ANNUAL REPORT 2015

michael hill®
INTERNATIONAL LIMITED

The Directors are pleased to present the annual report of Michael Hill International Limited for the year ended 30 June 2015

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Our overall strategic goal is to grow shareholder wealth over time through our philosophy of controlled profitable growth

COMPANY PROFILE

Michael Hill International Limited owns the brands “Michael Hill” and “Emma & Roe” and operates a retail jewellery chain of 288 Michael Hill stores and 8 Emma & Roe stores in Australia, New Zealand, Canada and the United States as at 30 June 2015.

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

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

In September 2008, the Group entered the United States market and now has 9 stores in Illinois, Ohio, Minnesota and New York.

2014 saw the opening of the first Emma & Roe boutique, following a successful trial during the preceding 18 months in five South East Queensland outlets under the trading name “Captured Moments”. Emma & Roe carries unique jewellery collections catering to the way women like to customise and accessorise their look. The two brands are viewed as being complementary within the jewellery sector with the Michael Hill brand continuing to focus on diamonds, bridal and fine jewellery. The name Emma & Roe takes its inspiration from the Hill family; “Emma”, Sir Michael’s daughter, and “Roe”, Christine Lady Hill’s maiden name.

As at 30 June 2015, the Group has 52 Michael Hill stores in New Zealand, 167 in Australia, 60 in Canada, and 9 stores in the USA. In addition there are 7 Emma & Roe stores in Australia and 1 in New Zealand. Around the world, the Group employs around 2,450 permanent employees across retail sales, manufacturing and administration roles.


We're for Love™
Our mission is to be
the most people focused
Jeweller in the world

PERFORMANCE HIGHLIGHTS

for the 12 months

- Operating revenue of $503.4m up 4.0% on same period last year
- Same store sales were 0.7% up on same period last year
- Revenue collected from Professional Care Plans of $35.5m, up 12.0% on same period last year
- Professional Care Plan deferred revenue of $62.3m held on balance sheet at 30 June
- EBIT of $42.1m, in line with last year
- Net profit after tax of $27.8m up 10.8% on same period last year
- Final dividend of NZ 2.5 cents per share making the total dividend NZ 5.0 cents for the year
- Equity ratio of 53.5% at 30 June 2015
- 12 new Michael Hill stores opened and two closed during the period
- Two new Emma & Roe stores opened during the period
- Total of 288 Michael Hill stores open at 30 June 2015
- Total of eight Emma & Roe stores open at 30 June 2015
- Total of 296 stores in the Group open at 30 June 2015

(all values stated in $AU unless stated otherwise)

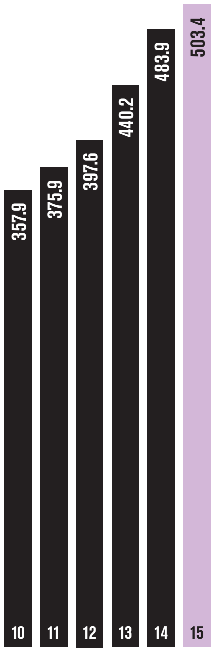
KEY FACTS

YEAR ENDED 30 JUNE / AU$000 UNLESS STATED	2015	2014	% CHANGE
TRADING RESULTS			
Group revenue	**503,370**	483,935	4.0%
Gross profit	**320,326**	309,260	3.6%
Earnings before interest and tax	**42,061**	42,151	-0.2%
Group surplus after tax	**27,754**	25,041	10.8%
- First half	**23,697**	16,245	45.9%
- Second half	**4,057**	8,796	-53.9%
Net cash from operating activities	**54,566**	14,689	271.5%
FINANCIAL POSITION AT YEAR END			
Contributed equity			
383,138,513 ordinary shares	**3,760**	3,651	3.0%
Total equity	**187,621**	181,285	3.5%
Total assets	**351,013**	339,818	3.3%
Net debt	**38,319**	47,891	-20.0%
Capital expenditure	**22,115**	23,227	-4.8%
NUMBER OF STORES 30 JUNE			
Australia	**167**	164	
New Zealand	**52**	52	
Canada	**60**	54	
United States	**9**	8	
Michael Hill stores	**288**	278	
Australia	**7**	6	
New Zealand	**1**	-	
Emma & Roe stores	**8**	6	
DISTRIBUTION TO SHAREHOLDERS			
Dividends - including final dividend			
- Per ordinary share	**NZ5.0¢**	NZ6.5¢	
- Times covered by surplus after tax	**1.54**	1.11	
SHARE PRICE			
30 June	**NZ$1.06**	NZ$1.24	
KEY DATA PER SHARE			
Basic earnings per share	**7.24¢**	6.54¢	
Diluted earnings per share	**7.22¢**	6.43¢	
KEY MEASURES			
Same store sales (in local currency)			
- Australia	**-2.5%**	0.8%	
- New Zealand	**4.3%**	-1.9%	
- Canada	**2.5%**	10.1%	
- United States	**3.5%**	6.1%	
Return on average shareholders' funds	**15.0%**	14.1%	
Gross profit	**63.9%**	64.1%	
Interest expense cover (times)	**8.9**	7.8	
Equity ratio	**53.5%**	53.3%	
Current ratio	**3.3:1**	3.0:1	

KEY FACTS

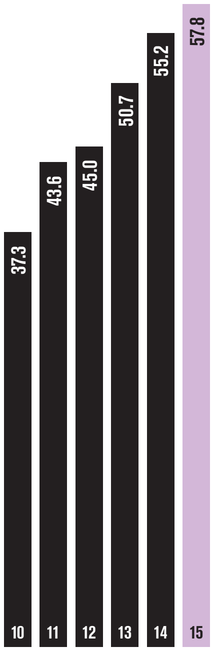
Total Michael Hill jewellery stores 288

1987 - 2015, year ended 30 June



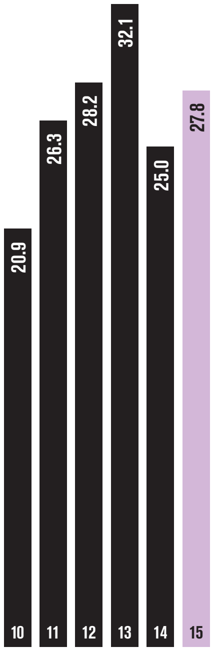
Group revenue up 4.0%

AU$ millions / year ended 30 June



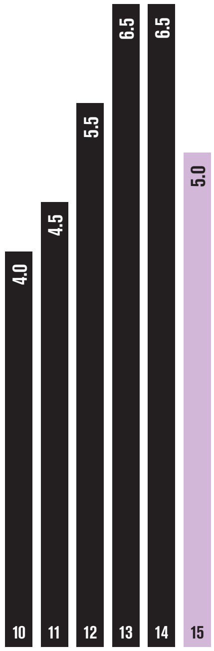
Earnings before interest, taxation, depreciation and amortisation (EBITDA) up 4.7%

AU$ millions / year ended 30 June



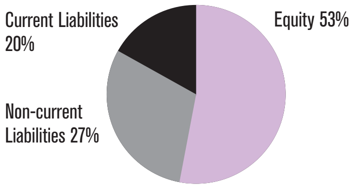
Net profit after tax up 10.8%

AU$ millions / year ended 30 June



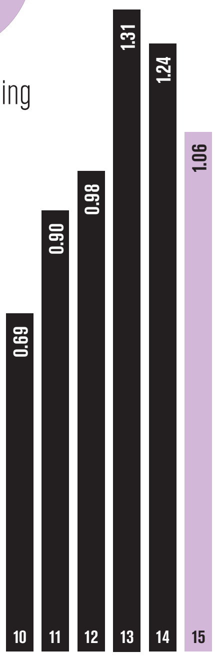
Ordinary dividend

NZ cents per share / year ended 30 June



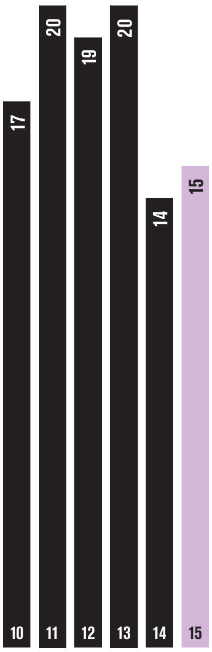
Source of funding

30 June 2015



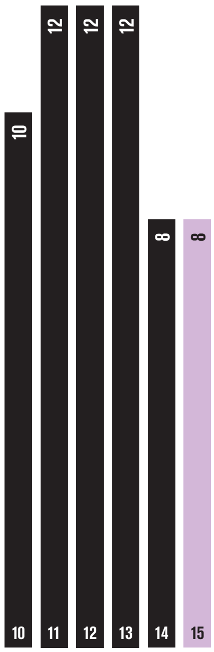
Share price performance

NZ$ / year ended 30 June



Return on average shareholders' funds 15%

% / year ended 30 June



Return on average assets 8%

% / year ended 30 June

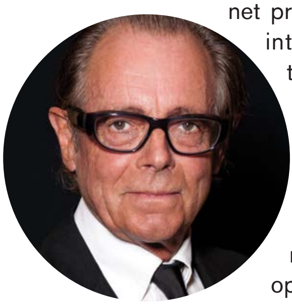
Gearing ratio 20%

% / year ended 30 June

Chairman's Review

Dear Shareholders,

Our Group has reported a net profit after tax of $27.8m for the 2014-15 financial year up 10.8% on last year's net profit after tax, and earnings before interest and tax of $42.1m flat on the previous year. The Group's revenues of $503.4m were 4.0% up on the previous year.



The Group has an equity ratio of 53.5% at 30 June 2015 (53.3% in 2014), and a working capital ratio of 3.3:1 (3.0:1 in 2014). Net operating cash flows were $54.6m compared to $14.7m the previous year. Net debt at 30 June 2015 was $38.3m compared to $47.9m at 30 June 2014.

I would like to take this opportunity to thank the whole Michael Hill team for this solid result.

The New Zealand business continues to perform well while the Australian market has been more difficult in recent years, but is poised to take advantage of any upswing in consumer sentiment. Steady store growth continues in the Canadian market which is performing well as we continue to push into profits. The test of the US market is ongoing and we continue to make improvements to our retail model in this important market. Two further stores have been secured in the US, one in New York and the other in New Jersey, to further test our model in this lucrative market. The Emma & Roe brand continues to be trialled with a view to proving up the brand and model in the coming year. The e-commerce business continues to grow and will support an omni-channel strategy for both brands going forward. Further store openings are planned for both the Michael Hill and Emma & Roe brands in the year ahead while the Australasian retail team remains firmly focused on lifting our existing store profitability through consistent application of our world class retail selling system and continued focus on cost control.

The Directors have announced a final dividend of NZ 2.5¢ per share (2014 - NZ 4.0¢), with no imputation credits attached for New Zealand shareholders and no franking credits for Australian shareholders. The reason for not franking the dividend for Australian shareholders is a result of a favourable ruling being obtained from the Australian Taxation Office regarding the tax treatment of Professional Care Plan (PCP) sales. The ruling allows for the alignment of taxation with the accounting treatment of PCP income. Prior to the ruling, tax had been paid as PCP sales occurred, which meant the Group has effectively paid a substantial amount of tax in advance

“Our retail team remains firmly focused on lifting our existing store profitability through consistent application of our world class retail selling system and continued focus on cost control...”

“Further store openings are planned for both the Michael Hill and Emma & Roe brands in the year ahead...”

and are now entitled to a refund for that tax. The tax refund however results in a debit to the franking credit account and hence less franking credits are available to attach to dividends. In light of this the Board has decided not to frank this dividend and will wait until the April 2016 interim dividend is declared and the level of franking credits better known. The final dividend will be paid on Friday, 2 October 2015 with the record date being Friday, 25 September 2015. This makes a total dividend for the year of NZ 5.0 cents compared to NZ 6.5 cents in the previous corresponding period. The reduction in the full year dividend is a reflection of the flat earnings growth for the year together with the Group’s ongoing growth ambitions. The reduction in dividend will allow the Group to continue to maintain a sound balance sheet and gearing position going forward.

As previously reported, the Group has commenced litigation proceedings with a view to resolving the on-going dispute with Inland Revenue. The Board remains of the opinion that this tax matter does not require a provision in the Group's financial statements under International Financial Reporting Standards due to the uncertainty surrounding both the likely outcome of the litigation by the Company, and the inability to estimate accurately what the liability would be if the Company is unsuccessful in its action against the Inland Revenue. The Company has maintained tax pooling arrangements to partially mitigate any potential liability in the event of an adverse outcome of the legal process. Details of this contingent liability are available in note 34 of the 2015 financial statements.

I would like to thank the Board for the wise advice and direction that gives us confidence to pursue our goals and vision.

I will be stepping down as Chair following the annual meeting of shareholders on 4 December. My daughter Emma, who has spent her career working in the business, and the last four years as Deputy Chair, will succeed me. The time is right for this transition. I have chaired the Board for 28 years and it’s time to pass the baton to the next generation. Emma cares deeply about our Company and I know she will be relentless in pursuing its prosperity. I shall remain on the Board and will continue to be very involved in the business as founder and Director.

Michael Hill

Sir Michael Hill
Chairman

Chief Executive Officer's
REVIEW OF OPERATIONS

A REVIEW OF PRIORITIES FROM LAST YEAR

PRIORITIES	RESULTS
To drive same store sales and EBIT performance across the Group.	Group revenue increased 4.0%, and same store sales increased 0.7%. Group EBIT was the same as last year.
To deliver a return on average shareholders' funds of 20%.	A return on average shareholders' funds of 15.6% was achieved excluding the interest paid into the tax pool in New Zealand. Our return on shareholder funds was adversely affected by our increased investment in the brand launch in the second half, the added investment in North America, and the establishment of the new Emma & Roe business.
To open 20 new stores across the Group.	During the year, 14 new stores were opened across the Group. 12 new Michael Hill stores were opened during the year, and two Emma & Roe stores. Suitable locations were harder to secure than anticipated.
To open four Emma & Roe stores across Australasia, and prove up the model for further expansion.	Two new stores opened including the first Emma & Roe store in New Zealand. By June 30, all remaining charm kiosks were relocated to the new format Emma & Roe boutiques.
To increase our sales from our e-commerce operations and move towards implementing a customer focused omni-channel model.	E-commerce sales increased 122%, and the Group achieved strong growth in digital and social media channels. Aspects of omni-channel are being introduced in a staged roll out across all markets in 2015-16.
To open ten new stores in Canada while delivering strong EBIT growth.	Canadian segment EBIT improved 59.2% to CA$6.0m, an increase of CA$2.2m on the previous year. There were seven new stores opened in Canada in the 12 months.
To continue the test of the US market and bring all eight stores to a cash positive position.	Same store sales in the US increased 3.5% during the year and all same stores are now cash positive. Our first store opened in New York during the period, and two more stores have been secured in New York and New Jersey.
To continue to fine tune our in-house credit model in North America towards "best practice" within our industry.	Ongoing enhancements to our in-house credit model are being made to bring our program closer to best practice in this market.
To drive branded collection sales as a percentage of total business.	Branded sales now represent 13.2% of total sales for the Group, and are delivering a higher margin than the non branded assortments. The US business now has in excess of 30% of its sales from our branded collections.

In Australian dollars, the Group has reported operating revenues of $503.4m, with earnings before interest and tax of $42.1m, in line with the previous year. The Group reported a net profit after tax of $27.8m for the 2014-15 financial year. During the year, the Group achieved some key outcomes:

- Revenue increased 4.0% reaching the AU$500 million milestone for the first time
- Canadian revenue increased 14.6% and earnings increased 59.2%
- New brand positioning "We're for Love" launched in the second half
- Inventory levels reduced on a same store basis
- Strong PCP sales, up 12% to $35.5 million
- e-commerce sales increased 122%
- Eight new Emma & Roe boutiques open
- Branded merchandise sales reached 13.2% of sales
- First store opens in New York
- 14 new stores were opened, giving a total of 296 stores
- Net operating cash flow improved 271.5% and net debt levels reduced by 20.0%

These accomplishments hold the Group in good stead for the future, even though some of the initiatives undertaken during the year have had an adverse impact on short term earnings and financial ratios.

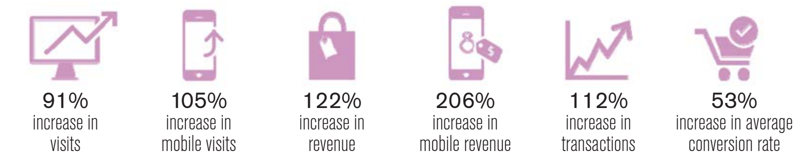
Continuing to build a business with increased global reach, especially in North America, launching a new brand campaign globally with a very high profile media exposure, establishing our new Emma & Roe business, and creating and testing new branded collections all require

significant investment. The various strategies launched this year have the potential to continue positioning the Group well into the future and provide new revenue and margin streams for the years ahead.

This financial year was essentially a story of two halves with earnings stronger in the first half compared to the second half. At the half year, Group EBIT was 18% up on the previous period, driven by increased revenue and good margin and cost control. Second half earnings were impacted by the significant investment in the brand relaunch, and the worsening retail conditions in Australia. Due to these factors, Group EBIT in the second half was $5.3m or 53.9% lower than the corresponding period the previous year. The "We're for Love" campaign was launched in February 2015. This launch included high exposure media, including Super Bowl, and The Bachelor in North America, and other high profile sponsorships. The brand gained very strong awareness levels throughout this period, elevating Google searches and triggering significant social media interest. During the launch period, as a result of the shift in marketing emphasis from retail to brand and our concentrated efforts to establish the new brand positioning across four countries, Australia's sales were impacted more than the other markets due to the increasingly subdued retail conditions and the high competitor activity. While there was a short term earnings impact through this launch period, we remain confident that the benefits of our investment in a refreshed and more identifiable brand will be evident in the longer term.

The continued growth in sales of our Professional Care Plans (PCP) has provided strong cash flow for the Group. The PCP program provides a comprehensive suite of services to our customers to ensure their jewellery is cared for in the years to come. Total revenue from these plans grew by 12.0% this year to $35.5m and at June 30 there was $62.3m of deferred PCP revenue held on the balance sheet.

The Group launched its new e-commerce platforms in November 2013, with the aim of increasing our share of online jewellery sales in all markets. Now these platforms are operational, we are also working through a plan to integrate our online and physical stores into a seamless omni-channel experience for our customers. As at June 30, the Group operated dedicated Michael Hill e-commerce sites in all four countries and an Emma & Roe site in the Australian market. As part of our multi-channel strategy, Emma & Roe merchandise is also sold across all Michael Hill e-commerce sites as well. During the year we experienced strong e-commerce sales growth of 122%. We also experienced strong levels of awareness across our digital and social channels.



The Group opened 14 new stores for the year giving a total of 296 stores trading at 30 June 2015. This was comprised of 12 new Michael Hill stores during the year; four in Australia, seven in Canada and one in the United States. Two stores were closed during the period, resulting in a total of 288 Michael Hill stores open as at June 30. We also opened two Emma & Roe stores giving a total of eight stores open as at June 30.

Segment Results

The segments reported on reflect the performance of the Group's Michael Hill retail operations in each geographic segment and exclude the Emma & Roe brand which is still in test mode, trading activity through our online presence, manufacturing, wholesale and distribution, as well as other general corporate expenses. Note that the definition of a segment has been amended with effect from 2011 to include Professional Care Plans. The results below are expressed in local currency.

Australia

OPERATING RESULTS (AU $000)	**2015**	**2014**	**2013**	**2012**	**2011**
Revenue	**294,442**	298,474	289,333	259,032	251,261
EBIT	**45,933**	47,193	42,225	36,798	38,650
As a % of revenue	**15.6%**	15.8%	14.6%	14.2%	15.4%
Average assets employed	**111,308**	111,073	102,041	90,160	81,020
Return on assets	**41.3%**	42.5%	41.4%	40.8%	47.7%
Number of stores	**167**	164	162	153	146

The Australian retail segment revenue decreased by 1.4% to $294.4m for the 12 months, with an EBIT result of $45.9m, a decrease of 2.7%. The operating surplus as a percentage of revenue was 15.6% (15.8% last year). The Australian market has continued to be challenging due to lower consumer confidence, especially in regions where the resource sector is prevalent. The turnaround of this market is a priority for the Group in the coming 12 months.

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

- Baldivis, Western Australia
- Cranbourne Park, Victoria
- Eaton Fair, Western Australia
- Hervey Bay, Queensland

One store closed during the period. There were 167 stores trading at 30 June 2015.

New Zealand

OPERATING RESULTS (NZ $000)	**2015**	**2014**	**2013**	**2012**	**2011**
Revenue	**113,983**	109,693	111,357	109,110	101,843
EBIT	**23,545**	22,062	22,128	21,550	18,484
As a % of revenue	**20.7%**	20.1%	19.9%	19.8%	18.1%
Average assets employed	**45,440**	47,620	45,249	40,979	37,946
Return on assets	**51.8%**	46.3%	48.9%	52.6%	48.7%
Number of stores	**52**	52	52	53	52
Exchange rate	**1.07**	1.10	1.25	1.28	1.30

The New Zealand retail segment revenue increased 3.9% to NZ$114.0m for the twelve months, with an EBIT result of NZ$23.5m, up 6.7% on the corresponding period last year. Same store sales in local currency during the twelve months increased by 4.3%. The operating surplus as a percentage of revenue was 20.7% (20.1% last year). The improved performance of the New Zealand segment is a continuation of the turnaround in this business which commenced in 2013-14. The Company is pleased with the performance of this important market. No stores opened or closed during the year, with 52 stores trading at 30 June 2015.

Canada

OPERATING RESULTS (CA $000)	**2015**	**2014**	**2013**	**2012**	**2011**
Revenue	**79,097**	69,025	52,950	44,265	36,885
EBIT	**6,041**	3,794	1,121	518	(237)
As a % of revenue	**7.6%**	5.5%	2.1%	1.2%	(0.6%)
Average assets employed	**56,401**	48,190	36,101	27,583	22,837
Return on assets	**10.7%**	7.9%	3.1%	1.9%	(1.0%)
Number of stores	**60**	54	45	37	33
Exchange rate	**0.97**	0.98	1.03	1.03	0.99

The Canadian retail segment revenue increased by 14.6% for the twelve months to CA$79.1m, with an operating surplus of CA$6.0m compared to CA$3.8m, a 59.2% increase on the previous corresponding period. Same stores sales increased 2.5% for the twelve months. The operating surplus as a percentage of revenue was 7.6% (5.5% last year). The Canadian segment continues to show strong growth as this business now approaches critical mass, achieving increased scales of economy in areas such marketing spend, which drives brand awareness.

Seven new stores were opened in Canada during the period, as follows:

- Aberdeen, British Columbia
- Brandon, Manitoba
- Devonshire, Ontario
- Intercity, Ontario
- North Bay, Ontario
- Oakville Place, Ontario
- Stone Road, Ontario

One store was closed during the period. There were 60 stores trading at 30 June 2015.

The Group plans to open up to ten new stores during the 2015-16 year subject to availability of suitable sites.

USA

OPERATING RESULTS (US $000)	**2015**	**2014**	**2013**	**2012**	**2011**
Revenue	**11,290**	9,994	10,265	9,576	8,133
EBIT	**(1,916)**	(1,679)	(2,359)	(2,650)	(3,410)
As a % of revenue	**(17.0%)**	(16.8%)	(23.0%)	(27.7%)	(41.9%)
Average assets employed	**13,259**	10,864	9,535	9,653	8,101
Return on assets	**(14.4%)**	(15.5%)	(24.7%)	(27.5%)	(42.1%)
Number of stores	**9**	8	8	9	9
Exchange rate	**0.83**	0.92	1.03	1.03	0.99

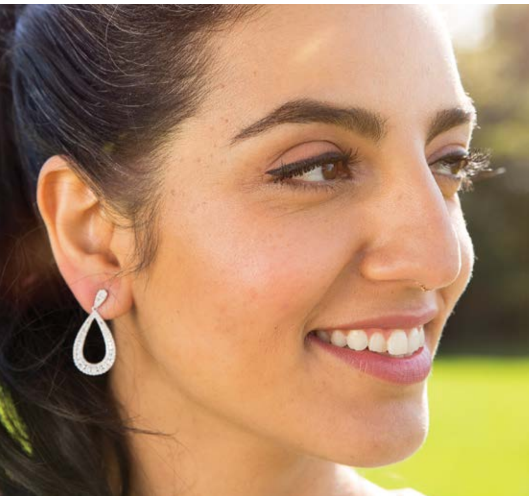
The US retail segment increased its revenue by 13.0% to US$11.3m for the twelve months, and there was an operating loss of US$1.9m, in line with expectations. Same stores sales in local currency increased 3.5% for the twelve months. Our first store was opened in New York during the period giving a total of nine stores operating at 30 June 2015. The focus in the North American market continues on the development of leading bridal and fashion collections to differentiate ourselves in the market, the development of a competitive in-house credit program, and delivering this through positioning the business in AAA malls with strong traffic and retail mixes. The Company has secured two further AAA Malls for opening at Roosevelt Fields in New York and American Dream in New Jersey.

One store opened in New York in April. There were nine stores trading at 30 June 2015.

Emma & Roe

As previously stated, the Emma & Roe brand is being tested with seven stores in Australia and one store open in New Zealand. Given this brand is still in test mode, the Company is not disclosing its financial results as a separate segment, and therefore both their results and associated assets and liabilities are treated as "unallocated" in the segment note. Two new stores were opened during the period giving a total of eight stores. Emma & Roe is also our first multi-channel concept, with its branded product being sold inside Michael Hill stores, on the Michael Hill web sites, inside Emma & Roe concept stores, and on a dedicated web site. Total Emma & Roe branded product sales across all channels, including Michael Hill stores, for the 12 months was $22.8m.

This concept appeals to a different customer base, thereby complementing the Michael Hill brand strategically. The E&R brand is positioned to appeal to a new and emerging customer who likes to collect and create new looks, expressing their own individuality and fashion through the various assortments and collections of complementary charms, bracelets, rings, pendants and earrings the brand offers. The frequency of purchase is already many times higher for an Emma & Roe customer, compared to a Michael Hill customer, albeit the MH customer spends more per visit. We believe these two brands fit well together, and will extend our reach further into the fine jewellery category.



North American Credit Program

The in-house credit program that launched in 2012 is now well established and starting to achieve many of the goals we set. Our reliance on third party providers in North America had been a concern ever since the failure of our incumbent credit providers in our two North American markets to provide a consistent and reliable credit program to our customer base. The in-house credit strategy was not only designed to remove risks associated with the unreliability of external providers in times of economic downturn, but also to create incremental revenue for our stores in Canada and the US through a customized risk model. The credit program also underpins our strategy to Brighten the Bridal Experience, as a large proportion of bridal rings and jewellery are sold on credit in North America. This also dove tails into our customer data base program and will allow us to build frequency of purchase and secure more lifetime value from our customer base. Continued progress has been made towards these objectives with this model. Our bad debt levels and debtor balances are all in line with expectations.

Inventory Management

Over the past year, we have focused on refining inventory levels. The increased assortments with the bridal trial and creation of new branded assortments in the North American market over the past two years have increased our inventory levels significantly. We have now begun the process of refining and optimising these assortments. Total inventory closed at $182.2m, compared to $179.3m the year before, despite opening 14 new stores, and average inventory per store fell by $25k. The lower purchases assisted in lifting operating cash flows and reducing debt levels.

Branded Assortments

Over the past few years we have embarked on a strategy to create, develop and test proprietary brands. We believe this strategy will differentiate Michael Hill, drive consumer preference, and eventually yield a margin premium. The current brands under test include, Michael Hill Watches, Fashion jewellery brands including; Infinitas, Everlight, Emma & Roe, City Lights, MH Natural Yellow Diamonds, and Bridal brands including, Michael Hill Designer Bridal, Evermore Colourless, Southern Star, and Michael Hill Ideal Cut. These tests are in early stages, and this year branded sales reached 13.2% of global sales, up from 10% last year. The US segment is leading branded sales, already reaching 30.6% of sales.

Strategic Update

The Group's strategies have been grouped into four key strategic themes. Under these themes we have grouped ten areas of focus which will underpin the strategies going forward:

Delight the Mid-Market

This strategy recognises that the mid-market continues to represent the largest and most sustainable financial opportunity for global growth and scale.The themes within this strategy are:

- Strengthen marketing and brand position. Win more customers and business through creating more desire for products and services, affinity for the brand and differentiated collections. Drive foot traffic, online traffic and enquiries.
- Build stronger team engagement. Improve our processes, tools and technology that allow teams to drive better customer outcomes, thereby increasing personal performance, productivity, income and engagement.
- Drive optimum combination of premium branded and value based assortments. Drive consumer preference and margin by delivering desirable branded fashion assortments, while maintaining market share through leading value based assortments.
- Drive customer engagement. Ensuring that all customer channels, places of engagement and touch points are optimised to allow customers the best possible experience; where, when and how they choose to engage us. Also innovating with new merchandising approaches, including physical and digital, to deliver a world class and leading assortment of innovative products in the fashion space.

Expand our Foot Print

This strategy focuses on building our global brand presence and profile through the expansion of our physical foot print internationally of stores and channels. The themes within this strategy are:

- Proving up the MH US model. To continue to refine the US model until we are confident we have a profitable model to expand in this market. The US still provides the Group the largest growth opportunity for the future.
- Proving up the E&R model. This model also is also a key potential growth vehicle for the Group's future.

Empower our People

This strategy focuses on the importance of building strong global leadership talent, building highly professional and capable sales and service teams and ensuring we have very productive and empowered teams at all levels of the business. The themes within this strategy are:

- Future leadership development. This strategy focuses on the importance of developing leadership capability within the business to underpin our future growth.
- Developing capability and productivity. This strategy concentrates on the improved motivation, performance and capability of our sales professionals, to deliver the best possible experience to our customers.
- Succession model to support growth. This strategy will underpin our ability to grow successfully into the future by ensuring we have talent ready to meet our requirements.

Brighten our Bridal Experience

This strategy recognises the strategic importance of a strong bridal business to a global jeweller. To succeed on the world stage, we will aim to secure a highly differentiated bridal business comprising both branded and value based assortments. The bridal business provides a unique opportunity to engage customers for life due to the highly trusted and emotional connection required to be a jeweller of choice for the engagement ring.

The themes within this strategy are:

- Establish industry leading bridal brands. Within this strategy we are committed to developing and establishing differentiated bridal brands that drive consumer preference, and that have strong stories that are relevant to one of our customers' most emotional purchases within their lifetime.
- Build a leading bridal experience. In this area we are focused on the elements that result in the best possible bridal experience. This will include assortments, training, technology aids to assist customers with education, customisation and personalisation.

Priorities for 2015-16

- To drive same store sales and EBIT performance across the Group
- To make further progress across our four strategic themes
- To improve return on shareholders' funds and return on assets
- To open up to 20 stores across the Group
- To increase sales from our e-commerce platforms across both brands while integrating the online and in store experiences
- To continue testing and refining our retail growth models: Michael Hill US, and Emma & Roe
- To continue to fine tune our in-house credit model in North America to "best practice" within our industry
- Improve branded assortments as a mix of sales, which will in turn drive sales and margins

Our Thanks

It was pleasing to see solid progress made in our New Zealand and Canadian segments and further progress of our trial of the US market. Australia continues to be a challenge and we are committed to turning this important market around in 2015-16. Testing the new Emma & Roe will continue into the coming year and we are optimistic this brand will be successful in the future. We will also look for further growth through online and continued store openings for both the Michael Hill and Emma & Roe brands when suitable property opportunities arise.

I would like to thank everyone within the Michael Hill Group for their commitment and efforts throughout the year, and to our shareholders for their ongoing support.

Mike Parsell
Chief Executive Officer

Financial Review: discussion and analysis

FINANCIAL PERFORMANCE

The Group's net profit after tax was $27.8m, up 10.8% on last year's net profit after tax of $25.0m. Total operating revenue increased from $483.9m to $503.4m, a 4.0% increase.

The Australian retail segment incurred a same store sales decrease of 2.5% and a segment result of $45.9m, a decrease of 2.7% on the previous year's result of $47.2m. The operating surplus as a percentage of revenue was 15.6% (15.8% last year). The Australian market has continued to be challenging due to lower consumer confidence, especially in regions where the resource sector is prevalent. Management continue to be focused on the consistent execution of our retail selling system across the whole country as well as retaining focus on costs.

The New Zealand retail segment returned a same store sales increase of 4.3%, with the segment result up 6.7% at NZ $23.5m. The operating surplus as a percentage of revenue was 20.7% (20.1% last year). The improved performance of the New Zealand segment is a continuation of the turnaround in this business which commenced in 2013-14. The Company is pleased with the performance of this important market.

The Canadian retail segment delivered a 2.5% same store sales increase and a record segment result of CA $6.0m, up 59.2% on CA $3.8m the previous year. The operating surplus as a percentage of revenue was 7.6% (5.5% last year). The Canadian segment continues to grow and improve due to the maturing of this business, which has now reached a critical mass allowing increased marketing spend and brand awareness.

The US retail segment completed its sixth full year of trade and produced a segment loss of US $1.9m compared to a loss of US $1.7m the previous year. Same store sales increased 3.5% for the period. The continued traction in revenue growth in this test market is encouraging and two further stores are planned for opening.

CASH FLOW

The Group has reported net operating cash inflows of $54.6m for the twelve months, up from $14.7m reported for the previous year. A good turnaround has been achieved in net cash from operations with the main contributors being a reduction in inventory purchases and the continued strong Professional Care Plan cash flow. Last year's net operating cash inflows were impacted by the decision to trial a new bridal range of product in our US stores and selected Canadian stores.

Net cash outflow relating to investing activities was $21.8m. 14 new stores were opened during the period.

Net cash outflow from financing activities was $34.1m compared to a net inflow of $5.9m last year, which was a result of decreased borrowings during the 2014-15 financial year and payment of dividends.

BALANCE SHEET

Net assets increased from $181.3m at the end of the previous year to $187.6m. Total assets increased from $339.8m to $351.0m.

Net debt now stands at $38.3m with total borrowings decreasing from $56.0m to $45.1m. Total borrowings decreased due to inventory control and continued Professional Care Plan sales traction.

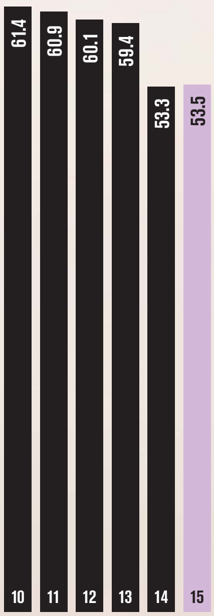
The equity ratio at year end was 53.5%, slightly up on 53.3% last year. The current ratio improved to 3.3:1 compared to 3.0:1 at 30 June 2014.

EVENTS AFTER BALANCE DATE

There were no events after balance sheet date requiring disclosure.

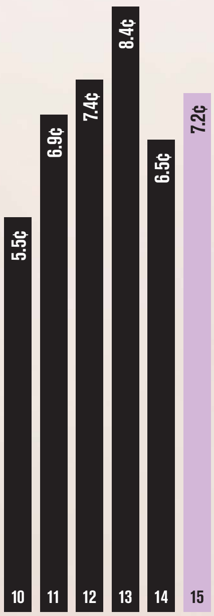
SHAREHOLDERS RETURN

- Declared dividends total 5.0 cents per share, down from 6.5 cents per share in 2013-14. The reduced dividend for the year is in part due to the flat result but also recognises the Group's growth ambitions and putting a priority on improving the balance sheet gearing.
- Shares traded between a high of $1.39 and a low of $1.04, ending the year at $1.06.
- Return on average equity was 15.0% compared to 14.1% last year.
- Return on average total assets was 8.0% compared to 7.9% last year.



Equity ratio 53%

% / year ended 30 June



Earnings

Cents per share / year ended 30 June

Capital expenditure and net operating cash flow

AU$ millions / year ended 30 June

■ CAPEX ■ Cash flow

TREND STATEMENT

FINANCIAL PERFORMANCE	2015 $000	2014 $000	2013 $000	2012 $000	2011 $000	2010 $000
Group revenue	**503,370**	483,935	440,225	397,633	375,850	357,858
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**57,799**	55,221	50,711	45,023	43,640	37,302
Depreciation and amortisation	**15,738**	13,070	10,452	9,611	8,814	8,712
Earnings before interest and tax (EBIT)	**42,061**	42,151	40,259	35,412	34,826	28,590
Net interest paid	**4,659**	5,376	2,522	3,002	4,359	4,278
Net profit before tax (NPBT)	**37,402**	36,775	37,737	32,410	30,467	24,312
Income tax	**9,648**	11,734	5,638	4,200	4,161	3,413
Net profit after tax (NPAT)	**27,754**	25,041	32,099	28,210	26,306	20,899
Net operating cash flow	**54,566**	14,689	41,686	40,662	33,386	10,426
Ordinary dividends paid	**23,176**	22,336	18,482	15,021	11,689	9,203

FINANCIAL POSITION	2015 $000	2014 $000	2013 $000	2012 $000	2011 $000	2010 $000
Cash	**6,797**	8,109	10,461	9,488	6,580	5,178
Inventories	**182,232**	179,280	154,293	147,089	133,374	119,535
Other current assets	**39,378**	25,204	15,653	9,319	6,590	7,857
Total current assets	**228,407**	212,593	180,407	165,896	146,544	132,570
Other non-current assets	**67,734**	58,488	52,232	36,739	32,532	32,251
Deferred tax assets	**48,381**	62,324	56,064	50,403	46,703	48,184
Total tangible assets	**344,522**	333,405	288,703	253,038	225,779	213,005
Intangible assets	**6,491**	6,413	3,632	1,511	117	231
Total assets	**351,013**	339,818	292,335	254,549	225,896	213,236
Total current liabilities	**69,879**	71,005	60,977	54,101	44,078	38,173
Non-current borrowings	**45,116**	56,000	28,000	26,000	35,000	42,700
Other long term liabilities	**48,397**	31,528	29,673	21,586	9,347	1,436
Total liabilities	**163,392**	158,533	118,650	101,687	88,425	82,309
Net assets	**187,621**	181,285	173,685	152,862	137,471	130,927
Reserves and retained profits	**183,861**	177,634	170,261	149,500	134,187	127,748
Paid up capital	**3,767**	3,702	3,515	3,482	3,448	3,419
Treasury stock	**(7)**	(51)	(91)	(120)	(164)	(240)
Total shareholder equity	**187,621**	181,285	173,685	152,862	137,471	130,927
Per ordinary share						
Basic earnings per share	**7.24¢**	6.54¢	8.38¢	7.37¢	6.88¢	5.46¢
Diluted earnings per share	**7.22¢**	6.43¢	8.24¢	7.34¢	6.85¢	5.45¢
Dividends declared per share - interim	**NZ2.5¢**	NZ2.5¢	NZ2.5¢	NZ2.0¢	NZ1.5¢	NZ1.5¢
- final	**NZ2.5¢**	NZ4.0¢	NZ4.0¢	NZ3.5¢	NZ3.0¢	NZ2.5¢
Net tangible asset backing	**$0.47**	$0.46	$0.44	$0.40	$0.36	$0.34

ANALYTICAL INFORMATION	2015	2014	2013	2012	2011	2010
EBITDA to sales	**11.5%**	11.4%	11.5%	11.3%	11.6%	10.4%
EBIT to sales	**8.4%**	8.7%	9.1%	8.9%	9.3%	8.0%
Net profit after tax to sales	**5.5%**	5.2%	7.3%	7.1%	7.0%	5.8%
EBIT to total assets	**12.0%**	12.4%	13.8%	13.9%	15.4%	13.4%
Return on average shareholders' funds	**15.0%**	14.1%	19.7%	19.4%	19.6%	16.7%
Return on average total assets	**8.0%**	7.9%	11.7%	11.7%	12.0%	10.1%
Current ratio	**3.3**	3.0	3.0	3.1	3.3	3.5
EBIT interest expense cover	**8.9**	7.8	15.6	11.2	7.8	6.4
Effective tax rate	**25.8%**	31.9%	14.9%	13.0%	13.7%	14.0%
Gearing						
Net borrowings to equity	**20.4%**	26.4%	10.1%	10.8%	20.7%	28.7%
Equity ratio	**53.5%**	53.3%	59.4%	60.1%	60.9%	61.4%
Other						
Shares issued at year end excl Treasury	**383,138,513**	383,041,606	382,849,544	382,775,586	382,664,473	382,468,900
Treasury stock at year end	**14,677**	111,584	203,646	277,604	388,717	584,290
Exchange rate for translating						
New Zealand results	**1.07**	1.10	1.25	1.28	1.30	1.23
Canadian results	**0.97**	0.98	1.03	1.03	0.99	0.94
United States results	**0.83**	0.92	1.03	1.03	0.99	0.89
Number of Michael Hill stores						
Australia	**167**	164	162	153	146	141
New Zealand	**52**	52	52	53	52	53
Canada	**60**	54	45	37	33	29
USA	**9**	8	8	9	9	9
Total Michael Hill stores	**288**	278	267	252	240	232
Number of Emma & Roe stores						
Australia	**7**	6	5	-	-	-
New Zealand	**1**	-	-	-	-	-
Total Emma & Roe stores	**8**	6	5	-	-	-

Community Spirit

**Michael Hill and Emma & Roe take great pride in giving back to the communities surrounding our 297 stores.
This year's sponsorship and donations of product, gift vouchers and cash amounted to $490,000.**

PINK HOPE

Emma & Roe has partnered with the Pink Hope Foundation to help support families facing hereditary breast and ovarian cancer.

We partnered with the Pink Hope founder Krystal Barter in 2014 and launched the Pink Hope collection which is exclusive to Michael Hill and Emma & Roe. The collection consists of a beautiful pink leather bracelet and a collection of six exquisite charms. Customers are encouraged to 'Wear a symbol of hope with the Emma & Roe Pink Hope Collection'.

15% of the gross profits from the sale of the Pink Hope Collection will go to Pink Hope. It is a beautiful collection supporting a relevant cause.

BMW NZ Open 2015

2015 was another spectacular year at the BMW NZ Open. Michael Hill is proud to be a major sponsor of this cornerstone event on the PGA Tour in Australasia. Held at Sir Michael's picturesque golf course in Arrowtown, New Zealand, the tournament attracted celebrity golfing enthusiasts such as Shane Warne, Sir Viv Richards and Sir Ian Botham along with an assortment of ex All Blacks. The event drew a large amount of media coverage, with its first year of live Television coverage in New Zealand and Australia.

Two competitions were held to select 2 of the 4 positions in the Michael Hill amateur team. Our remaining positions were held by Kiwi celebrity Josh Emett and Discover Card USA CEO, Diane Offerins.

The We're for Love messaging was dominant from the moment you arrived into Queenstown. Signage at the airport and oncourse focused on the We're for Love message with a 6 metre portrait image on the 10th hole billboard . A 3.17 carat of diamonds Arpeggio style ring from the Designer Bridal Collection was offered as a hole-in-one prize.

The Michael Hill marquee at the entertainment hub of the 19th hole had a steady stream of visitors, showcasing Sir Michael's Designer Bridal collection, Pink Hope and a range of sparkling diamonds. The team achieved record sales, the highlight being Queenstown sales professional Nidhi making one customer very happy with their perfect Designer Bridal ring. A limited edition BMW NZ Open charm bracelet supported the Cure Kids charity.

This year the Diamond in the Rough competition was extended to select stores around New Zealand. The $10,000 diamond was digitally hidden on an animated fly over of the course. The lucky winner was a regular customer at our Albany store.

Michael Hill International Violin Competition

The prestigious bi-annual event continues to strengthen, promoting young violinists from around the world. Eighteen of the world's best young violinists competed to win this prestigious competition. The Semi-finals took place in Queenstown, New Zealand on the 5th of June, with round three and the final held in Auckland. This year's three finalists were Timothy Chooi from Canada, Eunae Koh from South Korea, and Suyeon Kang of Australia.

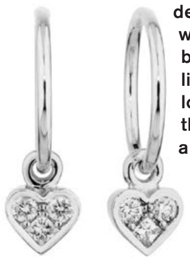
Suyeon Kang secured the title performing Sibelius Concerto in D minor with the Auckland Philharmonia Orchestra in the final concert at Auckland's Town Hall. She received NZ$40,000, a recording contract on the Atoll label, a personalised professional development programme, a bespoke gown from Kiri Nathan, and a Michael Hill gold and diamond pendant from Christine Hill's Spirits Bay collection. She will also return to New Zealand in 2016 for an intensive performance tour across the country, presented in partnership with Chamber Music NZ and the Auckland Philharmonia Orchestra.

EARRINGS FOR CHARLEY

Not all community activities are as grand as the International Violin Competition or a major golf tournament. A request for a donation, like many others, was received at Head Office. However this request stood out as an opportunity to make a difference to a sick little girl's life.

9 year-old Charley lives in New Zealand and suffered a brain injury at birth. Charley's mother created a bucket list for her daughter, which helps her daughter make the most of her precious life.

One item on Charley's bucket list was for her to own her very own pair of diamond earrings. But Charley can't wear ordinary studs, as the backs would push into her head during her dystonia (muscle spasms). Michael Hill designer Meg Black considered some suitable designs and went to work to bring these beautiful earrings to life. Charley absolutely loved them, and said they made her feel like a princess.



Our values

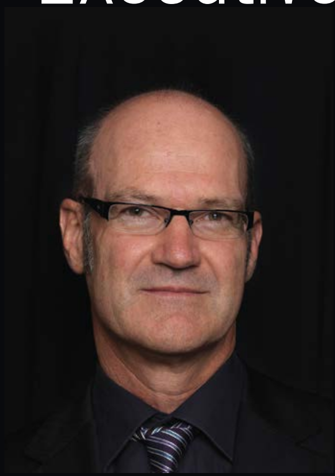
People-focused	We delight our customers, employees and communities first, always and often
Precision	We lead with quality, attainable jewellery. We will anguish over detail in all aspects of our business
Integrity	We build credibility with our honesty and ethics
Adaptability	We embrace practical irreverence
Driven	We take ownership of and are accountable for our business and the brand

Our leadership principles

Customer focus	We brighten, impress and delight our customers
	We consider our customers in everything we do
Mindset for growth	We show perseverance and determination to grow
	We are competitive and take the lead in the marketplace
	We innovate and challenge the status quo
	We display a positive attitude and confidence towards our future
	We are visible, accessible and clearly communicate the vision
Bias for action	We deliberately choose our priorities to achieve our vision
	We engage in thoughtful decision making and intelligent risk-taking
	We act with speed and a sense of urgency in executing initiatives and strategy
Building talent and teams	We personally invest in the development and success of our teams
	We identify and develop talent to achieve the Michael Hill vision
	We commit to being part of, and engendering an aligned and cohesive team
	We believe in having a diverse team and placing the best people in the right positions
Accountability and responsibility	We lead by example, hold ourselves to the highest standards and deliver on our personal KPIs
	We hold our teams accountable by setting clear expectations and providing continuous feedback
	We personally drive positive change

Our Senior Executive Team

MIKE PARSELL
Chief Executive Officer



PHIL TAYLOR
Chief Financial Officer

MATT KEAYS
Chief Information Officer

JOE TALCOTT
Chief Marketing Officer

LINDSAY CORFIELD
Group Strategy and Distribution Executive

TONY VAN DER ARK
Group Property Executive

GALINA HIRTZEL
Group Merchandising and Manufacturing Executive

STEWART SILK
Group Human Resources Executive

KEVIN STOCK
Retail General Manager, Australasia

BRETT HALLIDAY
Retail General Manager, Canada

DARCY HARKINS
Retail General Manager, United States

MICAH WALKER
General Manager Emma & Roe





CELEBRATING OUR SUCCESS

GOLD CLUB: Our elite sales professionals are rewarded and recognised every year at our exclusive Gold Signature Club event. They are wined, dined and awarded for their phenomenal sales performance throughout the year – **IT'S OUR PEOPLE WHO MAKE OUR COMPANY.**





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 (MHI) 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 are consistent with those detailed in the NZX Corporate Governance Best Practice Code. During the last year, there have been no changes to the Group's governance practices.

THE BOARD IS ACCOUNTABLE FOR THE PERFORMANCE OF THE GROUP

The Board is accountable 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 Group 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 Group 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 strategic business plan.

BOARD MEMBERSHIP

The Constitution sets the size of the Board at a minimum of three and at least two Directors must be resident in New Zealand. The Board currently comprises seven Directors, including an Executive Chairman, a Chief Executive Officer, and five non-executive Directors. During the year, the following change occurred in Board membership. Wayne Peters resigned from the Board at the Annual Meeting of Shareholders on 29 October, 2014 after 15 years on the Board. The Board convened on five occasions in the financial year ended 30 June 2015. Profiles of the current Directors appear on page 36 of this report. Under the Company's constitution, and the NZX Main Board listing rules ("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. Holdings of the current Directors are detailed on page 81 of this report. Directors adhere to the Company's insider trading policy at all times.

GENDER COMPOSITION OF DIRECTORS AND OFFICERS

The following table reflects the gender composition of Directors and Officers as at 30 June 2015. An Officer is defined as any person who reports directly to the Board, or a person who reports to a person who reports to the Board.

	2015		2014	
	Male	Female	Male	Female
Directors	5	2	6	2
Officers	11	1	11	1

INDEPENDENT DIRECTORS

Under the listing rules, the Company is obliged to have at least three independent Directors, if there are eight Directors. An independent Director has been defined in the listing 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, Gary Smith and Rob Fyfe are independent Directors under the listing rules.

DIRECTORS' MEETINGS

The number of meetings held throughout the past year is detailed below.

The agenda for meetings is determined by the Chairperson in conjunction with the CEO. 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 Sub-committee		People Development and Remuneration Sub-committee		Nominations Sub-committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
Sir Michael Hill	6	6	-	-	-	-	-	-
M.R. Parsell	6	6	2	2	4	4	-	-
L.W. Peters	2	2	1	1	1	1	1	1
G.J. Gwynne	6	6	-	-	-	-	1	1
A.C. Hill	6	5	-	-	-	-	-	-
E.J. Hill	6	6	2	2	4	4	2	2
G.W. Smith	6	6	2	2	4	3	-	-
R.I. Fyfe	6	6	1	1	1	1	2	2

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 changes made to any of the Board's processes as a result of this review.

CHIEF EXECUTIVE OFFICER 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 SUB-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 people development 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, such advice would normally be provided to all Directors.

AUDIT SUB-COMMITTEE

The Audit sub-committee, comprising Gary Smith as Chairman, Emma Hill, and Rob Fyfe met twice during the year.

All other Directors can attend the meetings of this sub-committee at the invitation of the Audit sub-committee Chairman. 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 management, 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 sub-committee also approves any non-audit work carried out by the Group's auditors, and ensures that the lead partner in the audit firm is rotated every five years. The sub-committee will also approve all major accounting policy changes. At least once a year, the Chairman of the sub-committee meets with the external auditor without the presence of management to discuss any matters that either the committee or the external auditor believes should be discussed privately.

PEOPLE DEVELOPMENT AND REMUNERATION SUB-COMMITTEE

This sub-committee comprises Rob Fyfe as Chairman, Emma Hill, and Gary Smith. Mike Parsell attends in an advisory capacity. The main purpose of the sub-committee is to:

- Oversee the people strategy of the Group including the organisation structure, performance, succession planning, development and remuneration strategies and policies of the Group;
- Set performance goals for the Chief Executive Officer (CEO), review performance and make recommendations to the full Board regarding the CEO's performance and remuneration;
- Approve the performance reviews and remuneration recommendations made by the CEO for Group Executives;
- Participate in annual succession planning reviews and selection processes as required from time to time for the CEO and the CEO's direct reports;

- Operate independently of Group Executives and obtain independent advice on the appropriateness of the remuneration packages; and
- Monitor the gender diversity on the board and in the senior management group.

The sub-committee met four times during the year. The sub-committee has continued to structure Group Executives' bonuses around a return on assets employed basis, to emphasise efficient use of assets.

NOMINATIONS SUB-COMMITTEE

This sub-committee comprises Rob Fyfe as Chairman, Emma Hill and Gary Gwynne. The function of the sub-committee is to periodically review the most appropriate Board structure and to consider 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 between one and three Board meetings in the capacity of a consultant before being eligible for appointment as a Director.

The sub-committee met twice during the year.

SHARE TRADING BY DIRECTORS

Under Section 148 of the Companies Act 1993, Directors must disclose particulars of any 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 Directors have traded in MHI shares during the year.

NON-EXECUTIVE DIRECTORS' FEES

Fees for non-executive Directors are based on the nature of their work and their responsibilities. The Group is now truly global with 82% of the Group's stores in Australia, Canada and the USA. Shareholders at the annual meeting in October 2013 approved a maximum amount of AU$650,000 to be paid to Directors.

Each NZ resident Director is currently paid NZ$95,000 per annum and our Australian resident Directors AU$95,000 per annum. An additional fee of 10% of the base fee is also paid to the chairs of the Audit sub-committee and the People Development and Remuneration sub-committee and an additional 33% of the base fee is also paid to the Deputy Chair to reflect increased responsibilities. No equity incentives are offered to non-executive Directors. Under the Company's constitution, shareholders are 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.

EMPLOYEE SHARE SCHEME

The Company has an Employee Share Scheme in operation for management. The scheme was designed to encourage store managers, regional managers and other senior employees of the Group 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 MHI shares on the New Zealand Stock Exchange. The rules of the scheme provide for the Company to on sell shares to purchasing Group 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 Group's employees. The discount is deemed to be "financial assistance" under the Companies Act 1993. 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. In the year ended 30 June 2015, 96,907 shares were issued to staff at a price of NZ $1.13 in September 2014. The Company holds a further 14,677 shares which are held as "Treasury Stock" and will be used for future issues under the scheme.

SHARE OPTIONS

During the year, a total of 400,000 options to purchase fully paid shares in the Company were issued to executive management of the Group. 500,000 options were cancelled during the year. There are currently 12,650,000 options outstanding to employees as at 30 June 2015. Further information on options outstanding to employees is included in note 31 to the Financial Statements on page 74.

COMMUNICATION WITH SHAREHOLDERS

MHI places high importance on communication with shareholders.

The Company has a specific website for investors and shareholders at **investor.michaelhill.com** which contains all the latest announcements and releases to the NZX, along with corporate governance policies, financial reports and other useful information for investors.

A half-year and annual report is published each year and posted on the website as are copies of presentations for analysts and investors which are prepared in conjunction with the release of the half-year and annual results.

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.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YOUR SYMPHONY OF LIGHT

CONTINUOUS DISCLOSURE POLICY

The Board has adopted the following procedures to ensure its compliance with the listing rules continuous disclosure requirements:

1. At each Board meeting, a standard agenda item is now considered – "Does the Group 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 normally releases a trading update for each quarter within 10 working days of the end of the quarter. This update gives a breakdown of year to date sales by country and an update on the trading conditions experienced in the last quarter and any other relevant information. For the second and fourth quarters, this update will be given in advance of the full earnings announcement made to the NZX.
4. For the 12 months ended 30 June 2015, all the announcements and disclosures made by the Company under the continuous disclosure rules can be viewed on the Company's investor website **investor.michaelhill.com**

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 MHI'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 MHI will allow its external auditing firm to perform.

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

Valuations
Prohibited.

Tax Services
Permitted but limited, 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. Any persons seconded have no management authority within MHI and are not permitted to sign any agreements or to commit MHI in any way.

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 reported to the Audit sub-committee annually. Non-audit fees greater than $25,000 must be reviewed by the Chief Financial Officer and reported to the Audit sub-committee for approval.

For the 2014/15 financial year, audit fees amounting to AU$337,000 (2013/14 – AU$317,000) and fees for other advisory services amounting to AU$5,000 (2013/14 - AU$27,000) were paid to Ernst & Young.

HIRING OF STAFF FROM THE EXTERNAL AUDITING FIRM

The hiring by MHI of any partner or audit manager must first be approved by the Chairman of the Audit sub -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. The risk management process involves the annual review and approval of plans incorporating assessment of opportunities and risks associated with these opportunities.

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

A formal risk management workshop is conducted annually by our risk consultants in conjunction with the company's executive team to review and update the risk register which is included in the Audit sub-committee agenda for consideration.

INSURANCE PROGRAM

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

INTERNAL AUDIT

The Group has an internal audit function that is responsible for the development of a comprehensive continuous audit program and for performing internal audit reviews which support the Group's risk management process. The Internal Audit Manager has a direct communication line to the Board Audit sub-committee, should they deem it necessary to report any matter to the sub-committee directly. The Internal Audit Manager attends the Audit sub-committee meetings where they present their report.

CODE OF ETHICS

Our Board of Directors believes that good risk management is supported by the highest standards of corporate behaviour towards our employees, customers and other stakeholders. The code of ethics is a guide to help our Directors and employees maintain high ethical standards and responsibilities towards their fellow employees, customers and other stakeholders.

ISO 9001 CERTIFICATION

In July 2015, our global quality control team were recognised for their commitment to excellence with official ISO 9001 certification achieved for quality control and administrative functions for jewellery wholesale. Michael Hill is one of the few Australian jewellers to achieve ISO 9001:2008 certification.

This global certification recognises our robust quality management system where the business has demonstrated compliance, consistent performance and service as well as a commitment to continuous improvement.

The process of certification involved an accredited third party certification body assessing our organisation to ascertain that the Michael Hill Quality Management System meets the globally recognised criteria for ISO 9001:2008 certification. In addition, the system undergoes regular internal and external audits to ensure we maintain our strict standards and adhere to our commitment to providing an exceptional product.

Corporate code of ethics

Michael Hill International Limited (MHI) 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.

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 communication, 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 lifetime diamond warranty on selected diamond products, a 12-month guarantee for all other jewellery items, and a 3 year guarantee and lifetime battery replacement on every Michael Hill watch. 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 Group'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 & ASSETS

- Our Directors and employees will properly use Group assets and safeguard and protect any Group 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 MHI shares. If Directors or officers possess "material information" (refer to definition below) at any time, then they must not trade in MHI securities, advise or encourage others to trade or hold or pass on material information to others.

Material Information is information that:
  - Is not generally available to the market; and
  - If it were generally available to the market, would have a material effect on the price of MHI's listed securities. Information is generally available to the market if it has been released as an NZX announcement.
- There are additional restrictions for Directors and all other senior executives who report to the Chief Executive Officer, as well as anyone else that been advised by the Company that they are a "restricted" person. These individuals are subject to "black-out" periods during which they may not trade in MHI securities unless the board of MHI provides a specific exemption. These "black-out" periods are
  - 1 December, until the half year results are released to NZX
  - 1 June until after the full year results are released to NZX.

  Before trading in MHI shares, Directors and officers must, in writing
  i) Notify MHI's Company Secretary of their intention to trade in securities and seek consent to do so.
  ii) Confirm that they do not hold material information.
  iii) Confirm that there is no known reason to prohibit trading in MHI securities.
- From 3 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.

The full insider trading policy of the Company is posted on the Company's website.

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 CFO. Employees 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.

Director Profiles

SIR 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.

EMMA HILL

Non-executive Director/ Deputy Chair. Emma has a Bachelor of Commerce degree and an MBA degree from Bond University in Queensland. She has held a number of management positions in Australia, and in 2002 led the expansion of the Group into Canada as Retail General Manager. She returned to live in New Zealand in February 2007 and was appointed a Director in February 2007 and Deputy Chair in 2011. Member of the People Development /Remuneration, Audit 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 and Independent Director. Gary has an extensive background in marketing, retailing and property development. He is currently a Director of Oyster Property Group, the operators of Dress Smart Factory Shopping Centres and Sheppard Industries. He was appointed to the Board in February 1998. Gary is a member of the Nominations sub-committee.

ANN CHRISTINE LADY HILL

Non-executive Director. Christine has been associated with the Company since its original formation in 1979 and has been closely involved with the artistic direction of the Group's store design and interior layouts over the years. She joined the Board in 2001.

GARY SMITH

Non-executive and Independent Director. Gary is based in Brisbane and is a Chartered Accountant and Fellow of the Australian Institute of Company Directors. He is the Chairman of Flight Centre Limited, one of Australia's top 100 public companies and a member of the Audit sub-committee and Chair of the Remuneration sub-committee. He has extensive Director experience in many tourism and leisure industry companies in Australia. He is also a Director of Tourism Events Queensland and Chair of its Audit and Risk Committee. His former governance roles include being Chairman of the Queensland Tourism Industry Council and being a Director of Ecotourism Australia. Gary was appointed to the Board in November 2012 and he is Chairman of the Audit sub-committee and a member of the People Development/Remuneration sub-committee.

ROB FYFE

Non-executive and Independent Director. Rob was appointed to the Board in January 2014. He is currently a director and CEO of New Zealand merino wool clothing company Icebreaker and a board director of Antarctica New Zealand. Rob served as CEO of Air New Zealand between 2005 and 2012, a period that saw a resurgence in Air New Zealand to become one of the most recognised and awarded airlines in the world and one of the best financial performers in a tough industry.

Rob is Chairman of the Nominations sub-committee and Chairman of the People Development / Remuneration subcommittee and a member of the Audit sub-committee.

Statutory Report of the Directors

The Directors have pleasure in submitting to shareholders the 28th Annual Report and audited accounts of the Company for the year ended 30 June 2015.

BUSINESS ACTIVITIES

The Group's primary business activity during the 2014/15 financial year continued to be jewellery retailing.

CONSOLIDATED FINANCIAL RESULTS

The Group has recorded a tax paid surplus of $27.754m for the year ended 30 June 2015 (2014 - $25.041m). This surplus was achieved on total operating revenue of $503.370m (2014 - $483.935m).

The accounts for the year ended 30 June 2015 have been presented in accordance with the accounting principles and policies detailed on pages 42 to 79 of this report.

	2015 $000	**2014** $000
Total operating revenue	503,370	483,935
Surplus before tax	37,402	36,775
Taxation	(9,648)	(11,734)
Surplus after tax	27,754	25,041
Dividends paid	(23,176)	(22,336)
Net surplus retained	4,578	2,705

SHAREHOLDERS' FUNDS/RESERVES

Total shareholders' funds of the Group now stand at $187.621m. Contributed equity increased to $3.760m due to shares issued under the Employee Share Scheme.
The Group's reserves at 30 June 2015 totalled $183.861m.

	$000
The Group's reserves at 30 June 2014 were	**177,634**
To which was added:	
Operating surplus after tax for the year	27,754
Exchange differences on translation of foreign operations	2,115
Option reserve movement	25
Cash flow hedges	(491)
From which was deducted:	
Ordinary dividends paid	(23,176)
Leaving reserves at 30 June 2015 at	**183,861**
These comprise:	
Retained earnings	176,416
Other reserves	7,445
	183,861

ACCOUNTING POLICIES

There have been no changes in accounting policies during the year.

DIVIDENDS

Your Directors paid an interim dividend of NZ 2.5 cents per share, with nil imputation credits and full franking credits attached on 2 April 2015. On 13 August 2015, your Directors declared a final dividend of NZ 2.5 cents per share payable on 2 October 2015. The share register will close at 5:00pm on 25 September 2015 for the purpose of determining entitlement to the final dividend.

The total ordinary dividend for the year is NZ 5.0 cents (not imputed), (2014 – NZ 6.5 cents not imputed). The payout represents 64.8% (2014 – 90.4%) of the tax paid profit of the Group.

DIRECTORS' REMUNERATION

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

	2015 $000	**2014** $000
Sir Michael Hill*	NZ$190	NZ$190
M.R. Parsell*	$1,156	$1,744
E.J. Hill	NZ$126.35	NZ$126.35
Ann Christine Lady Hill	NZ$95	NZ$95
G.J. Gwynne	NZ$95	NZ$95
R.I. Fyfe *APPOINTED 6 JAN 2014	NZ$101	NZ$47.5
L.W. Peters *RESIGNED 29 OCT 2014	$35	$104.5
G.W. Smith	$104.5	$104.5

*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.
Mike Parsell's annual bonus for the year is based on a percentage of the Group's EBIT (earnings before interest and tax), in excess of a hurdle rate of return on assets employed in the Group. Mike Parsell has the following share options outstanding as at 30 June 2015.

Number	Exercise Price	Exercise Period
2,000,000	NZ$1.25	20/8/12 – 30/9/17
400,000	NZ$0.94	20/8/14 – 30/9/19
400,000	NZ$0.88	20/8/15 – 30/9/20
400,000	NZ$1.16	20/8/16 – 30/9/21
400,000	NZ$1.41	20/8/17 – 30/9/22
400,000	NZ$1.82	20/8/18 – 30/9/23
2,000,000	NZ$1.82	20/8/18 – 30/9/23

REMUNERATION OF EMPLOYEES

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

$000	2015	2014
100-110	27	18
110-120	23	20
120-130	19	22
130-140	18	10
140-150	7	4
150-160	10	10
160-170	6	4
170-180	2	4
180-190	6	3
190-200	1	1
200-210	2	-
210-220	-	2
220-230	1	-
230-240	-	1
240-250	1	-
260-270	2	-
290-300	1	1
300-310	1	-
310-320	-	1
320-330	2	1
330-340	1	-
350-360	-	1
360-370	-	2
380-390	2	-
390-400	2	-
410-420	-	1
420-430	1	-
440-450	-	1
460-470	1	-
720-730	-	1

New Zealand remuneration has been converted into Australian dollars at the exchange rate used for translating the Australian results into New Zealand dollars, 1.07 (2014 – 1.10). Canadian remuneration on the same basis at 0.97 (2014 – 0.98) and USA remuneration on the same basis at 0.83 (2014 – 0.92).

INFORMATION ON DIRECTORS

The qualifications and experience of the Directors are shown on pages 36 and 37.

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 accordance 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 40 of this report.

DONATIONS

The total of donations made during the year amounted to $39,000.

INTERESTS REGISTER

In accordance with the Company's constitution and the Companies Act 1993, the Company has provided insurance for and indemnities to, Directors of the Company.
On behalf of the Directors,

Michael Hill. Mike Parsell

Sir Michael Hill   Mike Parsell

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Independent Auditor's Report To the Shareholders of Michael Hill International Limited

Report on the Financial Statements

We have audited the group financial statements of Michael Hill International Limited and its subsidiaries ("the Group") on pages 42 to 79, which comprise the statement of financial position of the Group as at 30 June 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended of the Group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's shareholders in accordance with section 461G(1) of the Financial Markets Conduct Act 2013. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interest in, the Group. We provide advisory advice to the Group. We have no other relationship with, or interest in, the Group.

Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group.

Opinion

In our opinion, the financial statements on pages 42 to 79:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- present fairly, in all material respects, the financial position of the Group as at 30 June 2015 and the financial performance and cash flows of the Group for the period then ended.

Ernst+Young

Ernst & Young
13 August 2015
Brisbane

FINANCIAL STATEMENTS

The Directors are pleased to present the financial statements of Michael Hill International Limited for the year ended 30 June 2015. The Board of Directors of Michael Hill International Limited authorised these financial statements for issue on 13 August 2015.

Sir Michael Hill
Chairman of Directors

Mike Parsell
Chief Executive Officer/Director

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Statement of comprehensive income for the year ended 30 June 2015

	NOTES	2015 $000	2014 $000
Revenue from continuing operations	5	**503,370**	483,935
Other income	6	**2,259**	764
Cost of goods sold		**(181,135)**	(173,504)
Employee benefits expense		**(130,937)**	(127,010)
Occupancy costs	7	**(50,640)**	(47,287)
Marketing expenses		**(31,906)**	(26,818)
Selling expenses		**(22,748)**	(23,203)
Depreciation and amortisation expense	7	**(15,738)**	(13,070)
Loss on disposal of property, plant and equipment	7	**(204)**	(1,133)
Other expenses		**(30,211)**	(30,463)
Finance costs	7	**(4,708)**	(5,436)
Profit before income tax		**37,402**	36,775
Income tax expense	8	**(9,648)**	(11,734)
Profit for the year		**27,754**	25,041
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges		**(491)**	(277)
Currency translation differences arising during the year		**2,115**	4,239
Other comprehensive income for the year, net of tax		**1,624**	3,962
Total comprehensive income for the year		**29,378**	29,003

Total comprehensive income for the year is attributable to:			
Owners of Michael Hill International Limited		**29,378**	29,003

Earnings per share attributable to the ordinary equity holders of the Company during the year, attributable to continuing operations:			
Basic earnings per share	28	**7.24¢**	6.54¢
Diluted earnings per share	28	**7.22¢**	6.43¢

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

Statement of financial position as at 30 June 2015

	NOTES	2015 $000	2014 $000
ASSETS			
Current assets			
Cash and cash equivalents	9	**6,797**	8,109
Trade and other receivables	10	**24,859**	25,143
Inventories	11	**182,232**	179,280
Current tax receivables	12	**11,376**	61
Other current assets	13	**3,143**	-
Total current assets		**228,407**	212,593
Non-current assets			
Trade and other receivables	14	**636**	480
Property, plant and equipment	15	**64,845**	55,400
Deferred tax assets	16	**48,381**	62,324
Intangible assets	17	**6,491**	6,413
Other non-current assets	18	**2,253**	2,608
Total non-current assets		**122,606**	127,225
Total assets		**351,013**	339,818
LIABILITIES			
Current liabilities			
Trade and other payables	19	**43,739**	42,034
Provisions	20	**4,624**	4,235
Deferred revenue	21	**21,516**	24,736
Total current liabilities		**69,879**	71,005
Non-current liabilities			
Borrowings	22	**45,116**	56,000
Provisions	23	**4,254**	1,740
Deferred revenue	24	**44,143**	29,788
Total non-current liabilities		**93,513**	87,528
Total liabilities		**163,392**	158,533
Net assets		**187,621**	181,285
EQUITY			
Contributed equity	25	**3,760**	3,651
Reserves	26	**7,445**	5,796
Retained profits	26	**176,416**	171,838
Total equity		**187,621**	181,285

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

Statement of changes in equity for the year ended 30 June 2015

Attributable to members of Michael Hill International Limited	Notes	Contributed equity	Options reserve	Foreign currency translation reserve	Cash flow hedge reserve	Retained profits	Total equity
		$000	$000	$000	$000	$000	$000
Balance at 1 July 2013		3,424	1,212	(84)	-	169,133	173,685
Profit for the year		-	-	-	-	25,041	25,041
Currency translation differences		-	-	4,239	-	-	4,239
Currency forward contracts		-	-	-	(17)	-	(17)
Interest rate swaps		-	-	-	(260)	-	(260)
Total comprehensive income		-	-	4,239	(277)	25,041	29,003
Transactions with owners in their capacity as owners:							
Dividends paid	27	-	-	-	-	(22,336)	(22,336)
Issue of share capital - exercise of options	31(a)	102	-	-	-	-	102
Employee shares issued	31(b)	113	-	-	-	-	113
Option expense through share based payments reserve	31(c)	-	758	-	-	-	758
Forfeiture of issued options	31(c)	-	(40)	-	-	-	(40)
Transfer option reserve to contributed equity on exercise of options		12	(12)	-	-	-	-
		227	706	-	-	(22,336)	(21,403)
Balance at 30 June 2014		3,651	1,918	4,155	(277)	171,838	181,285
Profit for the year		-	-	-	-	27,754	27,754
Currency translation differences		-	-	2,115	-	-	2,115
Currency forward contracts		-	-	-	77	-	77
Interest rate swaps		-	-	-	(568)	-	(568)
Total comprehensive income		-	-	2,115	(491)	27,754	29,378
Transactions with owners in their capacity as owners:							
Dividends paid	27	-	-	-	-	(23,176)	(23,176)
Employee shares issued	31(b)	109	-	-	-	-	109
Option expense through share based payments reserve	31(c)	-	162	-	-	-	162
Forfeiture of issued options	31(c)	-	(137)	-	-	-	(137)
		109	25	-	-	(23,176)	(23,042)
Balance at 30 June 2015		3,760	1,943	6,270	(768)	176,416	187,621

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

Cash flow statement for the year ended 30 June 2015

	NOTES	2015 $000	2014 $000
Cash flows from operating activities			
Receipts from customers (inclusive of GST and sales taxes)		**566,544**	540,581
Payments to suppliers and employees (inclusive of GST and sales taxes)		**(462,663)**	(472,170)
		103,881	68,411
Interest received		**49**	60
Other revenue		**477**	765
Interest paid		**(4,626)**	(5,357)
Income tax paid		**(9,105)**	(15,542)
Net GST and sales taxes paid		**(36,110)**	(33,648)
Net cash inflow / (outflow) from operating activities	32	**54,566**	14,689
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**283**	102
Payments for property, plant and equipment		**(20,190)**	(19,687)
Payments for intangible assets		**(1,925)**	(3,540)
Net cash inflow / (outflow) from investing activities		**(21,832)**	(23,125)
Cash flows from financing activities			
Proceeds from borrowings		**68,507**	90,000
Repayment of borrowings		**(79,500)**	(62,000)
Proceeds from sale of treasury stock		**98**	102
Payments from share options exercised		**-**	102
Dividends paid to Company's shareholders	27	**(23,176)**	(22,336)
Net cash inflow / (outflow) from financing activities		**(34,071)**	5,868
Net increase / (decrease) in cash and cash equivalents		**(1,337)**	(2,568)
Cash and cash equivalents at the beginning of the year		**8,109**	10,461
Effects of exchange rate changes on cash and cash equivalents		**25**	216
Cash and cash equivalents at the end of the year	9	**6,797**	8,109

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

Notes to the financial statements for the year ended 30 June 2015

NOTE 1 Summary of significant accounting policies

(a) BASIS OF PREPARATION

The financial statements for the year ended 30 June 2015 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-oriented entities.

Compliance with IFRS

New Zealand Accounting Standards include New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Compliance with NZ IFRS ensures that the consolidated financial statements, Parent Entity and notes of Michael Hill International Limited comply with International Financial Reporting Standards (IFRS).

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

The Group is designated as a profit-oriented entity 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 Company is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, Financial Markets Conduct Act 2013 and the Companies Act 1993.

In accordance with the Financial Markets Conduct Act 2013, because the financial statements are prepared and presented for Michael Hill International Ltd and its subsidiaries, separate financial statements for Michael Hill International Ltd are no longer required to be prepared and presented.

These consolidated financial statements have been approved for issue by the Board of Directors on 13 August 2015.

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

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the measurement of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(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 2015 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 control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

The acquisition 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. 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 non-controlling 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 statement of comprehensive income. 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 on consolidation. 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.

The Group has formed Michael Hill Trustee Company Limited to administer the Group's Employee Share Scheme. Shares held by the Trust are disclosed as treasury shares and deducted from contributed equity.

(c) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Executive Management team.

(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 Group's financial statements are presented in Australian dollars, which is the Group'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 or are attributable to part of the net investment in a foreign operation.

(iii) Group companies

The results and financial position of all the Group entities (none of which have 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 statement of financial position presented are translated at the closing rate at the date of the statements of financial position;
- income and expenses for each profit and loss component of the statements of comprehensive income 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 other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

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 are recognised when a Group entity delivers a product to the customer. Retail sales are usually by cash, payment plan or credit card. The recorded revenue is the gross amount of sale (excluding taxes), including any fees payable for the transaction.

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) Rendering of services - deferred service revenue

The Group offers a professional care plan ("PCP") product which is considered deferred revenue until such time that service has been provided. A PCP is a plan under which the Group offers future services to customers based on the type of plan purchased. The Group subsequently recognises the income in revenue in the statement of comprehensive income once these services are performed. An estimate is used as a basis to establish the amount of service revenue to recognise in the statement of comprehensive income.

(iii) Rendering of services - repairs

Sales of services for repair work performed is recognised in the accounting period in which the services are rendered.

(iv) Interest revenue from in-house customer finance program

Interest revenue is recognised on the in-house customer finance program when consideration is deferred. It is calculated as the difference between the nominal cash and cash equivalents received from customers and the discounted cashflows, on both interest and non-interest bearing products. Interest revenue is brought to account over the term of the finance agreement, and the rate used for non-interest bearing products is in line with current, comparable market rates.

(v) Interest income

Interest income is recognised using the effective interest method.

(f) INCOME TAX

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

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.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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.

(g) LEASES

Leases of property, plant and equipment where the Group, as lessee, 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 fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short term and long term payables. Each lease payment is allocated between the liability and finance charges. The finance cost is charged to the statement of comprehensive income 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 comprehensive income statement on a straight-line basis over the period of the lease.

(h) IMPAIRMENT OF ASSETS

At each annual reporting date (or more frequently if events or changes in circumstances indicate that they might be impaired), 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.

The discount rates used in determining the recoverable amount ranged between 10.2% and 11.9% (2014: 10.5% and 12.0%).

(i) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term and 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. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for goods sold or services rendered in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impaired 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 original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the statement of comprehensive income.

(k) DEFERRED EXPENDITURE

Direct and incremental bonuses associated with the sale of professional care plans are deferred and amortised in proportion to the professional care plan revenue recognised. Management reviews trends in current and estimated future services provided under the plan to assess whether changes are required to the cost recognition rates used.

(l) INVENTORIES

Raw materials 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.

(m) INVESTMENTS AND OTHER FINANCIAL ASSETS

The Group classifies its investments and other financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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 are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(n) DERIVATIVES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. 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:

(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 are recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss 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 initial measurement of the cost of the asset.

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 reclassified to profit or loss.

(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 forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. 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 costs are charged to the profit and loss component of the statement of comprehensive income during the financial period in which they are incurred.

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 and equipment 5 - 6 years
- Motor vehicles 3 - 5 years
- Fixtures and fittings 6 - 10 years
- Leasehold improvements 6 - 10 years
- Display material 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 comprehensive income statement.

(q) INTANGIBLE ASSETS

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 programs 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 five years).

(r) TRADE AND OTHER PAYABLES

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

Deferred revenue represents lease incentives for entering new lease agreements and revenue from PCPs.

(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 removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance costs.

Borrowings are classified as current liabilities when repayment is due within twelve months.

(t) PROVISIONS

Provisions for legal claims, sales returns, lifetime battery replacement and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable 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 management's best estimate of the expenditures required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to passage of time is recognised as interest expense.

(u) EMPLOYEE BENEFITS

(i) **Short-term obligations**

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. All short-term employee benefit obligations are presented as payables.

(ii) **Other long-term employee benefit obligations**

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service 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 period 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 period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) **Retirement benefit obligations**

All Australian and Canadian employees of the Group are entitled to benefits on retirement, disability or death from the Group's defined contribution superannuation plans. The defined contribution superannuation plans receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

Contributions to the defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) **Share-based payments**

Share-based compensation benefits are provided to employees via the Michael Hill International Limited Employee Share Scheme and from time to time options are issued to Executives of Michael Hill International Limited in accordance with the Company's constitution. The Board of Directors pass a resolution approving the issue of the options. The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity.

The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date for options issued during 2015 were independently determined using a Binomial option pricing model, which is an iterative model for options that can be exercised at times prior to expiry. The model takes into account the grant date, exercise price, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. It also assumes the options will be exercised at the mid-point of the exercise period.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statement of comprehensive income with a corresponding adjustment to equity.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital. Proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised. The ten percent discount on the market value of shares issued to employees under the Employee Share Scheme is recognised as an employee benefits expense when the shares are issued.

(v) **Profit-sharing and bonus plans**

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity until the associated shares are cancelled, reissued or disposed of. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(w) DIVIDENDS

Provision is made for the amount of any dividends declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(x) EARNINGS PER SHARE

(i) **Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) **Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(y) STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE

Certain new standards, amendments and interpretations of existing standards have been published that are not mandatory for 30 June 2015 reporting periods.

NZ IFRS 9 Financial Instruments: Classification and measurement (effective 1 January 2018)
NZ IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 but is available for early adoption. The Group has not yet assessed the potential impact of this change.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from NZ IAS 39 Financial Instruments: Recognition and Measurement and have not been changed. The Group has not yet decided when to adopt NZ IFRS 9.

NZ IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
The International Accounting Standards Board (IASB) in its July 2015 meeting decided to confirm its proposal to defer the effective date of IFRS 15 (the international equivalent of NZ IFRS 15) from 1 January 2017 to 1 January 2018. The amendment to give effect to the new effective date for IFRS 15 is expected to be issued in September 2015. At this time, it is expected that the NZ ASB will make a corresponding amendment to NZ IFRS 15, which will mean that the application date of this standard for the Group will move from 1 July 2017 to 1 July 2018. NZ IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.
NZ IFRS 15 supersedes:

(a) NZ IAS 11 Construction Contracts
(b) NZ IAS 18 Revenue
(c) NZ IFRIC 13 Customer Loyalty Programmes
(d) NZ IFRIC 15 Agreements for the Construction of Real Estate
(e) NZ IFRIC 18 Transfers of Assets from Customers
(f) NZ SIC-31 Revenue – Barter Transactions Involving Advertising Services.

The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard is not applicable until 1 January 2018 but is available for early adoption. The Group has not yet assessed the potential impact of this change.

NOTE 2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

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

(i) **Foreign exchange risk**

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

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Where it considers appropriate, the Group enters into forward foreign exchange contracts to buy specified amounts of various foreign currencies in the future at a pre-determined exchange rate.

Foreign exchange forward contracts measured through Other comprehensive income are designated as hedging instruments in cash flow hedges of forecast purchases in USD. These forecast transactions are highly probable.

The cash flow hedges of the expected future purchases were assessed to be highly effective and a net unrealised gain of $77,000 (2014: $17,000 loss) is included in Other comprehensive income. The fair value liability is included in Trade and other payables.

Forward exchange contracts - cash flow hedges

The cash flows are expected to occur at various dates up to three months from the balance date. At balance date, the details of outstanding contracts are:

	Sell Australian Dollars		Average Exchange Rate	
	2015	**2014**	**2015**	**2014**
	US$000	US$000		
Buy US Dollars				
Maturity 0 - 3 months	**2,810**	9,000	0.7800	0.9382

Amounts disclosed above represent currency sold, measured at the contracted rate.

The Group's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2015			30 June 2014		
	USD	**NZD**	**CAD**	**USD**	**NZD**	**CAD**
	$000	$000	$000	$000	$000	$000
Cash and cash equivalents	**1,096**	**1,647**	**2,526**	654	2,683	1,928
Trade receivables	**1,813**	**1,013**	**8,225**	1,590	1,652	8,834
Trade payables	**1,501**	**710**	**503**	2,167	1,128	206

Group sensitivity

The Group's principal foreign currency exposures arise from trade payables and receivables outstanding at year end.

Based on the USD trade payables due for payment at 30 June 2015, had the Australian dollar weakened/strengthened by 10% against the USD with all other variables held constant, the Group's equity for the year would have been $218,000 lower/$179,000 higher (2014: $256,000 lower/ $209,000 higher).

Most trade payables are repaid within 30 days so there is minimal equity impact arising from foreign currency exposures.

Based on the CAD receivables at 30 June 2015, had the Australian dollar weakened/ strengthened by 10% against the Canadian dollar with all other variables held constant, the Group's equity for the year would have been $970,000 higher/$794,000 lower (2014: $975,000 higher/ $798,000 lower).

The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of New Zealand, Canada and United States. The effect on the FX translation reserve is contained in the statement of changes in equity.

(ii) **Cash flow and fair value interest rate risk**

The Group's main interest rate risk arises from long-term borrowings and cash. 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 fixed interest cover of between 50% and 100% of core debt up to 12 months, between 30% and 80% of cover debt between 1 and 3 years, and up to 60% of core debt between 3 and 5 years.

To manage variable interest rate borrowings risk, the Group enters into interest rate swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. As at the reporting date, the Group had the following borrowings outstanding:

	30 June 2015		30 June 2014	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	$000	%	$000
Variable rate fully drawn down advance facility	**2.84%**	**45,116**	3.31%	56,000

An analysis by maturity and a summary of the terms and conditions is in note 22.

In order to reduce the variability of the future cash flows in relation to the interest bearing loans, the Group has entered into Australian Dollar interest rate swap contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates. Swaps in place cover approximately 55.4% (2014: 26.8%) of the variable rate principal outstanding.

The interest rate swaps are designated as cash flow hedging instruments. Changes in the interest paid on the variable rate fully drawn down advance facility are measured at fair value through Other comprehensive income.

The cash flow hedges were assessed to be highly effective and a net realised loss of $568,000 (2014: $260,000) is included in Other comprehensive income. The fair value liability is included in Trade and other payables.

The notional principal amounts and period of expiry of the interest rate derivatives contracts are as follows:

GROUP	**Rate** %	**2015** $000	**2014** $000
Swap terminating 1 July 2016	**3.29**	**5,000**	5,000
Swap terminating 1 Sep 2017	**3.46**	**5,000**	5,000
Swap terminating 1 May 2018	**3.58**	**5,000**	5,000
Swap terminating 12 Sep 2018	**3.44**	**5,000**	-
Swap terminating 12 Sep 2019	**3.60**	**5,000**	-
		25,000	15,000

The interest rate derivatives require settlement of net interest receivable or payable each 30 days and are settled on a net basis.

Group sensitivity

At 30 June 2015, if interest rates had changed by -/+ 100 basis points from the year end rates with all other variables held constant, the Group's equity for the year would have been $451,000 higher / lower (2014: $560,000 higher / lower), mainly as a result of lower / higher interest expense on variable borrowings. All other non-direct financial liabilities have a contractual maturity of less than 6 months.

(b) CREDIT RISK

Credit risk is managed on a Group basis and refers to the risk of a counterparty failing to discharge an obligation. In the normal course of business, the Group incurs credit risk from trade receivables and transactions with financial institutions. The Group places its cash and short term deposits with only high credit quality financial institutions. Sales to retail customers are required to be settled via cash, major credit cards or passed onto various credit providers in each country.

In-house customer finance was established in Canada and the United States in October 2012. Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

An impairment analysis is performed at each reporting date. The maximum exposure to credit risk is the carrying value of in-house customer finance program as disclosed in note 10. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low.

(c) LIQUIDITY RISK

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

Please see note 22 for more information on the Group's borrowings, financing arrangements and interest rate exposures.

(d) CAPITAL RISK MANAGEMENT

The main objective of capital risk management is to ensure the Group operates as a going concern, meets debts as they fall due, maintains the best possible capital structure, and reduces the cost of capital. Group capital is regarded as equity as shown in the statement of financial position. To maintain or alter the capital structure, the Group has the ability to review the size of the dividends paid to shareholders, return capital or issue new shares, reduce or increase debt or sell assets.

There are a number of external bank covenants in place relating to debt facilities. These covenants are calculated and reported to the bank quarterly. The principal covenants relating to capital management are the earnings before interest and taxation (EBIT) fixed cover charge ratio, the consolidated debt to earnings before interest, taxation, depreciation and amortisation (EBITDA) and consolidated debt to capitalisation. There have been no breaches of these covenants or events of review for the current or prior period.

NOTE 3 Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with the assistance of an external valuer using the Binomial model. The related assumptions are detailed in note 31. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Binomial formula taking into account the terms and conditions upon which the instruments were granted (see note 31).

Make good provisions

A provision has been made for the present value of anticipated costs of future restoration of leased store premises. The provision includes future cost estimates associated with dismantling and closure of stores. The calculation of this provision requires assumptions such as discount rates, store closure dates and lease terms. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes for the estimated future costs for sites are recognised in the statement of financial position by adjusting both the expense or asset (if applicable) and provision. The related carrying amounts are disclosed in note 20 and note 23.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience, lease terms (for leased equipment) and policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

Revenue recognition

Professional care plan revenue is recognised as sales revenue in the statement of comprehensive income. Management judgement is required to determine the amount of service revenue that can be recognised based on the usage pattern of PCPs and general information obtained on the operation of service plans in other markets. Those direct and incremental bonuses associated with the sale of these plans are deferred and amortised in proportion to the revenue recognised. Management reviews trends in current and estimated future services provided under the plan to assess whether changes are required to the revenue and cost recognition rates used.

Due to management reviews conducted during the year, an adjustment to the revenue recognition pattern has been deemed necessary. As a result of this, an additional $1,131,000 has been recognised as revenue in the current financial year. Of this, $161,000 relates to the current financial year, and $970,000 relates to prior financial years.

Taxation and recovery of deferred tax assets

The Group is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Management judgement is required to determine the amount of deferred tax assets that can be recognised.

Impairment of non-financial assets other than goodwill and indefinite life intangibles

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include store performance, product and manufacturing performance, technology and economic environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

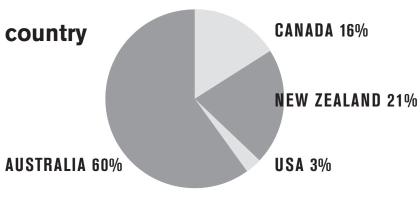
Statement of segmented results for the year ended 30 June 2015

NOTE 4 Segment information

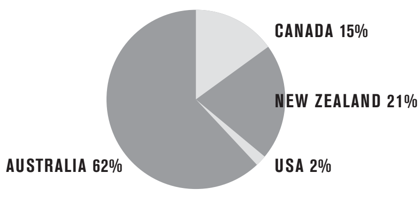
	AUSTRALIA			NEW ZEALAND			CANADA		
	2015 $000	2014 $000	+/- %	2015 $000	2014 $000	+/- %	2015 $000	2014 $000	+/- %
Operating revenue									
Sales to customers	**294,442**	298,474	(1.4%)	**106,180**	99,496	6.7%	**81,348**	70,454	15.5%
Unallocated revenue									
Total operating revenue									
Segment results									
Operating surplus / (loss)	**45,933**	47,193	(2.7%)	**21,938**	20,083	9.2%	**6,326**	3,890	62.6%
Unallocated revenue									
less unallocated expenses									
Profit before income tax									
Income tax expense									
Profit for the year									
Segment assets	**110,040**	112,575	(2.3%)	**38,841**	44,273	(12.3%)	**62,581**	53,502	17.0%
Unallocated									
Total									
Segment liabilities	**65,239**	59,249	10.1%	**19,142**	18,326	4.5%	**14,896**	11,851	25.7%
Unallocated									
Total									
Segment acquisitions of property, plant & equipment and intangibles	**6,496**	6,865	(5.4%)	**3,308**	3,860	(14.3%)	**6,080**	6,999	(13.1%)
Unallocated									
Total									
Segment depreciation and amortisation expense	**6,559**	6,041	8.6%	**2,496**	2,037	22.5%	**2,963**	2,357	25.7%
Unallocated									
Total									

* Please note that costs of A$565k relating to the closure of 2 US stores during the 2013-14 financial year are not included in the US retail segment. These costs are included as unallocated costs.

Operating revenue by country



2015



2014

USA			GROUP		
2015 $000	**2014** $000	+/- %	**2015** $000	**2014** $000	+/- %
13,610	10,899	24.9%	**495,580**	479,323	3.4%
			7,790	4,612	68.9%
			503,370	483,935	4.0%
(2,342)	(1,898)	(23.4%)	**71,855**	69,268	3.7%
			(34,453)	(32,493)	(6.0%)
			37,402	36,775	1.7%
			(9,648)	(11,734)	17.8%
			27,754	25,041	10.8%
18,348	13,275	38.2%	**229,810**	223,625	2.8%
			121,203	116,193	4.3%
			351,013	339,818	3.3%
4,176	2,962	41.0%	**103,453**	92,388	12.0%
			59,939	66,145	(9.4%)
			163,392	158,533	3.1%
2,015	1,761	14.4%	**17,899**	19,485	(8.1%)
			4,216	3,742	12.7%
			22,115	23,227	(4.8%)
748	531	40.9%	**12,766**	10,966	16.4%
			2,972	2,104	41.3%
			15,738	13,070	20.4%

Identification and description of segments

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

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

The Group operates in 4 geographical segments: New Zealand, Australia, Canada and the United States of America.

Types of products and services

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

Major customers

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

Accounting policies and inter-segment transactions

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

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

Unallocated expenses include all expenses that do not relate directly to the relevant Michael Hill retail segment and include: the Emma & Roe brand operations, trading activity through our online presence, manufacturing activities, warehouse and distribution, general corporate expenses, interest and company tax. Inter-segment pricing is at arm's length or market value.

Notes to the financial statements cont. for the year ended 30 June 2015

NOTE 5 Revenue

	2015 $000	2014 $000
From continuing operations:		
Sales revenue		
Revenue from sale of goods and repair services	**476,253**	462,808
Revenue from professional care plans	**25,208**	19,956
Interest and other revenue from in-house customer finance program	**1,860**	1,111
	503,321	483,875
Other revenue		
Interest income	**49**	60
	503,370	483,935

NOTE 6 Other income

	2015 $000	2014 $000
Insurance recoveries	**137**	-
Net foreign exchange gains (Net foreign exchange losses in 2014)	**1,783**	-
Other income	**339**	764
	2,259	764

NOTE 7 Expenses

	2015 $000	2014 $000
Profit before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	**3,499**	2,831
Furniture and fittings	**2,987**	2,556
Motor vehicles	**212**	221
Leasehold improvements	**5,826**	5,258
Display materials	**1,354**	981
Total depreciation	**13,878**	11,847
Amortisation – software	**1,860**	1,223
Total depreciation and amortisation	**15,738**	13,070
Bank and interest charges	**3,508**	3,141
Interest expense - make good provision	**127**	(18)
Interest from tax pooling arrangement (see note 34)	**1,073**	2,313
Total finance costs	**4,708**	5,436
Rental expense relating to operating leases	**50,640**	47,287
Superannuation contributions	**8,462**	8,070
Net loss on disposal of property, plant and equipment	**204**	1,133
Impairment of property, plant and equipment	**159**	9
Net foreign exchange losses (Net foreign exchange gains in 2015)	**-**	351
Donations	**39**	27

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:

	2015 $000	2014 $000
(a) Assurance services - audit services		
Ernst & Young Australian firm audit and review of financial reports	**337**	317
Grant Thornton New Zealand firm audit of ordinary shares register	**2**	2
Total remuneration for assurance services	**339**	319
(b) Advisory services		
Ernst & Young Australian firm advisory fees	**5**	27
	344	346

Notes to the financial statements cont. for the year ended 30 June 2015

NOTE 8 Income tax expense

	2015 $000	2014 $000
(a) Income tax expense		
Current tax	**7,139**	7,789
Deferred tax	**1,532**	(1,136)
Over provided in prior years	**(24)**	(912)
ATO settlement payment	**-**	5,993
Derecognised tax losses	**1,001**	-
Income tax expense	**9,648**	11,734
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**37,402**	36,775
Tax at the New Zealand tax rate of 28%	**10,473**	10,297
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non deductible entertainment expenditure	**171**	103
Non deductible legal expenditure	**98**	122
Debt deduction denied	**28**	-
Share of partnership	**(3,601)**	(4,492)
Unrealised foreign exchange loss not included in accounting profit	**39**	(1,384)
Sundry items	**3**	109
	7,211	4,755
Difference in overseas tax rates	**325**	356
Over provided in prior years	**(14)**	(912)
ATO settlement payment	**-**	5,993
Tax losses not recognised	**2,136**	1,542
Income tax expense	**9,648**	11,734
(c) Tax losses		
Unused United States tax losses for which no deferred tax has been recognised	**10,451**	6,156
Potential tax benefit @ 40%	**4,181**	2,463
Unused New Zealand tax losses for which no deferred tax has been recognised	**4,330**	-
Potential tax benefit @ 28%	**1,212**	-

NOTE 9 Current assets - Cash and cash equivalents

	2015 $000	2014 $000
Cash at bank and on hand	**6,797**	8,109

Interest rates for the bank accounts have been between 0.00% and 4.00% during the year (2014: between 0.00% and 2.55%).

NOTE 10 Current assets - Trade and other receivables

	2015 $000	2014 $000
Trade receivables	**4,917**	5,436
Provision for impaired receivables	**(455)**	(731)
	4,462	4,705
In-house customer finance	**11,881**	11,106
Provision for impaired receivables	**(751)**	(658)
	11,130	10,448
Prepayments	**3,192**	2,639
Deferred expenditure	**1,092**	1,252
Other receivables	**4,983**	6,099
	24,859	25,143

(a) Impaired trade receivables

Trade receivables from sales made to customers through third party credit providers are non-interest bearing and are generally on 0-30 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $452,000 (2014: $422,000) has been recognised by the Group. All trade receivables related to third party credit providers past 90 days have been impaired.
At 30 June 2015, the ageing analysis of trade receivables related to third party credit providers is as follows:

	2015 $000	2014 $000
0 - 30 days	**4,271**	4,050
31 - 60 days	**188**	392
61 - 90 days	**32**	137
91 + days	**426**	857
	4,917	5,436

Movements in the provision for trade receivables impairment loss were as follows:

Opening balance	**731**	645
Amounts written off	**(452)**	(422)
Additional provisions recognised	**178**	499
Exchange differences	**(2)**	9
	455	731

(b) In-house customer finance

In October 2012, Michael Hill launched an in-house customer finance program in the Canadian and United States markets. The terms available to customers range from a revolving line of credit through to 18 months, although 12 to 18 months is the typical financing period, and interest bearing and non-interest bearing products are offered.

The receivables from the in-house customer finance program are comprised of a large number of transactions with no one customer representing a significant balance. The finance portfolio consists of contracts of similar characteristics that are evaluated collectively for impairment. The allowance is an estimate of the losses as of the balance date, and is calculated using such factors as delinquency and recovery rates.

NOTE 10 continued

The credit quality and ageing of these receivables is as follows:

	2015 $000	2014 $000
Performing:		
Current, aged 0 - 30 days	**11,564**	10,929
Past due, aged 31 - 90 days	**364**	255
Non performing:		
Past due, aged more than 90 days	**404**	208
	12,332	11,392

Ageing has been calculated with reference to payment due dates.

This has been disclosed as:		
Current receivables	**11,881**	11,106
Non-current receivables	**451**	286
	12,332	11,392

Movements in the provision for in-house customer finance receivables impairment loss were as follows:

	2015 $000	2014 $000
Opening balance	**675**	453
Amounts written off	**(1,407)**	(615)
Additional provisions recognised	**1,446**	869
Exchange differences	**66**	(32)
	780	675

This has been disclosed as:		
Current receivables	**751**	658
Non-current receivables	**29**	17
	780	675

Only trade receivables and in-house customer finance contain impaired assets. The remaining classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

(c) Other receivables

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

(d) Effective interest rates

Other than in-house customer finance, all receivables are non-interest bearing. The majority of in-house customer finance receivables are also non-interest bearing.

NOTE 11 Current assets - Inventories

	2015 $000	2014 $000
Raw materials	**7,128**	6,280
Finished goods	**172,827**	171,765
Packaging and other consumables	**2,277**	1,235
	182,232	179,280

All inventories are held at cost.

NOTE 12 Current assets - Current tax receivables

	2015 $000	2014 $000
Income tax	**11,376**	61

NOTE 13 Current assets - Other current assets

	2015 $000	2014 $000
Tax pool deposits	**3,143**	-

NOTE 14 Non-current assets - Trade and other receivables

	2015 $000	2014 $000
In-house customer finance	**451**	286
Provision for impaired receivables	**(29)**	(17)
	422	269
Prepayments	**214**	211
	636	480

NOTE 15 Non-current assets - Property, plant and equipment

	Plant and equipment	Fixtures and fittings	Motor vehicles	Leasehold improvements	Display material	Total
	$000	$000	$000	$000	$000	$000
At 1 July 2013						
Cost	22,867	20,445	954	53,772	8,223	106,261
Accumulated depreciation	(12,765)	(10,126)	(396)	(30,032)	(3,802)	(57,121)
Net book amount	10,102	10,319	558	23,740	4,421	49,140
Year ended 30 June 2014						
Opening net book amount	10,102	10,319	558	23,740	4,421	49,140
Exchange differences	37	96	16	(28)	8	129
Additions	2,828	3,135	140	11,561	2,023	19,687
Disposals	(212)	(291)	(46)	(688)	5	(1,232)
Reclassification to intangible assets	204	-	-	(672)	-	(468)
Depreciation charge	(2,831)	(2,556)	(221)	(5,258)	(981)	(11,847)
Impairment charge	(6)	(3)	-	-	-	(9)
Closing net book amount	10,122	10,700	447	28,655	5,476	55,400
At 30 June 2014						
Cost	24,587	21,092	1,000	55,665	10,076	112,420
Accumulated depreciation	(14,465)	(10,392)	(553)	(27,010)	(4,600)	(57,020)
Net book amount	10,122	10,700	447	28,655	5,476	55,400
Year ended 30 June 2015						
Opening net book amount	10,122	10,700	447	28,655	5,476	55,400
Exchange differences	264	139	3	1,083	182	1,671
Additions	5,696	5,631	363	5,917	2,583	20,190
Additions - make good asset	-	-	-	2,116	-	2,116
Disposals	(154)	(62)	(91)	(171)	(8)	(486)
Reclassification to intangible assets	(10)	1	-	-	-	(9)
Depreciation charge	(3,499)	(2,987)	(212)	(5,826)	(1,354)	(13,878)
Impairment charge	(29)	(23)	-	(107)	-	(159)
Closing net book amount	12,390	13,399	510	31,667	6,879	64,845
At 30 June 2015						
Cost	29,856	26,393	953	63,697	12,576	133,475
Accumulated depreciation	(17,466)	(12,994)	(443)	(32,030)	(5,697)	(68,630)
Net book amount	12,390	13,399	510	31,667	6,879	64,845

NOTE 16 Non-current assets - Deferred tax assets

	2015 $000	2014 $000
The balance comprises temporary differences attributable to:		
Doubtful debts	**298**	364
Fixed assets and intangibles	**2,664**	3,493
Intangible assets from intellectual property transfer	**33,873**	37,437
Deferred expenditure	**(932)**	(1,089)
Prepayments	**(53)**	(5)
Deferred service revenue	**4,408**	13,905
Unearned income	**769**	762
Employee benefits	**2,437**	2,728
Retirement benefit obligations	**692**	245
Provision for warranties and legal costs	**739**	652
Straight-line lease provision	**1,501**	1,339
Other provisions	**1,988**	1,456
Unrealised foreign exchange losses	**(3)**	(37)
Tax losses	**-**	1,074
Net deferred tax assets	**48,381**	62,324
Movements:		
Opening balance at 1 July	**62,324**	56,064
Credited / (charged) to the income statement (note 8)	**(1,532)**	1,136
Prior year adjustment - deferred service revenue	**(9,300)**	-
Prior year adjustment - other	**(41)**	(72)
Losses utilised	**(155)**	-
Losses recognised	**-**	152
Derecognised tax losses	**(1,001)**	-
Foreign exchange differences	**(1,914)**	5,044
Closing balance at 30 June	**48,381**	62,324
Expected settlement:		
Within 12 months	**6,852**	11,702
In excess of 12 months	**41,529**	50,622
	48,381	62,324

NOTE 17 Non-current assets - Intangible assets

	Patents, trademarks and other rights $000	Computer software $000	Total $000
At 1 July 2013			
Cost	24	9,423	9,447
Accumulated amortisation	-	(5,815)	(5,815)
Net book amount	24	3,608	3,632
Year ended 30 June 2014			
Opening net book amount	24	3,608	3,632
Exchange differences	-	(1)	(1)
Additions	-	3,540	3,540
Disposals	-	(3)	(3)
Reclassification from property, plant and equipment	-	468	468
Amortisation charge*	-	(1,223)	(1,223)
Closing net book amount	24	6,389	6,413
At 30 June 2014			
Cost	24	13,206	13,230
Accumulated amortisation	-	(6,817)	(6,817)
Net book amount	24	6,389	6,413
Year ended 30 June 2015			
Opening net book amount	24	6,389	6,413
Exchange differences	1	4	5
Additions	54	1,871	1,925
Disposals	-	(1)	(1)
Reclassification from property, plant and equipment	-	9	9
Amortisation charge*	-	(1,860)	(1,860)
Closing net book amount	79	6,412	6,491
At 30 June 2015			
Cost	79	15,085	15,164
Accumulated amortisation	-	(8,673)	(8,673)
Net book amount	79	6,412	6,491

*Amortisation of $1,860,000 (2014: $1,223,000) is included in depreciation and amortisation expense in the statement of comprehensive income.

NOTE 18 Non-current assets - Other non-current assets

	2015 $000	2014 $000
Deferred expenditure	**2,253**	2,608

NOTE 19 Current liabilities - Trade and other payables

	2015 $000	2014 $000
Trade payables	**25,334**	22,957
Annual leave liability	**7,354**	6,988
Accrued expenses	**5,772**	6,386
Other payables	**5,279**	5,703
	43,739	42,034

NOTE 20 Current liabilities - Provisions

	2015 $000	2014 $000
Employee benefits - long service leave	**1,704**	1,584
Returns provision	**2,818**	2,519
Make good provision	**102**	132
	4,624	4,235

(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 return policies, being 30 day change of mind, 12 month guarantee on the quality of workmanship and the 3 year watch guarantee. In addition, all Michael Hill watches are sold with a lifetime battery replacement guarantee. 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) Make good provision

The Group has an obligation to restore certain leasehold sites to their original condition upon store closure or relocation. This provision represents the present value of the expected future make good commitment. Amounts charged to the provision represent both the cost of make good costs incurred and the costs incurred which mitigate the final liability prior to the closure or relocation.

(d) Movements in provisions

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

	Employee benefits $000	Returns provision $000	Make good provision $000	Total $000
Carrying amount at the start of the year	1,584	2,519	132	4,235
Additional provisions recognised	448	2,825	(117)	3,156
Amounts incurred and charged	(325)	(2,518)	88	(2,755)
Exchange differences	(3)	(8)	(1)	(12)
Carrying amount at the end of the year	1,704	2,818	102	4,624

NOTE 21 Current liabilities - Deferred revenue

	2015 $000	2014 $000
Deferred service revenue	**20,504**	23,674
Lease incentive income	**731**	560
Deferred interest free revenue	**281**	502
	21,516	24,736

NOTE 22 Non-current liabilities - Borrowings

	2015 $000	2014 $000
Bank loans	**45,116**	56,000
Total non-current borrowings	**45,116**	56,000

These advances, together with the bank overdraft, are secured by floating charges over all of the Group's assets.

(a) Financing arrangements

The Group's objectives when managing capital are to ensure sufficient liquidity to support its financial obligations and execute the Group's operational and strategic plans. The Group continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. Accordingly, the Group entered into an agreement with ANZ on 24 June 2015 that provides for a $110,000,000 multi option borrowing facility, the availability of which is adjusted throughout the year in line with business requirements. At balance date, $70,000,000 was available, and of that, $45,116,000 was utilised.

The Group also has access to various uncommitted credit facility lines serving working capital needs that, at balance date, totalled $1,932,000. No amounts were drawn under these credit facility lines as at balance date.

(b) 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. To manage this exposure the Group has taken out interest rate swaps, as described in note 2(a)(ii). The carrying amount of the fully drawn advance facility reflects fair value.

		Fixed interest rate				
	Floating interest rate	Less than 6 months	6 - 12 months	Over 1 year less than 5 years	Over 5 years	Total
	$000	$000	$000	$000	$000	$000
2015						
Variable rate fully drawn advance facility	45,116	-	-	-	-	45,116
Weighted average interest rate	2.84%	-	-	-	-	
2014						
Variable rate fully drawn advance facility	56,000	-	-	-	-	56,000
Weighted average interest rate	3.31%	-	-	-	-	

The Group retains the discretion to maintain the required borrowing levels under the fully drawn advance facility until the borrowing facility terminates on 1 July 2019, so long as the facility limit has not been reached.

NOTE 23 Non-current liabilities - Provisions

	2015 $000	2014 $000
Employee benefits - long service leave	**1,641**	1,381
Make good provision	**2,613**	359
	4,254	1,740

(a) Employee benefits - long service leave

The basis used to measure the liability for long service leave is set out in note 20(a).

(b) Make good provision

The basis used to calculate the make good provision is set out in note 20(c).

(c) Movements in provisions

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

	Employee benefits $000	Make good provision $000	Total $000
Carrying amount at the start of the year	1,381	359	1,740
Additional provisions recognised	326	2,538	2,864
Amounts incurred and charged	(64)	(270)	(334)
Exchange differences	(2)	(14)	(16)
Carrying amount at end of year	1,641	2,613	4,254

NOTE 24 Non-current liabilities - Deferred revenue

	2015 $000	2014 $000
Deferred service revenue	**41,805**	27,914
Lease incentive income	**2,318**	1,861
Deferred interest free revenue	**20**	13
	44,143	29,788

NOTE 25 Contributed equity

	PARENT		PARENT	
	2015 Shares	**2014** Shares	**2015** $000	**2014** $000
(a) Share capital: Ordinary shares				
Fully paid (b)	**383,153,190**	383,153,190	3,767	3,702
Treasury stock held for Employee Share Scheme (c)	**(14,677)**	(111,584)	(7)	(51)
	383,138,513	383,041,606	3,760	3,651

(b) Fully paid ordinary share capital

	PARENT		PARENT	
	2015 Shares	**2014** Shares	**2015** $000	**2014** $000
Opening balance of ordinary shares issued	**383,153,190**	383,053,190	3,702	3,515
Issues of ordinary shares during the year				
Exercise of options	**-**	100,000	-	102
Transfer from option reserve on exercise of options	**-**	-	-	12
Employee Share Scheme issue	**96,907**	92,062	109	113
Transfer from treasury stock	**(96,907)**	(92,062)	(44)	(40)
Closing balance of ordinary shares issued	**383,153,190**	383,153,190	3,767	3,702

(c) Treasury stock

Treasury shares are shares in Michael Hill International Limited that are held by Michael Hill Trustee Company Limited for the purpose of issuing shares under the Michael Hill International Employee Share Scheme (see note 31).

	PARENT		PARENT	
	2015 Shares	**2014** Shares	**2015** $000	**2014** $000
Opening balance of treasury stock shares issued	**111,584**	203,646	51	91
Allocated to Employee Share Scheme	**(96,907)**	(92,062)	(44)	(40)
Closing balance of treasury stock shares issued	**14,677**	111,584	7	51

(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 31.

(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 31.

NOTE 26 Reserves and retained profits

Nature and purpose of reserves

(i) **Hedging reserve - cash flow hedges**

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge. The amounts are recognised in the profit and loss component of the statement of comprehensive income when the associated hedged transactions affect profit or loss, as described in note 1(n).

(ii) **Options reserve**

The share-based payments reserve is used to recognise the fair value of options issued but not exercised. Refer to note 31(a) for further details.

(iii) **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).

NOTE 27 Dividends

	2015 $000	2014 $000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2014 of NZ 4.0¢ (2013 - NZ 4.0¢) per fully paid share paid on 3 October 2014 (2013 - 4 October 2013).	**13,765**	13,462
Interim dividend for the year ended 30 June 2015 of NZ 2.5c (2014 - NZ 2.5¢) per fully paid share paid on 2 April 2015 (2014 - 1 April 2014).	**9,411**	8,874
	23,176	22,336
(b) Dividends not recognised at year end		
Since year end, the Directors have declared the payment of a final dividend of NZ 2.5¢ per fully paid ordinary share (2014 - NZ 4.0¢). No imputation credits are attached to the final dividend. The aggregate amount of the proposed dividend expected to be paid on 2 October 2015 out of retained profits at 30 June 2015, but not recognised as a liability at year end, is:	**8,574**	14,285

(c) Imputed dividends

The dividends paid during the current financial period and corresponding previous financial period are not imputed. Imputation credits available for subsequent financial years based on a 28% tax rate for the Group are NZ$2,775k (2014: NZ$2,191k).

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

(a) imputation credits that will arise from the payment of the amount of the provision for income tax;
(b) imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
(c) imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The Group amounts include imputation credits that would be available to the Parent Entity if distributable profits of subsidiaries were paid as dividends.

There will be no impact on the imputation account of the dividend recommended by the Directors since year end.

NOTE 28 Earnings per share

	2015 Cents	2014 Cents
(a) Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company	**7.24**	6.54
(b) Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company	**7.22**	6.43

(c) Reconciliation of earnings used in calculating earnings per share	2015 $000	2014 $000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**27,754**	25,041
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**27,754**	25,041

(d) Weighted average number of shares used as the denominator	2015 Number	2014 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**383,117,273**	383,003,446
Adjustments for calculation of diluted earnings per share:		
Options	**1,300,000**	6,200,000
Treasury stock	**14,677**	111,584
Weighted average number of ordinary shares for diluted earnings per share	**384,431,950**	389,315,030

(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 31.

(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 has not been included in the determination of basic earnings per share. Details relating to treasury stock are set out in note 25.

NOTE 29 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: Sir Michael Hill, M.R. Parsell, L.W. Peters, G.J. Gwynne, G.W. Smith, A.C. Hill, E.J. Hill, R.I. Fyfe.

(b) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2015 and 2014 is set out below. The key management personnel are all the Directors of the Company and the Group Executive team responsible for the strategic direction and management of the Group.

	Short-term benefits	Post-employment benefits	Share-based payments	Total
	$000	$000	$000	$000
2015	**5,283**	**433**	**152**	**5,868**
2014	5,457	531	754	6,742

(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 can subscribe in cash for ordinary shares via the Michael Hill International Limited Employee Share Scheme on the same terms and conditions that apply 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 30.

(e) Transactions with other related parties

The following transactions occurred with related parties other than key management personnel or entities related to them:

	2015 $000	2014 $000
Services rendered for typing and editing the annual and half year reports by a related party of board members	**12**	9
Other transactions		
Annual sponsorship of the New Zealand PGA	**215**	90
Annual sponsorship of the Michael Hill Violin Charitable Trust	**59**	54

All transactions with related parties were in the normal course of business and provided on commercial terms.

Notes to the financial statements cont. for the year ended 30 June 2015

NOTE 30 Investments in 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):

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING 2015 %	2014 %
Michael Hill Jeweller Limited	New Zealand	Ordinary	100	100
Michael Hill Trustee Company Limited	New Zealand	Ordinary	100	100
Michael Hill Finance (NZ) Limited	New Zealand	Ordinary	100	100
Michael Hill Franchise Holdings Limited	New Zealand	Ordinary	100	100
MHJ (US) Limited	New Zealand	Ordinary	100	100
Emma & Roe NZ Limited	New Zealand	Ordinary	100	100
Michael Hill Online Holdings 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 Franchise Pty Limited	Australia	Ordinary	100	100
Michael Hill Franchise Services Pty Limited	Australia	Ordinary	100	100
Michael Hill Finance (Limited Partnership)	Australia	-	100	100
Michael Hill Group Services Pty Limited	Australia	Ordinary	100	100
Michael Hill Charms Pty Limited	Australia	Ordinary	100	100
Michael Hill Online Pty Limited	Australia	Ordinary	100	100
Emma & Roe Pty Limited	Australia	Ordinary	100	100
Emma & Roe Online Pty Limited	Australia	Ordinary	100	100
Michael Hill Jeweller (Canada) Limited	Canada	Ordinary	100	100
Michael Hill LLC	United States	Ordinary	100	100

NOTE 31 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 Meeting in accordance with the Company's constitution.

Options are granted under the plan for no consideration. Options are granted for a ten year period and are exercisable at any time during the final five years.

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 30% 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.

NOTE 31 continued

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

	2015 Weighted average exercise price in NZ$ per share	2015 Number of options	2014 Weighted average exercise price in NZ$ per share	2014 Number of options
Outstanding at the beginning of the year	1.48	12,750,000	1.19	7,250,000
Granted during the year	1.63	400,000	1.82	5,900,000
Forfeited during the year	1.54	(1,000,000)	1.08	(300,000)
Exercised during the year	-	-	1.16	(100,000)
Outstanding at the end of the year	1.48	12,150,000	1.48	12,750,000

Share options outstanding at the end of the year have the following expiry date and exercise prices:

	Exercise price in NZ$ per share	2015 Number of options	2014 Number of options
30 September 2017	**1.25**	**3,750,000**	4,250,000
30 September 2019	**0.94**	**650,000**	650,000
30 September 2020	**0.88**	**650,000**	650,000
30 September 2021	**1.16**	**650,000**	650,000
30 September 2022	**1.41**	**650,000**	650,000
30 September 2023	**1.82**	**5,400,000**	5,900,000
30 September 2024	**1.63**	**400,000**	-
		12,150,000	12,750,000

The weighted average remaining contractual life of share options outstanding at the end of the period was 5.9 years (2014: 6.7 years). The range of exercise prices for options outstanding at the end of the year was NZ$0.88 - NZ$1.82. Refer to the table above for detailed information on each issue.

Option pricing model

The fair value at grant date for the options issued during the 2015 financial year were independently determined using a Binomial option pricing model, which is an iterative model for options that can be exercised at times prior to expiry. The model takes into account the grant date, exercise price, the expected life, the expiry date, the share price at grant date, expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The expected life assumes the option is exercised at the mid-point of the exercise period, and reflects the ability to exercise early and the non-transferability of the option.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

The following table lists the inputs to the models used for the options issued during the years ended 30 June 2015 and 30 June 2014:

	June 2015 10 Nov 2014	June 2014 18 Sept 2013	June 2014 29 Nov 2013
Number of options	**400,000**	**650,000**	**5,250,000**
Required return	5.60%	5.60%	5.60%
Expected volatility	25%	25%	25%
Risk-free interest rate	4.78%	4.80%	4.80%
Expected life of option (years)	7.5	7.5	7.5
Option exercise price (NZ$)	$1.63	$1.82	$1.82
Share price at grant date (NZ$)	$1.46	$1.47	$1.46

NOTE 31 continued

(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.

	2015 Number	2014 Number
The plan held the following ordinary shares at the end of the year:		
Shares issued to participating employees (fully paid)	**96,907**	92,062
Not yet allocated to employees	**14,677**	111,584
	111,584	203,646

During the year, 96,907 (2014: 92,062) shares were issued to the Michael Hill Employee Share Scheme at an average price of NZ$1.25 (2014 - NZ$1.39). Michael Hill International Limited acquired no shares through on-market purchases on the New Zealand Stock Exchange during the year that related to the Employee Share Scheme.

(c) Expenses arising from share-based payment transactions

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

	2015 $000	2014 $000
Options issued under employee option plan	**25**	718
Shares issued under Employee Share Scheme	**11**	11
	36	729

NOTE 32 Reconciliation of profit after income tax to net cash inflow from operating activities

	2015 $000	2014 $000
Profit for the year	**27,754**	25,041
Depreciation	**13,878**	11,847
Amortisation	**1,860**	1,223
Non-cash employee benefits expense - share-based payments	**38**	729
Other non-cash expenses	**-**	(9)
Net loss on sale of non-current assets	**204**	1,133
Deferred taxation	**12,343**	(3,123)
Net exchange differences	**(1,732)**	188
Decrease / (increase) in trade and other receivables	**1,306**	(6,156)
Decrease / (increase) in inventories	**136**	(23,818)
Decrease / (increase) in other non current assets	**380**	(601)
(Increase) in other non current assets	**(3,248)**	-
(Decrease) in tax payables	**(11,279)**	(2,731)
Increase / (decrease) in trade and other payables	**1,500**	(2,437)
Increase in deferred revenue	**10,731**	12,970
Increase in provisions	**695**	433
Net cash inflow from operating activities	**54,566**	14,689

NOTE 33 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 fifteen 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.

	2015 $000	2014 $000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**41,279**	35,262
Later than one year but not later than five years	**99,239**	98,338
Later than five years	**20,597**	20,347
	161,115	153,947

NOTE 34 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities in respect of guarantees to bankers and other financial institutions in respect of overdraft facilities and fixed assets at 30 June 2015 of $457,000 (30 June 2014 - $398,000).

In respect of previous financial years, the Group has disclosed contingent liabilities arising from disputes with both the New Zealand Inland Revenue (IRD) and the Australian Taxation Office (ATO). The issues with the ATO were resolved during the 2014 year and are reflected in the comparative financial statements. See note 8 for further details.

The issues with the IRD remain unresolved. As previously disclosed, they concern the tax treatment adopted by the Group in relation to the financing arrangements between New Zealand and Australian group members for the 2009, 2010, 2011, 2012, 2013 and 2014 financial years.

The aggregate amount of tax deductions claimed by the Group in respect of these years and which is in dispute is NZ$35,077,983. The tax effect of deductions for the 2015 year is NZ$3,944,000. If the matter were determined against the Group, there is also a contingent liability for Use Of Money Interest (UOMI) at the rates prescribed by the IRD in respect of those years. The Group has entered into a tax pooling arrangement to mitigate the impact of UOMI and this is reflected in the Group's interest expense at note 7. The Group continues to defend its position and has commenced litigation proceedings in the High Court of New Zealand with a view to this matter being brought to a conclusion, rather than remaining unresolved.

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

(b) Contingent assets

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

NOTE 35 Events occurring after the reporting period

There were no significant events occurring after 30 June 2015.

NOTE 36 Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the Australian wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors' report in Australia.

The subsidiaries subject to the deed are: Michael Hill Jeweller Limited, Michael Hill Finance (NZ) Limited, Michael Hill Franchise Holdings Limited, Michael Hill Jeweller (Australia) Pty Limited, Michael Hill Wholesale Pty Limited, Michael Hill Manufacturing Pty Limited, Michael Hill Franchise Pty Limited, Michael Hill Franchise Services Pty Limited, Michael Hill Group Services Pty Limited.

Emma & Roe NZ Limited, Michael Hill Online Holdings Limited, Michael Hill Charms Pty Ltd, Emma & Roe Pty Ltd, Michael Hill Online Pty Ltd and Emma & Roe Online Pty Ltd became parties to the deed above by virtue of a Deed of Assumption on 11 June 2015.

The Class Order requires the Parent Company and each of the subsidiaries to enter into a Deed of Cross Guarantee. The effect of the deed is that the Company guarantees each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Corporations Act 2001, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The above companies represent a Closed Group for the purposes of the Class Order and, as there are no other parties to the Deed of Cross Guarantee that are controlled by Michael Hill International Limited, they also represent the Extended Closed Group.

Statement of comprehensive income

Set out below are the consolidated statement of comprehensive income and statement of changes in equity of the Closed Group consisting of Michael Hill International Limited and the subsidiaries listed above.

	2015 $000	2014 $000
Revenue from sale of goods and services	**424,064**	421,781
Sales to Group companies not in Closed Group	**33,707**	43,083
Other income	**457**	739
Cost of goods sold	**(177,894)**	(184,071)
Employee benefits expense	**(110,301)**	(109,593)
Occupancy costs	**(40,738)**	(38,826)
Marketing expenses	**(23,938)**	(19,742)
Selling expenses	**(20,452)**	(20,937)
Depreciation and amortisation expense	**(11,997)**	(10,170)
Loss on disposal of property, plant and equipment	**(83)**	(633)
Other expenses	**(15,796)**	(18,066)
Finance costs	**(5,077)**	(5,991)
Profit before income tax	**51,952**	57,574
Income tax expense	**(13,129)**	(16,995)
Profit for the year	**38,823**	40,579
Other comprehensive income		
Currency translation differences arising during the year	**(7,855)**	14,597
Total comprehensive income for the year	**30,968**	55,176
Statement of changes in equity		
Balance at 1 July	**466,503**	391,181
Total comprehensive income	**30,968**	55,176
Issue of share capital - exercise of options	**-**	102
Issue of preference share capital	**-**	59,000
Employee shares issued	**109**	113
Option expense through share based payments reserve	**25**	718
Dividend paid	**(36,421)**	(39,787)
Balance at 30 June	**461,184**	466,503

Statement of financial position

Set out below are the statement of financial position as at 30 June for the Closed Group consisting of Michael Hill International Limited and the subsidiaries listed above.

	2015 $000	2014 $000
Current assets		
Cash and cash equivalents	**2,060**	3,360
Trade and other receivables	**10,644**	9,879
Inventories	**134,767**	138,011
Loans to related parties	**103,045**	161,542
Current tax receivables	**11,060**	61
Other current assets	**3,143**	-
Total current assets	**264,719**	312,853
Non-current assets		
Trade and other receivables	**87**	13
Property, plant and equipment	**39,928**	36,670
Deferred tax assets	**45,192**	59,502
Intangible assets	**6,429**	6,368
Investments in subsidiaries	**200,565**	132,764
Other non-current assets	**1,895**	2,278
Total non-current assets	**294,096**	237,595
Total assets	**558,815**	550,448
Current liabilities		
Trade and other payables	**36,387**	33,265
Provisions	**4,232**	3,807
Deferred revenue	**17,175**	19,961
Total current liabilities	**57,794**	57,033
Non-current liabilities		
Provisions	**4,255**	1,765
Deferred revenue	**35,582**	25,147
Total non-current liabilities	**39,837**	26,912
Total liabilities	**97,631**	83,945
Net assets	**461,184**	466,503
Equity		
Contributed equity	**302,749**	302,749
Reserves	**(2,870)**	5,014
Retained profits	**161,305**	158,740
Total equity	**461,184**	466,503

Analysis of Shareholding

Twenty largest shareholders as at 31 July 2015

	Ordinary Shares	% of Shares
Durante Holdings Pty Limited	202,644,452	52.89
Accident Compensation Corporation - NZCSD	27,667,086	7.22
Tea Custodians Limited	19,839,219	5.18
J P Morgan Chase Bank NA - NZCSD	10,802,597	2.82
HSBC Nominees (New Zealand) Limited	8,543,137	2.23
M.R. Parsell	6,669,114	1.74
New Zealand Superannuation Fund Nominees Limited	5,777,593	1.51
National Nominees New Zealand Limited	4,582,960	1.20
R.L. Parsell	3,350,250	0.87
Citibank Nominees (NZ) Limited	2,668,730	0.70
Double Dragon Superannuation Pty Limited	2,370,000	0.62
P.R. Taylor	2,000,000	0.52
G.J. Gwyyne, P.A. Gwynne & D.H. Rishworth	1,972,000	0.51
W.K. Butler, C.A. Butler & R.M.J. Urlich	1,823,640	0.48
NZPT Custodians (Grosvenor) Limited	1,803,039	0.47
Heffalump Holdings Limited	1,524,750	0.40
Forsyth Barr Custodians Limited	1,480,170	0.39
Custodial Services Limited	1,462,983	0.38
FNZ Custrodians Limited	1,207,463	0.32
Mint Nominees Limited	1,123,309	0.29
Total	309,312,492	80.74

Shareholding by range of shares as at 31 July 2015

	No. of Holders	% of Holders	No. of Shares
1 - 9,999	2,056	55.0	7,726,303
10,000 - 49,999	1,372	36.7	26,762,687
50,000 - 99,999	192	5.1	12,269,389
100,000 & over	120	3.2	336,394,811
Total	3,740	100	383,153,190

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
Durante Holdings Pty Limited	202,644,452
Accident Compensation Corporation	27,667,086
Peters MacGregor Capital Management Limited	19,821,000

Total number of issued voting securities of the Company as at 31 July 2015 is 383,138,513.
An additional 14,677 shares are held as treasury stock for the Company's Employee Share Scheme.

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 2015, in terms of Listing Rule 10.4.5 (c) of the New Zealand Stock Exchange Listing Rules.

Director	Equity securities	Securities which may convert to equity securities	Associated person(s)*
Sir Michael Hill & Ann Christine Lady Hill	202,644,452		
M.R. Parsell	6,669,114	6,000,000	140,500
G.J. Gwynne	1,972,000		
E.J. Hill	204,169,202		
G.W. Smith	30,000		

No associated person holds securities which may convert to equity securities.

Share price performance

Prices for shares traded during the year	High	Low	as at 30/6/15
	$1.39	$1.04	$1.06

Seven year comparative review of share prices as at 30 June

2015	2014	2013	2012	2011	2010	2009
$1.06	$1.24	$1.31	$0.98	$0.90	$0.69	$0.60

Shareholder information

Information specifically for investors and shareholders is featured on our website **http://investor.michaelhill.com** It includes our latest share and historical share prices over the last six years. It also includes all 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, minutes of the last Annual Meeting and the Company's Insider Trading Policy are also available on the website. Shareholders can also manage their shareholdings on the website including changing addresses etc.

Any shareholders with queries relating to their shareholding, dividend payments, etc., should direct their enquiries to

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
Phone 09 488 8777

Financial calendar

Annual Meeting
Friday 4 December 2015 at 10.30am
Sky City Convention Centre
Auckland Room 4
88 Federal St, Auckland

Dividends payable
Interim - April   Final - October

Financial results announced
Half year - February   Annual - August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CORPORATE DIRECTORY

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

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

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Brisbane, QLD 4001, Australia
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SHARE REGISTRAR
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Level 2, 159 Hurstmere Rd
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Investor Enquiries (09) 488 8777

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Bank of America N.A.
Bank of Montreal

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