over the period during which the hedged transactions are recognised.
- (ii) no longer expected to occur as designated: the gains or losses arising on the swap upon its early termination are recognised in the income statement at the date of termination.

From 1 July 2005 onwards

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in movements in the hedging reserve in shareholders' equity are shown in:

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(o) FAIR VALUE ESTIMATION

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(p) PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Plant & equipment 5 - 6 years
- Motor vehicles 5 - 6 years

- Furniture, fittings and equipment 6 years
- Leasehold improvements 6 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

(q) INTANGIBLE ASSETS

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

(r) TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Deferred income represents lease incentives for entering new lease agreements. These amounts are taken to revenue over the life of the lease.

(s) BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as non-current liabilities.

(t) PROVISIONS

Provisions for legal claims and sale returns are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligations using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(u) EMPLOYEE BENEFITS

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

notes to the financial statements continued

NOTE 2 Financial risk management

The Board of Directors are responsible for risk management. The Group's overall risk management program includes a focus on financial risk including the unpredictability of financial markets and foreign exchange risk.

The policies are implemented by the central finance function that undertakes regular reviews to enable prompt identification of financial risks so that appropriate actions may be taken.

(a) MARKET RISK - FOREIGN EXCHANGE RISK

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

(b) CREDIT RISK

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. In addition, a certain portion of risk is passed onto credit providers.

(c) LIQUIDITY RISK

The Group maintains prudent liquidity risk management with sufficient cash funding through an adequate amount of committed credit facilities.

(d) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. Group policy is to maintain a minimum of 50% of its borrowings in fixed rate instruments.

The Group manages its cash flow interest-rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

Occasionally, the Group also enters into fixed-to-floating interest rate swaps to hedge the fair value interest-rate risk arising where it has borrowed at fixed rates.

NOTE 3 Revenue

From continuing operations:

Sales revenue

Dividends received from subsidiaries

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Sales revenue	306,374	273,151	-	-
Dividends received from subsidiaries	-	-	18,233	9,000
	306,374	273,151	18,233	9,000

NOTE 4 Other income

Interest income

Sundry income

Rent income

Net gain on disposal of property, plant and equipment

Foreign exchange gains (net)

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Interest income	1,477	1,051	-	5
Sundry income	1,297	529	-	-
Rent income	81	4	-	-
Net gain on disposal of property, plant and equipment	-	-	-	15
Foreign exchange gains (net)	185	-	64	-
	3,040	1,584	64	20

NOTE 5 Expenses**Profit before income tax includes the following specific expenses:**

Depreciation

Leasehold improvements

Furniture and fittings

Plant and equipment

Motor vehicles

Total depreciation

Amortisation

Software

Total amortisation

Rental expense relating to operating leases

Net foreign exchange losses (net gain in 2006 - see note 4)

Defined contribution superannuation expense

Impairment of property, plant & equipment

Donations

Net loss on disposal of property, plant and equipment

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Leasehold improvements	3,368	2,803	-	-
Furniture and fittings	1,032	987	-	-
Plant and equipment	1,328	1,200	1	3
Motor vehicles	293	225	21	32
Total depreciation	6,021	5,215	22	35
Software	693	621	-	-
Total amortisation	693	621	-	-
Rental expense relating to operating leases	22,718	19,175	-	-
Net foreign exchange losses (net gain in 2006 - see note 4)	-	151	-	144
Defined contribution superannuation expense	4,099	3,535	-	-
Impairment of property, plant & equipment	14	-	-	-
Donations	51	38	-	-
Net loss on disposal of property, plant and equipment	106	220	-	-

notes to the financial statements

continued

NOTE 6 Income tax expense

(a) Income tax expense

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Current tax	8,310	8,801	(271)	(370)
Deferred tax	(1,593)	(990)	1	(49)
Under provided in prior years	20	13	48	-
Income tax expense / (benefit)	6,737	7,824	(222)	(419)

Deferred income tax (revenue) / expense included in income tax expense comprises decrease / (increase) in deferred tax assets (note 12)

	(1,593)	(990)	49	(49)
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(b) Numerical reconciliation of income tax expense to prima facie tax payable

Profit from continuing operations before income tax expense	22,511	24,266	17,414	7,669
Tax at the New Zealand tax rate of 33%	7,429	8,007	5,747	2,530
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:				
Non deductible entertainment expenditure	69	23	-	-
Non deductible legal expenditure	-	1	-	-
Share-based payments	-	21	-	21
Dividends not assessable	(98)	-	(6,017)	(2,970)
Sundry items	(64)	(6)	-	-
	7,336	8,046	(270)	(419)
Difference in overseas tax rates	(619)	(334)	-	-
Under provision in prior years	20	13	48	-
Tax losses not recognised	-	99	-	-
	(599)	(222)	48	-
Income tax expense / (benefit)	6,737	7,824	(222)	(419)

(c) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	-	300	-	-
Potential tax benefit @ 33%	-	99	-	-

Unused tax losses relate to MHJ Canada. The benefit of these losses has been recognised in 2006 - refer note 12.

NOTE 7 Current assets - Cash and cash equivalents

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Cash at bank and in hand	4,088	(27)	-	-
Deposits at call	-	7,261	-	-
	4,088	7,234	-	-

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	4,088	7,234	-	-
Bank overdrafts (note 16)	-	-	(2)	(13)
Balances per statement of cash flows	4,088	7,234	(2)	(13)

(b) Cash at bank and on hand

Cash at bank and on hand are non-interest bearing.

(c) Deposits at call

There are no deposits at call at June 30 2006. At June 30 2005, at call deposits were bearing floating interest rates between 5.4% and 6.75%.

NOTE 8 Current assets - Trade and other receivables

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Trade receivables	8,422	12,134	-	-
Provision for doubtful receivables	(788)	(840)	-	-
	7,634	11,294	-	-
Other receivables	1,971	730	-	-
Prepayments	1,204	995	-	-
Related party receivables	-	-	20,425	9,870
	\$ 10,809	\$ 13,019	\$ 20,425	\$ 9,870

(a) Bad and doubtful trade receivables

The Group has recognised a loss of \$116,000 (2005: \$58,000) in respect of bad and doubtful trade receivables during the year ended 30 June 2006. The loss has been included in 'other expenses' in the income statement.

(b) Other receivables

Other receivables relate to supplier rebates, security deposits, key money and other sundry receivables.

(c) Effective interest rates

All trade and other receivables are non-interest bearing.

NOTE 9 Current assets - Inventories

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Raw materials	5,080	3,611	-	-
Finished goods	111,602	74,291	-	-
Packaging	1,953	2,001	-	-
Display materials	3,416	2,634	-	-
	\$ 122,051	\$ 82,537	-	-

Inventory expense

Inventories recognised as an expense during the year ended 30 June 2006 amounted to \$131,429,000 (2005: \$119,721,000). All inventories are held at cost.

NOTE 10 Current assets - Current tax receivables

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Income tax	\$ 722	-	\$ 708	\$ 197

notes to the financial statements continued

NOTE 11 Non-current assets - Property, plant and equipment

	Plant and equipment \$'000	Fixtures and fittings \$'000	Motor vehicles \$'000	Leasehold improvements \$'000	Total \$'000
GROUP					
At 1 July 2004					
Cost	13,088	10,042	1,831	22,963	47,924
Accumulated depreciation	(9,665)	(6,124)	(529)	(12,116)	(28,434)
Net book amount	\$ 3,423	\$ 3,918	\$ 1,302	\$ 10,847	\$ 19,490
Year ended 30 June 2005					
Opening net book amount	3,423	3,918	1,302	10,847	19,490
Exchange differences	(137)	(8)	(173)	(101)	(419)
Additions	1,450	1,023	603	5,097	8,173
Disposals	(93)	(20)	(228)	(218)	(559)
Depreciation charge	(1,200)	(987)	(225)	(2,803)	(5,215)
Closing net book amount	\$ 3,443	\$ 3,926	\$ 1,279	\$ 12,822	\$ 21,470
At 30 June 2005					
Cost	12,644	10,561	1,792	25,825	50,822
Accumulated depreciation	(9,201)	(6,635)	(513)	(13,003)	(29,352)
Net book amount	\$ 3,443	\$ 3,926	\$ 1,279	\$ 12,822	\$ 21,470
GROUP					
Year ended 30 June 2006					
Opening net book amount	3,443	3,926	1,279	12,822	21,470
Exchange differences	482	307	150	1,587	2,526
Additions	2,338	1,363	593	5,899	10,193
Disposals	(16)	(6)	(262)	(38)	(322)
Depreciation charge	(1,328)	(1,032)	(293)	(3,368)	(6,021)
Closing net book amount	\$ 4,919	\$ 4,558	\$ 1,467	\$ 16,902	\$ 27,846
At 30 June 2006					
Cost	15,140	12,371	2,006	31,853	61,370
Accumulated depreciation	(10,221)	(7,813)	(539)	(14,951)	(33,524)
Net book amount	\$ 4,919	\$ 4,558	\$ 1,467	\$ 16,902	\$ 27,846
PARENT					
At 1 July 2004					
Cost			23	136	159
Accumulated depreciation			(19)	(80)	(99)
Net book amount			\$ 4	\$ 56	\$ 60
Year ended 30 June 2005					
Opening net book amount			4	56	60
Additions			5	89	94
Disposals			-	(25)	(25)
Depreciation charge			(3)	(32)	(35)
Closing net book amount			\$ 6	\$ 88	\$ 94
At 30 June 2005					
Cost			28	136	164
Accumulated depreciation			(22)	(48)	(70)
Net book amount			\$ 6	\$ 88	\$ 94

	Plant and equipment \$'000	Motor vehicles \$'000	Total \$'000
PARENT			
Year ended 30 June 2006			
Opening net book amount	6	88	94
Additions	2	-	2
Disposals	-	(2)	(2)
Depreciation charge	(1)	(21)	(22)
Closing net book amount	\$ 7	\$ 65	\$ 72
At 30 June 2006			
Cost	30	89	119
Accumulated depreciation	(23)	(24)	(47)
Net book amount	\$ 7	\$ 65	\$ 72

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
NOTE 12 Non-current assets - Deferred tax assets				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	34	12	-	-
Fixed assets	2,759	3,199	(3)	(1)
Unearned income	(10)	54	-	-
Employee benefits	1,894	1,606	-	-
Retirement benefit obligations	157	59	-	-
Provision for warranties and legal costs	160	117	-	-
Other provisions	370	335	-	-
Unrealised FX losses	38	18	-	47
Impaired assets	-	119	-	-
Operating leases	285	209	-	-
Inventories	981	(560)	-	-
Prepayments	(237)	(75)	-	-
Reverse layby sales	79	(6)	-	-
Tax losses*	775	-	-	-
Net deferred tax assets	\$ 7,285	\$ 5,087	\$ (3)	\$ 46
Movements:				
Opening balance at 1 July	5,087	4,117	46	(3)
Credited (charged) to the income statement (note 6)	1,593	990	(49)	49
Foreign exchange differences	605	(20)	-	-
Closing balance at 30 June	\$ 7,285	\$ 5,087	\$ (3)	\$ 46
Expected settlement:				
Within 12 months	4,570	2,671	(1)	46
In excess of 12 months	2,715	2,416	(2)	-
	\$ 7,285	\$ 5,087	\$ (3)	\$ 46

*The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

notes to the financial statements continued

NOTE 13 Non-current assets - Intangible assets

GROUP

At 1 July 2004

	Computer software \$000	Total \$000
Cost	2,959	2,959
Accumulated amortisation	(1,489)	(1,489)
Net book amount	<u>\$ 1,470</u>	<u>\$ 1,470</u>

Year ended 30 June 2005

Opening net book amount	1,470	1,470
Additions	980	980
Disposals	(30)	(30)
Amortisation charge*	(621)	(621)
Closing net book amount	<u>\$ 1,799</u>	<u>\$ 1,799</u>

At 30 June 2005

Cost	3,095	3,095
Accumulated amortisation	(1,296)	(1,296)
Net book amount	<u>\$ 1,799</u>	<u>\$ 1,799</u>

Year ended 30 June 2006

Opening net book amount	1,799	1,799
Additions	431	431
Disposals	-	-
Amortisation charge*	(693)	(693)
Closing net book amount	<u>\$ 1,537</u>	<u>\$ 1,537</u>

At 30 June 2006

Cost	3,526	3,526
Accumulated amortisation	(1,989)	(1,989)
Net book amount	<u>\$ 1,537</u>	<u>\$ 1,537</u>

* Amortisation of \$693,000 (2005: \$621,000) is included in depreciation and amortisation expense in the income statement. The parent has no intangible assets.

NOTE 14 Non-current assets - Investments in subsidiaries

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Shares in subsidiaries	-	-	\$ 2,800	\$ 2,800

Michael Hill International Limited has a 100% direct investment holding in Michael & Company Limited. The subsidiaries of Michael & Company Limited are set out in Note 28. All investments in subsidiary companies are eliminated on consolidation.

NOTE 15 Current liabilities - Trade and other payables

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Trade payables	24,814	17,760	29	17
Accrued expenses	3,593	3,227	-	-
Deferred Income	200	207	-	-
Other payables	6,429	4,039	43	51
	<u>\$ 35,036</u>	<u>\$ 25,233</u>	<u>\$ 72</u>	<u>\$ 68</u>

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
NOTE 16 Current liabilities - Borrowings				
Secured				
Bank overdrafts	-	-	2	13
Total current borrowings	-	-	\$ 2	\$ 13

Details of the security relating to each of the secured liabilities and further information on the bank overdrafts and bank loans are set out in note 19.

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
NOTE 17 Current liabilities - Current tax liabilities				
Income tax	-	\$ 2,596	-	-

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
NOTE 18 Current liabilities - Provisions				
Employee benefits - long service leave	917	746	-	-
Returns provision	451	367	-	-
Other provisions	37	33	-	-
	\$ 1,405	\$ 1,146	-	-

(a) Employee benefits - Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(b) Returns provision

Provision is made for the estimated sale returns for the Group's 30 day change of mind policy. Management estimates the provision based on historical sale return information and any recent trends that may suggest future claims could differ from historical amounts.

(c) Other provisions

A provision has been made to restore certain sites when the related leases expire. The make good provision has been made on the basis of the discounted cash flow of the expected future make good commitments.

(d) Movements in provisions

Movements in each class of provision during the financial year are set out below:

	Employee benefits \$000	Returns provision \$000	Other provisions \$000	Total \$000
Group - 2006				
Carrying amount at start of year	746	367	33	1,146
Additional provisions recognised	181	426	-	607
Amounts incurred and charged	(98)	(377)	-	(475)
Exchange differences	88	35	4	127
Carrying amount at end of year	\$ 917	\$ 451	\$ 37	\$ 1,405

notes to the financial statements

continued

NOTE 19 Non-current liabilities - Borrowings	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Secured				
Bank loans	62,134	40,163	-	-
Total non-current borrowings	\$ 62,134	\$ 40,163	-	-

(a) Assets pledged as security

These advances, together with the bank overdraft, are secured by floating charges over all of the Group's assets. The Group utilises bank bills for financing the operations of the business and are considered long term due to the continuous rolling of the bank bills. This is subject to satisfactory annual reviews by ANZ of the Group's operations.

(b) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Credit standby arrangements				
Total facilities				
Bank overdrafts	3,165	3,147	2	13
Commercial bill acceptance facility	74,475	41,380	-	-
	\$ 77,640	\$ 44,527	\$ 2	\$ 13
Used at balance date				
Bank overdrafts	-	-	2	13
Commercial bill acceptance facility	62,134	40,163	-	-
	\$ 62,134	\$ 40,163	\$ 2	\$ 13
Unused at balance date				
Bank overdrafts	3,165	3,147	-	-
Commercial bill acceptance facility	12,341	1,217	-	-
	\$ 15,506	\$ 4,364	-	-

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. The commercial bill acceptance facility may be drawn at any time and is subject to annual review.

(c) Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods. Exposures arise predominantly from liabilities bearing variable interest rates as the Group intends to hold fixed rate liabilities to maturity. The carrying amount of commercial bills reflects fair value.

2006	Floating interest rate \$000	FIXED INTEREST RATE						Total 2006 \$000
		1 year or less \$000	Over 1 to 2 Years \$000	Over 2 to 3 Years \$000	Over 3 to 4 Years \$000	Over 4 to 5 Years \$000	Over 5 Years \$000	
Commercial bill acceptance facility (notes 16 and 19)	4,268	39,695	11,829	-	-	6,342	-	62,134
Weighted average interest rate	6.76%	6.22%	6.06%	-	-	6.75%	-	-

2005	Floating interest rate \$000	FIXED INTEREST RATE						Total 2005 \$000
		1 year or less \$000	Over 1 to 2 Years \$000	Over 2 to 3 Years \$000	Over 3 to 4 Years \$000	Over 4 to 5 Years \$000	Over 5 Years \$000	
Commercial bill acceptance facility (notes 16 and 19)	18,152	11,467	-	10,544	-	-	-	40,163
Weighted average interest rate	5.76%	5.87%	-	6.06%	-	-	-	-

NOTE 20 Non-current liabilities - Provisions

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Employee benefits - long service leave	1,004	928	-	-

The basis used to measure the liability for long service leave is set out in note 18.

	Employee benefits \$000	Total 2006 \$000
Group - 2006		
Carrying amount at start of year	928	928
Additional provisions recognised	(34)	(34)
Exchange differences	110	110
Carrying amount at end of year	\$ 1,004	\$ 1,004

NOTE 21 Contributed equity**(a) Share capital**

	PARENT		PARENT	
	2006 Shares	2005 Shares	2006 \$000	2005 \$000
Ordinary shares - Fully paid	39,308,600	38,708,600	14,235	12,031
- Treasury stock held for Employee Share Scheme	(75,654)	(91,436)	(377)	(456)
	39,232,946	38,617,164	\$ 13,858	\$ 11,575

(b) Movements in ordinary share capital:

DATE	DETAILS	NUMBER OF SHARES	ISSUE PRICE	\$000
1 July 2004	Opening balance	38,658,600		11,737
29 March 2005	Employee share scheme issue	29,652	\$8.00	237
29 March 2005	Transfer from treasury stock	(29,652)	\$4.25	(126)
29 June 2005	Exercise of 2000 options	50,000	\$3.66	183
30 June 2005	Balance	38,708,600		\$ 12,031
1 July 2005	Opening balance	38,708,600		12,031
31 August 2005	Exercise of 2000 options	50,000	\$3.66	183
10 March 2006	Exercise of 2000 options	100,000	\$3.66	366
27 March 2006	Employee share scheme issue	15,782	\$7.21	114
27 March 2006	Transfer from treasury stock	(15,782)	\$6.40	(101)
30 June 2006	Exercise of 2000 options	450,000	\$3.66	1,642
30 June 2006	Balance	39,308,600		\$ 14,235

(c) Movements in treasury stock

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Balance 1 July	456	604	456	604
Treasury stock acquired during the year	-	-	-	-
Allocated to employee share ownership plan	(79)	(148)	(79)	(148)
Balance 30 June	\$ 377	\$ 456	\$ 377	\$ 456

notes to the financial statements continued

NOTE 21 Contributed equity cont.

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(e) Employee share scheme

Information relating to the Michael Hill International Limited Employee Share Scheme, including details of shares issued under the scheme, is set out in note 32.

(f) Options

Information relating to the Michael Hill International Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 32.

NOTE 22 Reserves and retained profits

(a) Reserves

Share-based payments reserve
Foreign currency translation reserve

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
	32	23	32	23
	4,058	(481)	-	-
	\$ 4,090	(\$ 458)	\$ 32	\$ 23

Movements: share-based payments reserve

Balance 1 July
Option expense
Balance 30 June

	23	14	23	14
	9	9	9	9
	\$ 32	\$ 23	\$ 32	\$ 23

Movements: foreign currency translation reserve

Balance 1 July
Currency translation differences arising during the year
Balance 30 June

	(481)	-	-	-
	4,539	(481)	-	-
	\$ 4,058	(\$ 481)	-	-

(b) Retained profits

Movements in retained profits were as follows:

Balance 1 July
Net profit for the year
Dividends
Balance 30 June

	49,963	42,017	1,328	1,736
	15,774	16,442	17,636	8,088
	(8,926)	(8,496)	(8,926)	(8,496)
	\$ 56,811	\$ 49,963	\$ 10,038	\$ 1,328

(i) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

NOTE 23 Dividends**(a) Ordinary shares**

Final dividend for the year ended 30 June 2005 of 14 cents (2004 - 13 cents) per fully paid share paid on 17 October 2005 (2004 - 18 October 2004). Dividends are fully imputed based on tax paid at 33%.

Interim dividend for the year ended 30 June 2006 of 9 cents (2005 - 9 cents) per fully paid share paid on 3 April 2006 (2005 - 29 March 2005). Dividends are fully imputed based on tax paid at 33%.

Total dividends provided for or paid

		PARENT	
	2006	2005	
	\$000	\$000	
	5,433	5,020	
	3,493	3,476	
	\$ 8,926	\$ 8,496	

(b) Dividends not recognised at year end

Since year end, the directors have declared the payment of a final dividend of 14 cents per fully paid ordinary share (2005 - 14 cents), fully imputed based on tax paid at 33%. The aggregate amount of the proposed dividend expected to be paid on 16 October 2006 out of retained profits at 30 June 2006, but not recognised as a liability at year end, is

	\$ 5,492	\$ 5,412
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(c) Imputed dividends

The dividends are fully imputed. Supplementary dividends of \$220,000 (2005: \$141,000) were paid to shareholders not tax resident in New Zealand for which the Group received a foreign investor tax credit entitlement.

The imputed portions of the final dividends recommended after 30 June 2006 will be imputed out of existing imputation credits or out of imputation credits arising from the payment of income tax in the year ending 30 June 2006.

	GROUP		PARENT	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
Imputation credits available for subsequent financial years based on a tax rate of 33% (2005 - 33%)	\$ 742	\$ 1,281	\$ 1,388	\$ 1,535

The above amounts represent the balance of the imputation account as at the end of the financial year, adjusted for:

- imputation credits that will arise from the payment of the amount of the provision for income tax
- imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include imputation credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

The impact on the imputation account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the imputation account of \$2,705,000 (2005: \$2,666,000).

NOTE 24 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	GROUP		PARENT	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
(a) Assurance services				
Audit services				
PricewaterhouseCoopers New Zealand firm				
Audit and review of financial reports and other audit work	-	52	-	-
Related practices of PricewaterhouseCoopers New Zealand firm				
Audit and review of financial reports and other audit work	245	226	-	-
Total remuneration for audit services	\$ 245	\$ 278	-	-
Other assurance services				
Related practices of PricewaterhouseCoopers New Zealand firm				
IFRS accounting services	54	7	-	-
Other assurance services	32	-	-	-
Total remuneration for other assurance services	\$ 86	7	-	-
Total remuneration for assurance services	\$ 331	\$ 285	-	-

notes to the financial statements continued

NOTE 24 Remuneration of auditors cont.

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
(b) Taxation services				
PricewaterhouseCoopers New Zealand firm				
Tax compliance services, including review of company income tax returns	87	134	-	-
International tax consulting	19	-	-	-
Related practices of PricewaterhouseCoopers New Zealand firm				
Tax compliance services, including review of company income tax returns	138	155	-	-
International tax consulting	28	161	-	-
Total remuneration for taxation services	\$ 272	\$ 450	-	-
(c) Advisory services				
Related practices of PricewaterhouseCoopers New Zealand firm				
Advisory Services	7	108	-	-
Total remuneration for taxation services	\$ 7	\$ 108	-	-

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

NOTE 25 Contingencies

(a) Contingent liabilities

The parent entity and Group had contingent liabilities at 30 June 2006 in respect of guarantees to bankers and other financial institutions of subsidiary companies' overdraft facilities and fixed assets at 30 June 2006 of \$47,183,000 (30 June 2005 - \$43,175,000).

No material losses are anticipated in respect of any of the above contingent liabilities.

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

(b) Contingent assets

The company has no material contingent assets existing as at balance date.

NOTE 26 Commitments

Operating leases

The Group leases all shops and in addition, various offices and warehouses under non-cancellable operating leases expiring within various periods of up to sixteen years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

The Group also leases various plant and machinery under cancellable operating leases. The Group is required to give six months notice for termination of these leases.

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	17,588	16,345	-	-
Later than one year but not later than five years	48,583	46,790	-	-
Later than five years	12,051	8,913	-	-
	\$ 78,222	\$ 72,048	-	-

NOTE 27 Related party transactions**(a) Directors**

The names of persons who were directors of the company at any time during the financial year are as follows: R M Hill, M R Parsell, L W Peters, G J Gwynne, M R Doyle, A C Hill.

(b) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2006 and 2005 is set out below. The key management personnel are all the directors of the company and the five executives with the greatest authority for the strategic direction and management of the company.

	SHORT-TERM BENEFITS	POST-EMPLOYMENT BENEFITS	OTHER LONG- TERM BENEFITS	TERMINATION BENEFITS	SHARE-BASED PAYMENTS	TOTAL
	\$000	\$000	\$000	\$000	\$000	\$000
2006	1,747	130	-	-	5	1,882
2005	2,178	153	-	-	5	2,336

(c) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

Employee Share Scheme

Key management personnel subscribed in cash for ordinary shares via the Michael Hill International Limited Employee Share Scheme. The shares were acquired on the same terms and conditions that applied to other employees.

(d) Subsidiaries

The ultimate parent and controlling entity of the group is Michael Hill International Limited.

Interests in subsidiaries are set out in Note 28.

The following transactions occurred with related parties:

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Interest expense				
Subsidiaries	-	-	-	286
	-	-	-	\$ 286
Dividend revenue				
Subsidiaries	-	-	18,233	9,000
	-	-	\$ 18,233	\$ 9,000
Payments made on behalf of parent entity				
Director's fees	-	-	367	389
Other expenses	-	-	457	435
	-	-	\$ 824	\$ 824
Loans to subsidiaries				
Opening balance	-	-	9,870	10,002
Loans advanced	-	-	20,682	9,868
Loans repaid	-	-	(10,127)	(10,000)
Closing balance	-	-	\$ 20,425	\$ 9,870

notes to the financial statements continued

NOTE 28 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b).

There were no subsidiary companies purchased or sold during the year end 30 June 2006.

	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING	
			2006 %	2005 %
Michael Hill Jeweller Limited	New Zealand	Ordinary	100	100
Michael & Company Limited	New Zealand	Ordinary	100	100
Michael Hill Trustee Company Limited	New Zealand	Ordinary	100	100
Michael Hill Jeweller (Australia) Pty Limited	Australia	Ordinary	100	100
Michael Hill (Wholesale) Pty Limited	Australia	Ordinary	100	100
Michael Hill Manufacturing Pty Limited	Australia	Ordinary	100	100
Michael Hill Jeweller Limited	Canada	Ordinary	100	100

NOTE 29 Events occurring after the balance sheet date

There were no significant events occurring after 30 June 2006.

NOTE 30 Reconciliation of profit after income tax to net cash inflow from operating activities

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Profit for the year	15,774	16,442	17,636	8,088
Depreciation	6,021	5,215	22	35
Amortisation	693	621	-	-
Non-cash employee benefits expense - share-based payments	26	60	26	60
Net (gain) loss on sale of non-current assets	106	220	-	(15)
Deferred taxation	(1,571)	(1,514)	49	(49)
Net exchange differences	7,099	(187)	(86)	-
Decrease (increase) in trade and other receivables	2,411	(3,243)	-	-
Decrease (increase) in inventories	(39,598)	(8,137)	-	-
Decrease (increase) in current tax receivables	-	-	(511)	-
Increase (decrease) in trade and other payables	9,482	(599)	4	155
Increase (decrease) in current tax liabilities	(3,033)	1,461	-	(119)
Increase (decrease) in provisions	230	(118)	-	-
Net cash (outflow) inflow from operating activities	(\$ 2,360)	\$ 10,221	\$ 17,140	\$ 8,155

NOTE 31 Earnings per share**(a) Basic earnings per share**

Profit attributable to the ordinary equity holders of the company

GROUP	
2006	2005
Cents	Cents
40.8	42.7

(b) Diluted earnings per share

Profit attributable to the ordinary equity holders of the company

40.5	41.7
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(c) Reconciliations of earnings used in calculating earnings per share**Basic earnings per share**

Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share

GROUP	
2006	2005
\$000	\$000
\$ 15,774	\$ 16,442

Diluted earnings per share

Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share

\$ 15,774	\$ 16,442
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(d) Weighted average number of shares used as the denominator**Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share**

Adjustments for calculation of diluted earnings per share:

Options

Treasury Stock

GROUP	
2006	2005
Number	Number
38,695,064	38,546,437
200,000	800,000
75,654	91,436
38,970,718	39,437,873

Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share**(e) Information concerning the classification of securities****(i) Options**

Options granted to employees under the Michael Hill International Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 32.

(ii) Treasury Stock

Treasury stock held under the Michael Hill International Limited Employee Share Scheme are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. Treasury stock have not been included in the determination of basic earnings per share. Details relating to treasury stock are set out in note 32.

notes to the financial statements continued

NOTE 32 Share-based payments

(a) Employee Option Plan

Options are granted from time to time at the discretion of directors to senior executives within the group. Motions to issue options to related parties of Michael Hill International Limited are subject to the approval of shareholders at the Annual General Meeting in accordance with the Group's constitution.

Options are granted under the plan for no consideration. Options are granted for a six year period and are only exercisable in the final 3 years. 25% of the options granted are exercisable during the fourth year, a further 25% during the fifth year and the remaining options outstanding can be exercised in the final year.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of the options granted is set at 15% above the weighted average price at which the company's shares are traded on the New Zealand Stock Exchange for the calendar month following the announcement by the Group to the New Zealand Stock Exchange of its annual results.

Set out below are summaries of options granted under the plan:

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR Number	GRANTED DURING THE YEAR Number	EXERCISED DURING THE YEAR Number	EXPIRED DURING THE YEAR Number	BALANCE AT END OF THE YEAR Number	EXERCISABLE AT END OF THE YEAR Number
GROUP AND PARENT - 2006								
9 October 2000	30 June 2006	\$3.66	600,000	-	(600,000)	-	-	-
22 August 2002	30 June 2008	\$6.15	200,000	-	-	-	200,000	50,000
Total			800,000	-	(600,000)	-	200,000	50,000
Weighted average exercise price			\$4.28	-	\$3.66	-	\$6.15	\$6.15
GROUP AND PARENT - 2005								
9 October 2000	30 June 2006	\$3.66	650,000	-	(50,000)	-	600,000	275,000
22 August 2002	30 June 2008	\$6.15	200,000	-	-	-	200,000	0
Total			850,000	-	(50,000)	-	800,000	275,000
Weighted average exercise price			\$4.25	-	\$3.66	-	\$4.28	\$3.66

No options were forfeited during the periods covered by the above tables.

No options were granted during the 2005 and 2006 financial years.

The weighted average share price at the date of exercise of options exercised regularly during the year ended 30 June 2006 was \$7.52 (2005 - \$7.60).

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.0 years (2005 - 1.5 years).

Details of options granted

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 Group, including 300,000 to Mike Parsell in his capacity of CEO of the Group. The issue of options for Mike Parsell was subject to the approval of the 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. The exercise price of \$3.66 for all 750,000 options was set at 15% above the weighted average price of the ordinary shares over the calendar month following the announcement by the Company to the New Zealand Stock Exchange of its consolidated 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 their entitlement and any part of their entitlement not exercised in the previous period, so that not more than 50% of the option holders' 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 their entitlement as has not been previously exercised.

The value of the options was calculated using the Black-Scholes option valuation model and the value of the options at the time of granting was \$36,450 for the options available to Mike Parsell and \$40,800 collectively for the other four option holders.

On the 22nd August 2002, the Directors authorised the issue of a further 200,000 options to two senior management personnel in the Group, including 100,000 to Emma Hill in her capacity of General Manager Canada. The issue of options for Emma Hill was subject to the approval of the shareholders at the annual meeting on the 28th November 2002, in accordance with the Company's constitution. The motion to issue options to Emma Hill was passed at the annual meeting. The exercise price for these options was set at \$6.15 which was set at 15% above the weighted average 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 consolidated results for the year ended 30 June 2002.

The options may be exercised in the period from 1 July 2005 to 30 June 2008 on the following basis:

- (1) In the period 1 July 2005 to 30 June 2006, the option holder may not exercise more than 25% of the entitlement.
- (2) In the period 1 July 2006 to 30 June 2007, the option holder may exercise the aggregate of 25% of their entitlement and any part of their entitlement not exercised in the previous period, so that not more than 50% of the option holders' entitlement is exercised prior to 30 June 2007.
- (3) In the period 1 July 2007 to 30 June 2008, the option holder may exercise such of their entitlement as has not been previously exercised.

The value of the options was calculated using the Black-Scholes option valuation model and the value of the options at the time of granting was \$42,000 collectively for two option holders.

(b) Employee share scheme

The Michael Hill International Limited Employee Share Scheme was established by Michael Hill International Limited in 2001 to assist employees to become shareholders of the Company. Employees are able to purchase shares in the Company at a 10% discount to the average market price over the two weeks prior to the invitation to purchase. 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.

	GROUP		PARENT	
	2006 Number	2005 Number	2006 Number	2005 Number
The plan held the following ordinary shares at the end of the year:				
Shares issued to participating employees (fully paid)	15,782	29,652	15,782	29,652
Not yet allocated to employees	75,654	91,436	75,654	91,436
	91,436	121,088	91,436	121,088

During the year 15,782 (2005 - 29,652) shares were issued to the Michael Hill Employee Share Ownership Plan at an average price of \$6.16 (2005 - \$6.96).

Michael Hill International Limited acquired no shares (2005 - 0) through on-market purchases on the New Zealand Stock Exchange during the year.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Options issued under employee option plan	9	9	9	9
Shares issued under employee share scheme	17	51	17	51
	\$ 26	\$ 60	\$ 26	\$ 60

notes to the
financial statements continued

NOTE 33 Explanation of transition to New Zealand equivalents to IFRS**33.1 Reconciliation of Balance Sheet reported under previous NZGAAP to Balance Sheet under NZIFRS**
(a) GROUP - at the date of transition to NZIFRS: 1 July 2004

	NOTES (33.5)	NZGAAP as at 30 Jun 2004 \$'000	Effect of transition to NZIFRS \$'000	Presentation adjustments \$'000	NZIFRS as at 1 Jul 2004 \$'000
ASSETS					
Current assets					
Cash and cash equivalents		14,017	-	-	14,017
Trade and other receivables	b	15,868	(7,887)	1,795	9,776
Inventories	b	67,462	6,938	-	74,400
Other current assets	a,c	1,643	144	(1,787)	-
Total current assets		98,990	(805)	8	98,193
Non-current assets					
Property, plant & equipment	a,d	21,394	(434)	(1,470)	19,490
Deferred tax assets	b,c,d,f,g,h,k	2,225	1,892	-	4,117
Intangible assets	e	214	(214)	1,470	1,470
Expenditure carried forward	a	8	-	(8)	-
Total non-current assets		23,841	1,244	(8)	25,077
Total assets		\$ 122,831	\$ 439	-	\$ 123,270
LIABILITIES					
Current liabilities					
Trade and other payables	a,b,g	9,102	4,496	12,880	26,478
Current tax liabilities		1,151	-	-	1,151
Provisions	a,f,h	-	385	572	957
Other current liabilities	a	12,880	-	(12,880)	-
Total current liabilities		23,133	4,881	572	28,586
Non-current liabilities					
Borrowings		40,604	-	-	40,604
Provisions	a	1,487	-	(572)	915
Total non-current liabilities		42,091	-	(572)	41,519
Total liabilities		\$ 65,224	\$ 4,881	-	\$ 70,105
Net assets		\$ 57,607	(\$ 4,442)	-	\$ 53,165
EQUITY					
Contributed equity	a	8,078	-	3,056	11,134
Reserves	a,i,j	197	3,468	(3,651)	14
Retained profits	m	49,927	(7,910)	-	42,017
Treasury stock	a	(595)	-	595	-
Total equity		\$ 57,607	(\$ 4,442)	-	\$ 53,165

NOTE 33 Explanation of transition to New Zealand equivalents to IFRS cont.**33.1 Reconciliation of Balance Sheet reported under previous NZGAAP to Balance Sheet under NZIFRS**
(b) PARENT - at the date of transition to NZIFRS: 1 July 2004

	NOTES (33.5)	NZGAAP as at 30 Jun 2004 \$'000	Effect of transition to NZIFRS \$'000	Presentation adjustments \$'000	NZIFRS as at 1 Jul 2004 \$'000
ASSETS					
Current assets					
Trade and other receivables	a	-	-	10,002	10,002
Current tax receivables		78	-	-	78
Total current assets		78	-	10,002	10,080
Non-current assets					
Property, plant & equipment		60	-	-	60
Deferred tax assets	a	-	-	(3)	(3)
Investments in subsidiaries	a	12,802	-	(10,002)	2,800
Total non-current assets		12,862	-	(10,005)	2,857
Total assets		\$ 12,940	-	(\$ 3)	\$ 12,937
LIABILITIES					
Current liabilities					
Trade and other payables	a	-	-	46	46
Borrowings		7	-	-	7
Provisions	a	46	-	(46)	-
Total current liabilities		53	-	-	53
Non-current liabilities					
Deferred tax liabilities	a	3	-	(3)	-
Total non-current liabilities		3	-	(3)	-
Total liabilities		\$ 56	-	(\$ 3)	\$ 53
Net assets		\$ 12,884	-	-	\$ 12,884
EQUITY					
Contributed equity	a	8,078	-	3,056	11,134
Reserves	a,j	3,650	14	(3,650)	14
Retained profits	n	1,751	(14)	(1)	1,736
Treasury stock	a	(595)	-	595	-
Total equity		\$ 12,884	-	-	\$ 12,884

notes to the financial statements continued

NOTE 33 Explanation of transition to New Zealand equivalents to IFRS cont.

33.1 Reconciliation of Balance Sheet reported under previous NZGAAP to Balance Sheet under NZIFRS (c) GROUP - at the end of the last reporting period under previous NZGAAP: 30 June 2005

	NOTES (33.5)	NZGAAP as at 30 Jun 2005 \$'000	Effect of transition to NZIFRS \$'000	Presentation adjustments \$'000	NZIFRS as at 30 Jun 2005 \$'000
ASSETS					
Current assets					
Cash and cash equivalents		7,234	-	-	7,234
Trade and other receivables	b	17,133	(6,506)	2,392	13,019
Inventories	b	76,962	5,591	(16)	82,537
Other current assets	a	2,120	-	(2,120)	-
Total current assets		103,449	(915)	256	102,790
Non-current assets					
Property, plant & equipment	a,d	23,632	(363)	(1,799)	21,470
Deferred tax assets	b,c,d,f,g,h,k	3,193	1,894	-	5,087
Intangible assets	e	143	(143)	1,799	1,799
Expenditure carried forward	a	4	-	(4)	-
Total non-current assets		26,972	1,388	(4)	28,356
Total assets		\$ 130,421	\$ 473	\$ 252	\$ 131,146
LIABILITIES					
Current liabilities					
Trade and other payables	a,b,c,g	10,624	4,382	10,227	25,233
Current tax liabilities		2,596	-	-	2,596
Provisions	a,f,h	-	400	746	1,146
Other current liabilities	a	9,974	-	(9,974)	-
Total current liabilities		23,194	4,782	999	28,975
Non-current liabilities					
Borrowings		40,163	-	-	40,163
Provisions	a	1,675	-	(747)	928
Total non-current liabilities		41,838	-	(747)	41,091
Total liabilities		\$ 65,032	\$ 4,782	\$ 252	\$ 70,066
Net assets		\$ 65,389	(\$ 4,309)	-	\$ 61,080
EQUITY					
Contributed equity	a	8,261	31	3,283	11,575
Reserves	a,i,j	(424)	3,616	(3,650)	(458)
Retained profits	m	57,919	(7,956)	-	49,963
Treasury stock	a	(367)	-	367	-
Total equity		\$ 65,389	(\$ 4,309)	-	\$ 61,080

NOTE 33 Explanation of transition to New Zealand equivalents to IFRS cont.**33.1 Reconciliation of Balance Sheet reported under previous NZGAAP to Balance Sheet under NZIFRS**
(d) PARENT - at the end of the last reporting period under previous NZGAAP: 30 June 2005

	NOTES (33.5)	NZGAAP as at 30 Jun 2005 \$'000	Effect of transition to NZIFRS \$'000	Presentation adjustments \$'000	NZIFRS as at 30 Jun 2005 \$'000
ASSETS					
Current assets					
Trade and other receivables	a,l	-	(143)	10,013	9,870
Current tax receivables		197	-	-	197
Total current assets		197	(143)	10,013	10,067
Non-current assets					
Property, plant & equipment		94	-	-	94
Deferred tax assets	a,l	-	47	(1)	46
Investments in subsidiaries	a	12,813	-	(10,013)	2,800
Total non-current assets		12,907	47	(10,014)	2,940
Total assets		\$ 13,104	(\$ 96)	(\$ 1)	\$ 13,007
LIABILITIES					
Current liabilities					
Trade and other payables	a	-	-	68	68
Borrowings		13	-	-	13
Provisions	a	68	-	(68)	-
Total current liabilities		81	-	-	81
Non-current liabilities					
Deferred tax liabilities	a	1	-	(1)	-
Total non-current liabilities		1	-	(1)	-
Total liabilities		\$ 82	-	(\$ 1)	\$ 81
Net assets		\$ 13,022	(\$ 96)	-	\$ 12,926
EQUITY					
Contributed equity	a,j	8,261	31	3,283	11,575
Reserves	a,j	3,650	23	(3,650)	23
Retained profits	n	1,478	(150)	-	1,328
Treasury stock	a	(367)	-	367	-
Total equity		\$ 13,022	(\$ 96)	-	\$ 12,926

notes to the
financial statements continued

NOTE 33 Explanation of transition to New Zealand equivalents to IFRS cont.

33.2 Reconciliation of Income Statement reported under previous NZGAAP to Income Statement under NZIFRS

(a) GROUP - Income Statement for the year ended 30 June 2005

	NOTES (33.5)	NZGAAP year ended 30 Jun 2005 \$'000	Effect of transition to NZIFRS \$'000	NZIFRS year ended 30 Jun 2005 \$'000
Revenue from continuing operations	b,f	271,573	1,578	273,151
Other income		1,584	-	1,584
Cost of goods sold	b	(118,425)	(1,296)	(119,721)
Employee benefits expense	j	(64,935)	(60)	(64,995)
Occupancy costs		(19,175)	-	(19,175)
Depreciation and amortisation expense	d	(5,902)	66	(5,836)
Impairment of goodwill	e	(71)	71	-
Loss on disposal of property, plant and equipment		(220)	-	(220)
Other expenses	g,k	(37,460)	(379)	(37,839)
Finance costs	c	(2,618)	(65)	(2,683)
Profit before Income tax		24,351	(85)	24,266
Income tax expense		(7,841)	17	(7,824)
Profit from continuing operations		16,510	(68)	16,442
Profit attributable to members of Michael Hill International Ltd		\$ 16,510	(\$ 68)	\$ 16,442

(b) PARENT - Income Statement for the year ended 30 June 2005

	NOTES (33.5)	NZGAAP year ended 30 Jun 2005 \$'000	Effect of transition to NZIFRS \$'000	NZIFRS year ended 30 Jun 2005 \$'000
Revenue from continuing operations		9,000	-	9,000
Other income		20	-	20
Employee benefits expense	j	(191)	(60)	(251)
Depreciation and amortisation expense		(35)	-	(35)
Other expenses	l	(634)	(144)	(778)
Finance costs		(287)	-	(287)
Profit before Income tax		7,873	(204)	7,669
Income tax expense		372	47	419
Profit from continuing operations		8,245	(157)	8,088
Profit attributable to members of Michael Hill International Ltd		\$ 8,245	(\$ 157)	\$ 8,088

NOTE 33 Explanation of transition to New Zealand equivalents to IFRS cont.**33.3 Reconciliation of equity as presented under NZGAAP to that under NZIFRS****(a) GROUP - statement of movements in equity for the year ended 30 June 2005**

	NOTES (33.5)	1 Jul 2004 \$'000	30 Jun 2005 \$'000
Total equity under NZGAAP		57,607	65,389
Reversal of sales under layby	b	(3,474)	(3,242)
Fair value of interest swaps	c	101	54
Impairment of assets	d	(304)	(254)
Goodwill written off	e	(214)	(214)
Amortisation expense written back	e	-	71
Establishment of 30 day guarantee provision	f	(242)	(254)
Adjustment to straight line operating lease rent expense	g	(293)	(480)
Make good provision	h	(23)	(23)
Exchange variance on adjustments	k	7	33
Adjustment to total equity		(4,442)	(4,309)
Total equity under NZIFRS		\$ 53,165	\$ 61,080

(b) PARENT - statement of movements in equity for the year ended 30 June 2005

	NOTES (33.5)	1 Jul 2004 \$'000	30 Jun 2005 \$'000
Total equity under NZGAAP		12,884	13,022
Reversal of sales under layby	b	-	-
Fair value of interest swaps	c	-	-
Impairment of assets	d	-	-
Goodwill written off	e	-	-
Amortisation expense written back	e	-	-
Establishment of 30 day guarantee provision	f	-	-
Adjustment to straight line operating lease rent expense	g	-	-
Make good provision	h	-	-
Exchange variance on adjustments	l	-	(96)
Adjustment to total equity		-	(96)
Total equity under NZIFRS		\$ 12,884	\$ 12,926

notes to the financial statements continued

NOTE 33 Explanation of transition to New Zealand equivalents to IFRS cont.

33.4 Reconciliation of profit after income tax to net cash inflow from operating activities as presented under NZGAAP to that under NZIFRS

(a) GROUP - reconciliation of profit after income tax to net cash inflow from operating activities for the year ended 30 June 2005

	NZGAAP June 2005	Effect of transition to NZIFRS	Presentation adjustments	NZIFRS June 2005
	\$'000	\$'000	\$'000	\$'000
Profit for the year	16,510	(68)	-	16,442
Depreciation	5,282	(67)	-	5,215
Amortisation	621	-	-	621
Impairment of goodwill	71	(71)	-	-
Non-cash employee benefits expense - share based payments	-	60	-	60
Net (gain) loss on sale of non-current assets	220	-	-	220
Deferred taxation	(1,497)	(17)	-	(1,514)
Net exchange differences	(128)	(59)	-	(187)
Amortisation of expenditure carried forward	4	-	(4)	-
Add / (less) movements in working capital items				
Decrease (increase) in trade and other receivables	(1,778)	(1,465)	-	(3,243)
Decrease (increase) in inventories	(10,230)	2,093	-	(8,137)
Increase (decrease) in trade and other payables	(447)	(288)	136	(599)
Increase (decrease) in current tax liabilities	1,461	-	-	1,461
Increase (decrease) in provisions	-	(118)	-	(118)
Net cash flows from operating activities	\$ 10,089	-	\$ 132	\$ 10,221

(b) PARENT - reconciliation of profit after income tax to net cash inflow from operating activities for the year ended 30 June 2005

	NZGAAP June 2005	Effect of transition to NZIFRS	Presentation adjustments	NZIFRS June 2005
	\$'000	\$'000	\$'000	\$'000
Profit for the year	8,245	(157)	-	8,088
Depreciation	35	-	-	35
Non-cash employee benefits expense - share based payments	-	60	-	60
Net (gain) loss on sale of non-current assets	(15)	-	-	(15)
Deferred taxation	(2)	(47)	-	(49)
Add / (less) movements in working capital items				
Increase (decrease) in trade and other payables	217	144	(206)	155
Increase (decrease) in current tax liabilities	(119)	-	-	(119)
Net cash flows from operating activities	\$ 8,361	-	(\$ 206)	\$ 8,155

There has been no material adjustment made to the cashflow statement following adoption of NZIFRS.

NOTE 33 Explanation of transition to New Zealand equivalents to IFRS cont.**33.5 Notes to Restated Financial Information****(a) PRESENTATIONAL ADJUSTMENTS**

NZ IAS 1 specifies how financial information should be presented under NZ IFRS. The previous Statement of Financial Performance is now referred to as the Income Statement and the previous Statement of Financial Position is now referred to as the Balance Sheet.

Other presentation differences in the Balance Sheet include:

- Share premium reserve is classified as contributed equity rather than as reserves.
- Treasury stock is classified as a reduction in contributed equity rather than separately disclosed in equity.
- Long Service Leave was previously classified as a provision under non-current liabilities. It is now separated into current and non-current components.
- Other current assets, principally sundry debtors and prepayments are now classified as trade and other receivables.
- Other current liabilities, principally annual leave and accruals for wages and salaries are now classified as trade and other payables.
- Software is classified as an intangible asset rather than as item of property, plant & equipment where that software is not integral to a piece of equipment.
- Key money is classified as trade and other receivables rather than expenditure carried forward.
- In finalising the restatement to NZIFRS, minor adjustments between trade and other payables, inventories and trade and other receivables have been made in June 2005.

(b) REVENUE RECOGNITION

Revenues received in advance from layby transactions have been excluded from sales and deferred until the layby sale is fully completed. Under NZ IAS18, revenue from the sale of goods is not recognised until ownership and possession of the goods have fully transferred to the buyer. The effect of this is:

(i) at 1 July 2004

An increase in payables of \$4.075m, a decrease in receivables of \$7.887m, an increase in inventory of \$6.938m and an increase in deferred tax assets of \$1.550m. The resulting effect on retained earnings is a decrease of \$3.474m.

(ii) at 30 June 2005

An increase in payables of \$3.770m, a decrease in receivables of \$6.506m, an increase in inventory of \$5.591m and an increase in deferred tax assets of \$1.443m. The resulting effect on retained earnings is a decrease of \$3.242m.

(iii) for the year ended 30 June 2005

An increase in sales revenue of \$1.596m and an increase in cost of goods sold of \$1.296m.

(c) FAIR VALUE OF INTEREST SWAPS

Under NZ IAS 39, financial instruments are to be valued at fair value at each accounting period and any gain or loss booked to the Income Statement. The effect of this is:

(i) at 1 July 2004

An increase in other current assets of \$0.144m and a decrease in deferred tax assets of \$0.043m. The resulting effect on retained earnings is an increase of \$0.101m.

(ii) at 30 June 2005

An decrease in payables of \$0.077m and a decrease in deferred tax assets of \$0.023m. The resulting effect on retained earnings is an increase of \$0.054m.

(iii) for the year ended 30 June 2005

An increase in net finance costs of \$0.065m.

(d) IMPAIRMENT OF ASSETS

NZ IAS36 requires that assets be tested for impairment annually at a Cash Generating Unit (CGU) level. Application of these requirements at transition (1 July 2004) identified an impairment write down for property plant & equipment. In addition to recording the impairment, the depreciation expense in relation to this asset since 1 July 2004 has been written back to retained profits in each period. The effect of this is:

(i) at 1 July 2004

A decrease in property, plant & equipment of \$0.434m and an increase in deferred tax assets of \$0.130m. The resulting effect on retained earnings is a decrease of \$0.304m.

(ii) at 30 June 2005

A decrease in property, plant & equipment of \$0.363m and an increase in deferred tax assets of \$0.109m. The resulting effect on retained earnings is a decrease of \$0.254m.

(iii) for the year ended 30 June 2005

A decrease in depreciation expense of \$0.066m.

(e) IMPAIRMENT OF GOODWILL

NZ IAS36 requires that goodwill be tested for impairment annually at a Cash Generating Unit (CGU) level. Application of these requirements at transition (1 July 2004) identified an impairment write down for goodwill. In addition to recording the impairment, the amortisation expense in relation to this asset since 1 July 2004 has been written back to retained profits in each period. The effect of this is:

(i) at 1 July 2004

A decrease in intangibles of \$0.214m. The resulting effect on retained earnings is a decrease of \$0.214m.

(ii) at 30 June 2005

A decrease in intangibles of \$0.143m. The resulting effect on retained earnings is a decrease of \$0.143m.

(iii) for the year ended 30 June 2005

A decrease in amortisation expense of \$0.071m.

(f) PROVISION FOR SALE RETURNS

A provision for estimated sales returns has been established for the Company 30 day change of mind policy. Based on prior periods, the estimated value of goods that will be returned has been established and sales reduced accordingly. The effect of this is:

(i) at 1 July 2004

An increase in current provisions of \$0.352m and an increase in deferred tax assets of \$0.110m. The resulting effect on retained earnings is a decrease of \$0.242m.

(ii) at 30 June 2005

An increase in current provisions of \$0.367m and an increase in deferred tax assets of \$0.113m. The resulting effect on retained earnings is a decrease of \$0.254m.

notes to the financial statements continued

NOTE 33 Explanation of transition to New Zealand equivalents to IFRS cont.

33.5 Notes to Restated Financial Information

(iii) **for the year ended 30 June 2005**

A decrease in sales revenue of \$0.018m.

(g) STRAIGHT LINE OPERATING LEASE RENTAL

Under NZ IAS17, lease payments under operating leases are required to be recognised as an expense on a straight line basis over the lease term. Accordingly, lease increases due to fixed rent review mechanisms that will occur in future years have been expensed over the term of the lease. The effect of this is:

(i) **at 1 July 2004**

An increase in payables of \$0.421m and an increase in deferred tax assets of \$0.128m. The resulting effect on retained earnings is a decrease of \$0.293m.

(ii) **at 30 June 2005**

An increase in payables of \$0.689m and an increase in deferred tax assets of \$0.209m. The resulting effect on retained earnings is a decrease of \$0.480m.

(iii) **for the year ended 30 June 2005**

An increase in other expenses of \$0.298m.

(h) MAKE GOOD PROVISION

An obligation exists to restore certain sites when the related leases expire. Under previous NZ GAAP, the cost of rectification was recognised as an expense when incurred. In accordance with NZ IFRS, a provision is made on the basis of the discounted cash flow of the expected future make good commitments.

The effect of this is:

(i) **at 1 July 2004**

An increase in current provisions of \$0.033m and an increase in deferred tax assets of \$0.010m. The resulting effect on retained earnings is a decrease of \$0.023m.

(ii) **at 30 June 2005**

An increase in current provisions of \$0.033m and an increase in deferred tax assets of \$0.010m. The resulting effect on retained earnings is a decrease of \$0.023m.

(iii) **for the year ended 30 June 2005**

No effect on the full-year result.

(i) FOREIGN EXCHANGE TRANSLATION RESERVE

NZ IFRS 1 permits companies adopting NZ IFRS for the first time to take some exemptions from the full requirements of NZ IFRS when applying those standards to the comparative period. Michael Hill International Limited applied this exemption and the balance of the foreign currency translation reserve was transferred to retained earnings at 1 July 2004. The effect of this is:

(i) **at 1 July 2004**

An increase in the foreign currency translation reserve of \$3.454m.
The resulting effect on retained earnings is a decrease of \$3.454m.

(ii) **at 30 June 2005**

An increase in the foreign currency translation reserve of \$3.593m.
The resulting effect on retained earnings is a decrease of \$3.593m.

(iii) **for the year ended 30 June 2005**

No effect on the full-year result.

(j) SHARE-BASED PAYMENTS

NZ IFRS 1 permits companies adopting NZ IFRS for the first time to take some exemptions from the full requirements of NZ IFRS when applying those standards to the comparative period. Under the transitional exemptions of NZ IFRS 1, Michael Hill International Limited has elected not to apply NZ IFRS 2 to equity instruments issued prior to 7 November 2002. All restricted shares and options granted between 7 November 2002 and 1 July 2004 that had not vested by 1 July 2004, have been expensed over their remaining vesting period. From 1 July 2004, all restricted shares and options have been expensed over their vesting period. The effect of this is:

(i) **at 1 July 2004**

An increase in reserves of \$0.014m. The resulting effect on retained earnings is a decrease of \$0.014m.

(ii) **at 30 June 2005**

An increase in reserves of \$0.023m and an increase in contributed equity of \$0.031m. The resulting effect on retained earnings is a decrease of \$0.054m.

(iii) **for the year ended 30 June 2005**

An increase in employee benefits expense of \$0.060m.

(k) FOREIGN EXCHANGE EFFECTS (GROUP)

Minor foreign exchange effects have occurred due to the IFRS changes detailed above. This has primarily resulted from different exchange rates being applied to Balance Sheet adjustments compared to Income Statement adjustments.

(i) **at 1 July 2004**

An increase in deferred tax assets of \$0.007m. The resulting effect on retained earnings is an increase of \$0.007m.

(ii) **at 30 June 2005**

An increase in deferred tax assets of \$0.033m. The resulting effect on retained earnings is an increase of \$0.033m.

(iii) **for the year ended 30 June 2005**

An increase in other expenses of \$0.081m.

(l) FOREIGN EXCHANGE EFFECTS (PARENT)

Minor foreign exchange effects have occurred due to the IFRS changes detailed above. This has primarily resulted from different exchange rates being applied to Balance Sheet adjustments compared to Income Statement adjustments.

(i) **at 1 July 2004**

No effect on balance sheet.

(ii) **at 30 June 2005**

A decrease in trade and other receivables of \$0.143m and an increase in deferred tax assets of \$0.047m. The resulting effect on retained earnings is a decrease of \$0.096m.

(iii) **for the year ended 30 June 2005**

An increase in other expenses of \$0.144m.

NOTE 33 Explanation of transition to New Zealand equivalents to IFRS cont.**33.5** Notes to Restated Financial Information

(m) THE CUMULATIVE EFFECT ON THE GROUP'S RETAINED EARNINGS OF THE ABOVE CHANGES IS AS FOLLOWS:

	NOTES (33.5)	1 Jul 2004 \$'000	30 Jun 2005 \$'000
Retained profits under NZGAAP		49,927	57,919
Reversal of Sales under Layby	b	(3,474)	(3,242)
Fair value of interest swaps	c	101	54
Impairment of assets	d	(304)	(254)
Goodwill written off	e	(214)	(214)
Amortisation expense written back	e	-	71
Establishment of 30 day guarantee provision	f	(242)	(254)
Adjustment to straight line operating lease rent expense	g	(293)	(480)
Make good provision	h	(23)	(23)
Foreign currency translation reserve	i	(3,454)	(3,593)
Options issued	j	(14)	(23)
Shares issued under ESOP	j	-	(31)
Exchange variance on adjustments	k	7	33
Adjustment to retained profits		(7,910)	(7,956)
Retained profits under NZIFRS		\$ 42,017	\$ 49,963

(n) THE CUMULATIVE EFFECT ON THE PARENT'S RETAINED EARNINGS OF THE ABOVE CHANGES IS AS FOLLOWS:

	NOTES (33.5)	1 Jul 2004 \$'000	30 Jun 2005 \$'000
Retained profits under NZGAAP		1,751	1,478
Options issued	j	(14)	(23)
Shares issued under ESOP	j	-	(31)
Exchange variance on adjustments	l	-	(96)
Presentation rounding adjustment		(1)	-
Adjustment to retained profits		(15)	(150)
Retained profits under NZIFRS		\$ 1,736	\$ 1,328

SHARE PRICE PERFORMANCE

	HIGH	LOW	as at 30/6/06
PRICES FOR SHARES TRADED DURING THE YEAR	\$ 8.11	\$ 6.55	\$ 7.62

	2006	2005	2004	2003	2002	2001	2000
SEVEN YEAR COMPARATIVE REVIEW OF SHARE PRICES AS AT 30 JUNE	\$ 7.62	\$ 7.60	\$ 6.00	\$ 4.60	\$ 5.00	\$ 3.80	\$ 2.85

shareholder information

Information specifically for investors and shareholders is featured on our Website www.michaelhill.com. It includes our latest shareprice and historical share prices over the last six years. It also includes any announcements and powerpoint presentations made to Analysts and the Press at the time of the release of our half year and annual financial results to the New Zealand Stock Exchange each year. A copy of the Company's Constitution and minutes of the last Annual Meeting are also available on the website.

Any shareholders with queries relating to their shareholding or dividend payments, etc., should direct their enquiries to Computershare Investor Services Limited

Private Bag 92119
Auckland 1020
Phone 09 488 8777

financial calendar

ANNUAL MEETING:

Thursday 2nd November 2006
at 10:30am
Sky City Auckland Convention Centre
New Zealand
Room 2

DIVIDENDS PAYABLE:

Interim - April Final - October

FINANCIAL RESULTS ANNOUNCED:

Half year - February Annual - August

ANALYSIS OF SHAREHOLDING

TWENTY LARGEST SHAREHOLDERS AS AT 22 AUGUST 2006

	ORDINARY SHARES	% OF SHARES
R.M. Hill, A.C. Hill, R.M.J. Urlich (as trustees)	10,116,260	25.73
D.W.Hewitt, R.M.J. Urlich (as trustees)	8,446,636	21.49
TEA Custodians Ltd.	3,047,130	7.75
NZ Superannuation Fund Nominees Ltd	2,192,975	5.58
Bond St Custodians Limited	1,171,290	2.98
Peters MacGregor Investments Limited	931,000	2.37
Peters MacGregor PTY Limited	736,700	1.87
Peters MacGregor Holdings Pty Limited	463,300	1.18
M.R. Parsell	445,989	1.14
GMS Group Nominees Pty Ltd	381,000	0.97
R.M.Hill,A.C.Hill, R.M.J.Urlich (as trustees)	356,630	0.91
R.L. Parsell	356,025	0.91
Forbar Custodians Limited	307,864	0.78
Mara Spong	237,000	0.60
A.N. Presley/M.S. Dick	188,100	0.48
Hubbard Churcher Trust Management Limited	173,100	0.44
Forbar Custodians Limited	172,350	0.44
Citibank Nominees(New Zealand) Limited	166,010	0.42
P.R. Taylor	150,000	0.38
NZ Guardian Trust Investment Nominees Ltd	147,370	0.37
Total	30,186,729	76.79

SHAREHOLDING BY RANGE OF SHARES AS AT 22 AUGUST 2006

	NO. OF HOLDERS	% OF HOLDERS	NO. OF SHARES
1-999	1,002	34.39	462,262
1,000 - 4,999	1,491	51.17	2,927,249
5,000 - 9,999	231	7.93	1,452,638
10,000 & over	190	6.51	34,466,451
Total	2,914	100%	39,308,600

SUBSTANTIAL SECURITY HOLDERS

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)	10,116,260
D.W.Hewitt, R.M.J. Urlich (as trustees)	8,446,636
Leslie Wayne Peters	5,058,032
Fisher Funds Management Limited	4,860,722
NZ Superannuation Fund Nominees Limited	2,126,149

Total number of ordinary shares on issue as at 22 August 2006 is 39,308,600, including 75,654 shares held by MHI as Treasury Stock.

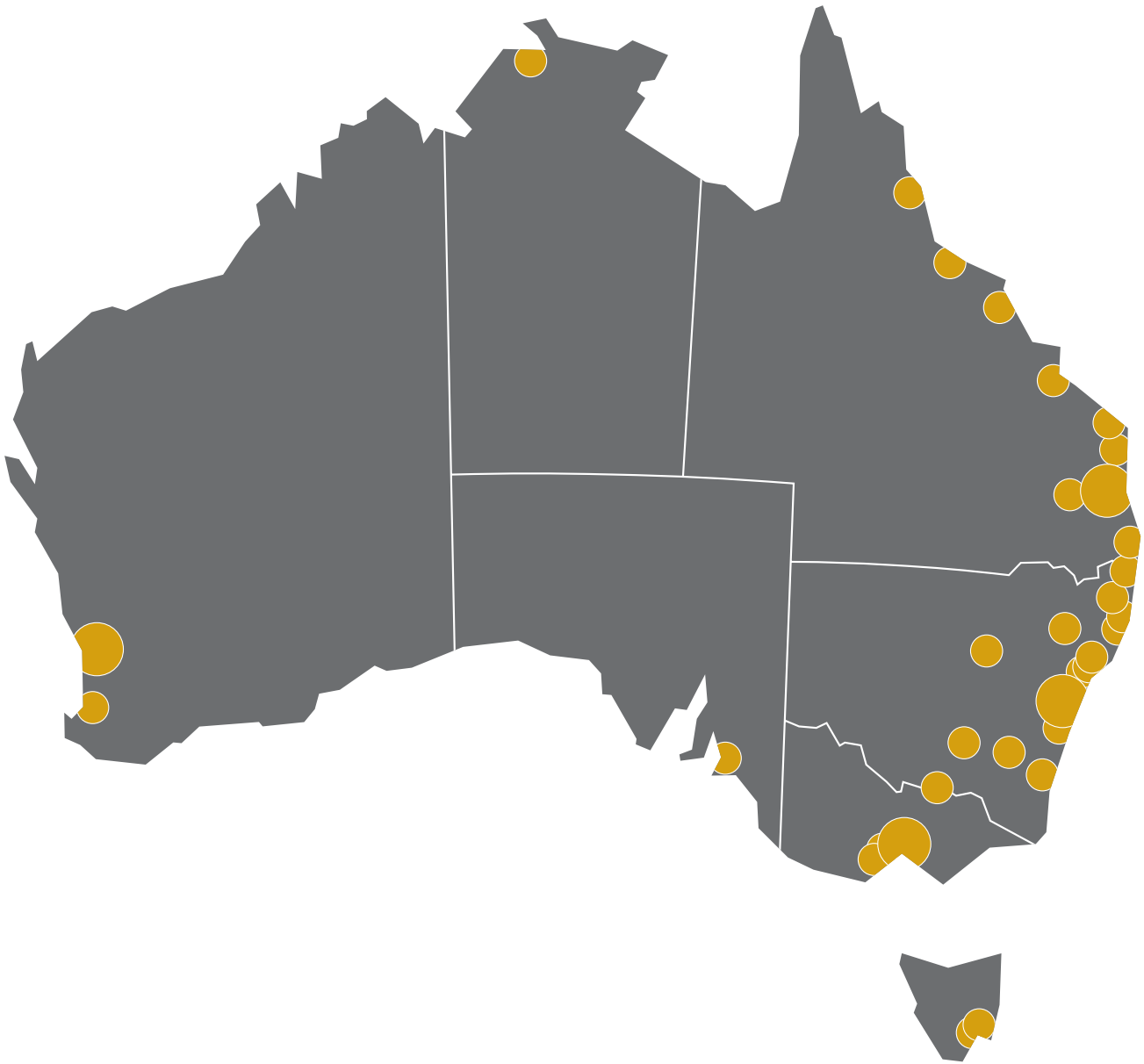
DIRECTORS & ASSOCIATED INTERESTS' SHARE HOLDINGS

The table below sets out the relevant interests in equity securities of Directors and Associated Persons of Directors at 30 June 2006, in terms of Listing Rule 10.5.3 of the New Zealand Exchange Listing Rules.

	RELEVANT INTEREST OF DIRECTOR	RELEVANT INTEREST OF ASSOCIATED PERSON
R.M. Hill & A.C. Hill	18,919,526	81,915
M.R. Parsell	445,989	370,040
G.J.Gwynne	155,000	
L.W. Peters	5,149,700*	
M.R. Doyle		240,000

* includes 3,949,700 ordinary shares held by clients under management.

store outlets



NORTHERN TERRITORY

DARWIN Jamie Silsby, Casuarina Square Shopping Centre, Darwin

WESTERN AUSTRALIA

MORLEY Cindy Pope, Westfield Shoppingtown Galleria, Morley, Perth
CANNINGTON Wendy Maben, Westfield Shoppingtown Carousel, Cannington, Perth
BOORAGOON Leandra Raye, Garden City Shopping Centre, Booragoon, Perth
ROCKINGHAM Kathy Vost, Rockingham Shopping Centre, Rockingham, Perth
KARRINYUP Kirrily Macri, Karrinyup Shopping Centre, Karrinyup, Perth
WARWICK Kylie Doekes, Warwick Grove Shopping Centre, Warwick, Perth
HILLARY'S Sandra Idel, Whitford City Shopping Centre, Hillary's, Perth
BUNBURY Rosemary Scott, Bunbury Forum Shopping Centre, Bunbury
INNALOO Courtney James, Westfield Shoppingtown, Innaloo, Perth
MIRRABOOKA Laura Godwin, Mirrabooka Square, Mirrabooka, Perth
MIDLAND TBA, Midland Gate Shopping Centre, Midland
MANDURAH Fran Whitelaw, Centro Mandurah, Mandurah

TASMANIA

GLENORCHY Andrew Warwick, Northgate Shopping Centre, Glenorchy, Hobart
HOBART Rachel Fredricksen, Cat & Fiddle Arcade, Hobart

SOUTH AUSTRALIA

ELIZABETH Johann Brown, Elizabeth Shopping Centre, Elizabeth
COLONNADES Charmaine Goodwin, Centro Colonnades, Noarlunga
ARNDALE Glenna Slattery, Centro Arndale, Kilkenny
TEA TREE Craig Frost, Tea Tree Plaza, Modbury

QUEENSLAND

LOGANHOLME Dianne Gooley Logan Hyperdome, Loganholme, Brisbane
ROBINA Leanne Ray, Robina Town Centre, Robina, Gold Coast
TOOWOOMBA Jasmine Harrison, Clifford Gardens Shopping Centre, Toowoomba
CAIRNS Kelly Keegan, Earlvile Shopping Centre, Cairns
MT OMMANEY Terri Warren, Mt Ommaney Shopping Centre, Mt Ommaney, Brisbane
BRISBANE CITY Oliver Auboire, Myer Centre, Queen Street Mall, Brisbane
TOOMBUL Linda Prujeen, Westfield Shoppingtown Toombul, Nundah, Brisbane
CHERMSIDE Karen Pukulas, Westfield Shoppingtown, Chermiside, Brisbane
UPPER MT GRAVATT Julie Pickup, Garden City Shopping Centre, Upper Mt Gravatt
IPSWICH Rachael Wright, Ipswich City Square, Ipswich
INDOOROOPILLY Mark Collinson, Westfield Shoppingtown, Indooroopilly, Brisbane
CAPALABA PARK Richard Price, Capalaba Park Shopping Centre, Capalaba, Brisbane
STRATHPINE Sherrie Beard, Westfield Shoppingtown, Strathpine, Brisbane
SOUTHPORT Hayden Visentis, Australia Fair Shopping Centre, Southport, Gold Coast
BROADBEACH Gerald Adam, Pacific Fair Shopping Centre, Broadbeach, Gold Coast
MACKAY Brendan Gregg, Caneland Central Shopping Centre, Mackay
BROWNS PLAINS Colin Brewerton, Grand Plaza Shopping Centre, Browns Plains, Brisbane
WILLOWS Warwick Nicholson, The Willows Shopping Centre, Townsville
MAROOCHYDORE Bronwyn Taylor, Sunshine Plaza Shopping Centre, Maroochydore
ROCKHAMPTON Zoran Blazevski, Rockhampton Shopping Fair, Rockhampton
KAWANA WATERS Adrienne Brandon, Kawana Shopping World, Kawana, Sunshine Coast
BUNDABERG Neil Harvey, Sugarland Shopping Centre, Bundaberg
TOWNSVILLE Trudy Bernat, Stockland Shopping Centre, Aitkenvale, Townsville
CAIRNS CENTRAL Julie Tsakissiris, Cairns Central, Cairns
MORAYFIELD Sandi Wallace, Morayfield Shopping Centre, Morayfield, Brisbane
BROOKSIDE Lorina Crawley, Brookside Shopping Centre, Mitchelton, Brisbane
CARINDALE Jim Colley, Westfield Shoppingtown, Carindale, Brisbane
MANGO HILL Paige Brearley, Westfield Shoppingtown Northlakes, Mango Hill
BEENLEIGH Holly Johnson, Beenleigh Marketplace, Beenleigh, Brisbane
TOOWOOMBA Steven Ainscow, Grand Central Shopping Centre, Toowoomba
MARYBOROUGH Cathy Douglas, Station Square Shopping Centre, Maryborough
HELENSVALE Darren Hibbard, Westfield Shoppingtown Helensvale, Helensvale, Gold Coast

AUSTRALIAN CAPITAL TERRITORY

WODEN Sarah Grady, Woden Plaza, Woden
BELCONNEN Alli Jury, Belconnen Mall, Belconnen

NEW SOUTH WALES

PARRAMATTA Belinda Barbera, Westfield Shoppingtown, Parramatta, Sydney
MIRANDA Julie Galway, Westfield Shoppingtown, Miranda, Sydney
ROSELANDS Athena Waters, Roselands Shopping Centre, Roselands, Sydney
LIVERPOOL Ahmad Karnib, Westfield Shoppingtown, Liverpool, Sydney
NORTH RYDE Josh Zarb, Macquarie Centre, North Ryde, Sydney
PENRITH Tim Spreadborough, Penrith Plaza, Penrith, Sydney
CASTLE HILL Raj Nair, Castle Towers Shopping Centre, Castle Hill, Sydney
BLACKTOWN Kellie Cadden, Westpoint Shopping Centre, Blacktown, Sydney
WARRINGAH Dean Lloyd, Warringah Mall Shopping Centre, Brookvale, Sydney
CAMPBELLTOWN Jeanette Underwood, The Mall Queen Street, Campbelltown, Sydney
ERINA Adam Cranstone, Erina Fair, Erina, Central Coast
FAIRFIELD Danni Kennedy, Fairfield Forum Shopping Centre, Fairfield, Sydney
PORT MACQUARIE Penny Rebecchi, Settlement City Shopping Centre, Port Macquarie
CENTRAL JESMOND Deborah Groves, Stockland Mall, Jesmond, Newcastle
TUGGERAH John Hamilton, Westfield Shoppingtown, Tuggerah, Central Coast
MT DRUITT Matthew Duffel, Markettown, Mt Druitt, Sydney
CHARLESTOWN Anthony Matthews, Charlestown Square, Charlestown, Newcastle
COFFS HARBOUR Scott Covington, Park Beach Plaza, Coffs Harbour, Central Coast
WARRAWONG Helen Johnson, Westfield Shoppingtown, Warrawong, Wo1longong
TWEED HEADS Jan Ingham, Tweed City Shopping Centre, Tweed Heads
BANKSTOWN Damian Orwin, Bankstown Square, Bankstown, Sydney
SHELL HARBOUR Kerrie Ann Windle, Shell Harbour Square, Shell Harbour, Wo1longong
WAGGA WAGGA Cathie Finnigan, Sturt Mall, Wagga Wagga
CAMPBELLTOWN Nadine Kolinac, Macarthur Square Shopping Centre, Campbelltown
DUBBO Paula Richter, Macquarie Street, Dubbo
BURWOOD Beth Rowell, Westfield Shoppingtown, Burwood, Sydney
WOLLONGONG Vacant, Crown Central, Wollongong, South Coast
HORNSBY Melanie Stanbery, Westfield Shoppingtown Northgate, Hornsby, Sydney
ALBURY/WODONGA Ian Henderson, West End Plaza, Albury
TAMWORTH Shannon Russell, Tamworth Shoppingworld, Tamworth
HURSTVILLE Manal Alameddine, Westfield Shoppingtown, Hurstville, Sydney
EASTGARDENS Craig Flam, Westfield Shoppingtown, Eastgardens, Sydney
LISMORE Shane Harvey, Lismore Shopping Centre, Lismore
MAITLAND Jo-Anne Nielsen, Green Hills Shopping Centre, Maitland
BATEMAN'S BAY Angie Ingram, Stockland Bateman's Bay, Bateman's Bay
CASULA Rose Saunders, Casula Mall, Casula
MERRYLANDS Josie Montalto, Stockland Merrylands Shopping Centre, Merrylands, Sydney
RAYMOND Terrace Belinda Fox-Dow, Raymond Terrace Marketplace, Raymond Terrace
SYLVANIA Amanda Bartlett, Southgate Shopping Centre, Sylvania, Sydney
ST IVES Claudio Ciarrocchi, St Ives Shopping Village, St Ives, Sydney
PLUMPTON Melissa Button, Plumpton Marketplace, Plumpton, Sydney
GLENDALE Leoni Holland, Stockland Glendale, Glendale
BATEAU BAY Lauren Kilkelly, Stockland Bay Village, Bateau Bay
KOTARA Melissa Stewart, Park Ave, Kotara
WETHERILL PARK Timothy Manners, Stockland Wetherill Park, Wetherill Park

VICTORIA

RINGWOOD Liz Gellie, Eastlands Shopping Centre, Ringwood, Melbourne
GREENSBOROUGH Suzanne Daley, Greensborough Plaza, Greensborough, Melbourne
MARIBYRNONG Dianne Peters, Highpoint Shopping Centre, Maribyrnong, Melbourne
CHIRNSIDE John Hansell, Chirnside Park Shopping Centre, Chirnside, Melbourne
AIRPORT WEST Josie Anonidis, Westfield Shoppingtown, Airport West, Melbourne
GEELONG Anne-Jeanette Wolds, Corio Village, Corio, Geelong
FOUNTAIN GATE Brad D'Costa, Westfield Shoppingtown, Fountain Gate, Melbourne
GLEN WAVERLEY Fiona Maclellan, The Glen Shopping Centre, Glen Waverley, Melbourne
DANDENONG Christina Richardson, Dandenong Plaza, Dandenong, Melbourne
FOREST HILL Liz Manteit, Forest Hill Chase, Forest Hill, Melbourne
WANTIRNA SOUTH Peta McClure, Knox City Shopping Centre, Wantirna South, Melbourne
RICHMOND Nicole Baart, Victoria Gardens Shopping Centre, Richmond, Melbourne
WERRIBEE Kylie Spiteri, Werribee Plaza Shopping Centre, Werribee
BROADMEADOWS Sonia Fazio, Broadmeadows Shopping Centre, Broadmeadows
GEELONG Jane Doyle, Market Square, Geelong
PARKMORE Elspeth Penny, Parkmore Shopping Centre, Keyborough, Mbourne
EAST DONCASTER Sian Jacobs, The Pines Shopping Centre, East Doncaster, Melbourne
FRANKSTON Jason Maclauchlan, Bayside North Shopping Centre, Frankston, Melbourne
SOUTHLAND Janet Morrice, Westfield Southland, Cheltenham
KARINGAL Jo Howard, Centro Karingal, Karingal

store outlets

NORTH ISLAND

WHANGAREI Althena Birch, 24 Cameron Street, Whangarei
BROWNS BAY Wendy Martin, 26 Clyde Road, Browns Bay, Auckland
ALBANY Carrie James, Albany Mega Centre, Auckland
TAKAPUNA John Hunter, 3 Hurstmere Road, Auckland
QUEEN STREET Zel Del Alcazar, 44 Queen Street, Auckland
NEWMARKET Vicki Cato, 218 Broadway, Auckland
ST LUKES Patrick Sauter, Westfield Shoppingtown St Lukes, Auckland
LYNNMALL Belinda Holroyd, Lynnmall Shopping Centre, Auckland
PAKURANGA Corey Potter, Westfield Shoppingtown Pakuranga, Auckland
BOTANY Jillian Gubb, 24 Town Centre Drive, Botany Town Centre, Auckland
MANUKAU Kirk Robinson, Westfield Shoppingtown Manukau, Auckland
HENDERSON Nicole Edridge, Westfield Shoppingtown West City, Auckland
WESTGATE Jasmine Patterson, Westgate Shopping Centre, Auckland
PAPAKURA Coralie de Andrad, Crossroads Retail Centre, Papakura, Auckland
CHARTWELL Kristi Burt, Westfield Shoppingtown Chartwell, Hamilton
HAMILTON Anita Annan, Cnr Victoria & Ward Street, Hamilton
TAURANGA Chris Teague, 61 Devonport Road, Tauranga
ROTORUA Greg Lilly, Rotorua Central, Amohau Street, Rotorua
BAYFAIR Claire Hale, Shop 601 Bayfair Plaza, Mt Manganui
TAUPO Karyn Schrafft, 25 Horomatangi Street, Taupo
GISBOURNE Jackie Forsyth, 118 Gladstone Road, Gisbourne
NEW PLYMOUTH Leah James, 32-36 Currie Street, New Plymouth
HASTINGS Laura Schaeffer, 225 West Heretaunga Street, Hastings
NAPIER Gillian Russell, Ocean Boulevard Mall, Napier
WANGANUI Murray Elhers, 99 Victoria Avenue, Wanganui
PALMERSTON NORTH Angela Tupara, 102 The Square, Palmerston North
COASTLANDS Janine Anderson, Coastlands Shopping Centre, Paraparaumu
PORIRUA Odette Abernathy, North City Shopping Centre, Porirua, Wellington
LOWER HUTT Chris Collinson, Westfield Shoppingtown Queensgate, Lower Hutt
JOHNSONVILLE Abbie Carse, Johnsonville Shopping Centre, Wellington
CUBA MALL Samantha Lee, 70 Cuba Mall, Manner Street, Wellington
LAMBTON QUAY Amber Mackenzie, 342 Lambton Quay, Wellington
GLENFIELD Sally Every, Westfield Shoppingtown, Glenfield
SYLVIA PARK Kathryn Scott, Shop 61 Sylvia Park



SOUTH ISLAND

BLenheim Keryn Wood, 80 Market Street, Blenheim
NELSON Melissa Edmonds-Whale, 174 Trafalgar Street, Nelson
CASHEL STREET Liz Lees, Cnr Shades Arcade and Cashel Street, Christchurch
MERIVALE Warwick Maclachlan, Merivale Mall, 189 Papanui Road, Christchurch
RICCARTON Brent Hutchinson, Westfield Shoppingtown Riccarton, Christchurch
EASTGATE Joanne James, Eastgate Shopping Centre, Christchurch
NORTHLANDS Donalda Barr, Northlands Shopping Centre, 55 Main North Road, Christchurch
PALMS Michelle Clark, The Palms Mall, Cnr New Brighton & Marshlands Rds, Christchurch
HORNBY Alyson Petrowski, Hornby Shopping Centre, Hornby
TIMARU Brad Davies, 202 Stafford Street, Timaru
DUNEDIN Sarah Dale, 250 George Street, Dunedin
INVERCARGILL Sonya Chalmers, 66 Esk Street, Invercargill
RICHMOND Karen Stevenson-Russell, Richmond Mall, Richmond
WHAKATANE Donna Stobie, Esplande Mall The Strand, Whakatane
QUEENSTOWN Marilyn Spinks, 23 Rees Street, Queenstown



BRITISH COLUMBIA

SEVENOAKS Audra Parent-Waller, Sevenoaks Shopping Centre, Abbotsford

LOUGHEED Jim Allot, Lougheed Town Centre, Burnaby

METROTOWN Ifti Sahib, Metropolis at Metrotown, Burnaby

MAYFAIR Ginette Tanguay, Mayfair Shopping Centre, Victoria

COQUITLAM Hafiz Kaloani, Coquitlam Shopping Centre, Coquitlam

LANGLEY Tony Stark, Willowbrook Shopping Centre, Langley

SURREY Shannon Brownsdon, Guildford Town Centre, Surrey

WOODGROVE Rita Frost, Island Highway North, Nanaimo

CHERRY LANE Jennifer Lavigne, Main St Penticton

RICHMOND Coney Quigley, Richmond Centre, Richmond

PINE CENTRE Jennifer Harsch, Massey Dr, Prince George

COTTONWOOD Karen Thompson, Cottonwood Mall, Chilliwack

ALBERTA

SUNRIDGE MALL Jodi Naidu, Sunridge Mall, Calgary

KINGSWAY Marc Taschereau, Kingsway Garden Mall

MARLBOROUGH Mall Andrea MacGillivray, Marlborough Mall, Marlborough

NOTICE OF ANNUAL MEETING

index

Notice is hereby given that the Annual Meeting of Shareholders of Michael Hill International Limited ("the Company") will be held at the Sky City Auckland Convention Centre, New Zealand Room 2, on Thursday 2 November 2006 at 10.30am.

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 2006.

2 RE-ELECTION OF MICHAEL ROBIN PARSELL AND MURRAY RICHARD DOYLE AS DIRECTORS

To consider, and if thought fit, to re-elect Michael Robin Parsell and Murray Richard Doyle 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 Murray Richard Doyle 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 OTHER BUSINESS

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

PROXIES

Subject to the voting restrictions set out below, all shareholders are entitled to attend and vote at the meeting or to appoint a proxy to attend and vote in their place. A proxy need not be a shareholder of the Company. Individuals who are disqualified from voting on any resolution are unable to vote on a discretionary proxy.

Enclosed with this Notice of Meeting is a proxy form. For the appointment of a proxy to be valid, the form must be deposited at the office of the Company's Share Registrar, Comptershare Investor Services Limited at either Private Bag 92119, Auckland 1020 or at Level 2, 159 Hurstmere Road, Takapuna, North Shore City, Auckland so as to be received, no later than 48 hours before the start of the meeting. Postal voting is not permitted. The Directors offer themselves as proxy to shareholders. For additional notes regarding the use of a proxy please refer to the enclosed proxy form.

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

Secretary

29 September 2006

EXPLANATORY NOTE

RESOLUTION 2 – RE-ELECTION OF MICHAEL ROBIN PARSELL AND MURRAY RICHARD DOYLE. AS DIRECTORS

Michael Robin Parsell and Murray Richard Doyle are currently Directors of the Company and retire by rotation in accordance with NZX Listing rule 3.3.8. Each Director, being eligible, offers himself for re-election.

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CORPORATE DIRECTORY

DIRECTORS

R.M. Hill, C.N.Z.M (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 Dip.F.A.

COMPANY SECRETARY

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

REGISTERED OFFICE

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Wellington
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Murarrie, Qld 4172
GPO Box 2922
Brisbane QLD 4001, Australia
Telephone (07) 3399 0200
Fax (07) 617 3399 0270

SHARE REGISTRAR

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

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PO Box 10246
Wellington
New Zealand

AUDITORS

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Private Bag 92162
Auckland
New Zealand

PricewaterhouseCoopers
Waterfront Place
1 Eagle Street
Brisbane, QLD
Australia

BANKERS

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*our store managers
across three countries*

