CHAIRMAN'S STATEMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Outstanding Tax Issues from Group Restructuring in 2008
The Group has two unresolved tax matters relating to the sale and financing of the intellectual property between New Zealand and Australian Group members, as reported in the 2013 Annual Report.

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

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

Dividend
The Directors have announced an interim dividend of 2.5¢ per share (2013 – 2.5¢), with no imputation credits attached for New Zealand shareholders and full franking credits for Australian shareholders. The dividend will be paid on Tuesday, 1 April 2014 with the record date being Monday, 24 March 2014.

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

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

Cash Flows / Balance Sheets

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

The surplus from operations is a result of:

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

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

Summary

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

Sir Michael Hill 13/02/2014
Chairman

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