Michael Hill International Limited
Statements of comprehensive income
For the year ended 30 June 2012

	Notes	Group 2012 $'000	Group 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Revenue from continuing operations	5	**511,497**	489,330	**18,076**	35,167
Other income	6	**1,494**	598	**10**	45
Cost of goods sold		**(194,573)**	(185,323)	**-**	-
Employee benefits expense		**(124,394)**	(119,416)	**(98)**	(124)
Occupancy costs	7	**(47,531)**	(43,716)	**-**	-
Depreciation and amortisation expense	7	**(12,328)**	(11,453)	**(26)**	(8)
Loss on disposal of property, plant and equipment	7	**(457)**	(163)	**-**	-
Other expenses		**(87,619)**	(84,051)	**(3,937)**	(1,767)
Finance costs		**(4,053)**	(5,821)	**-**	-
Profit before income tax		**42,036**	39,985	**14,025**	33,313
Income tax (expense) / benefit	8	**(5,525)**	(5,486)	**1,090**	518
Profit for the year		**36,511**	34,499	**15,115**	33,831
Other comprehensive income					
Currency translation differences arising during the year		**(1,843)**	86	**-**	-
Total comprehensive income for the year		**34,668**	34,585	**15,115**	33,831
Total comprehensive income for the year is attributable to:					
Owners of Michael Hill International Limited		**34,668**	34,585		
		Cents	Cents		
Earnings per share attributable to the ordinary equity holders of the Company during the year, attributable to continuing operations:					
Basic earnings per share	27	**9.54**	9.02		
Diluted earnings per share	27	**9.50**	8.99		

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

	Notes	Group 2012 $'000	Group 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
ASSETS					
Current assets					
Cash and cash equivalents	9	**12,064**	8,540	**36**	80
Trade and other receivables	10	**11,847**	8,551	**3,812**	6,783
Inventories	11	**187,017**	173,055	**-**	-
Current tax receivables	12	**-**	-	**2**	525
Total current assets		**210,928**	190,146	**3,850**	7,388
Non-current assets					
Property, plant and equipment	13	**47,116**	42,211	**97**	117
Deferred tax assets	14	**64,085**	60,599	**-**	-
Intangible assets	15	**70**	152	**-**	-
Other non-current assets	16	**1,449**	-	**-**	-
Investments in subsidiaries	17	**-**	-	**314,869**	314,869
Total non-current assets		**112,720**	102,962	**314,966**	314,986
Total assets		**323,648**	293,108	**318,816**	322,374
LIABILITIES					
Current liabilities					
Trade and other payables	18	**51,260**	51,401	**77**	65
Current tax liabilities	19	**5,325**	893	**-**	-
Provisions	20	**3,871**	2,697	**-**	-
Deferred revenue	21	**8,330**	2,201	**-**	-
Total current liabilities		**68,786**	57,192	**77**	65
Non-current liabilities					
Borrowings	22	**33,058**	45,413	**-**	-
Provisions	23	**2,062**	1,443	**-**	-
Deferred revenue	24	**25,383**	10,684	**-**	-
Total non-current liabilities		**60,503**	57,540	**-**	-
Total liabilities		**129,289**	114,732	**77**	65
Net assets		**194,359**	178,376	**318,739**	322,309
EQUITY					
Contributed equity	25	**4,083**	3,983	**4,083**	3,983
Reserves		**1,793**	3,282	**1,385**	1,031
Retained profits		**188,483**	171,111	**313,271**	317,295
Total equity		**194,359**	178,376	**318,739**	322,309

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

Group	Notes	Attributable to members of Michael Hill International Limited			
		Contributed equity $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2010		3,850	2,775	151,919	158,544
Total comprehensive income		-	86	34,499	34,585
		3,850	2,861	186,418	193,129
Transactions with owners in their capacity as owners:					
Dividends paid	26	-	-	(15,307)	(15,307)
Employee shares issued	30(b)	133	-	-	133
Option expense through share based payments reserve	30(c)	-	421	-	421
		133	421	(15,307)	(14,753)
Balance at 30 June 2011		3,983	3,282	171,111	178,376
Total comprehensive income		-	(1,843)	36,511	34,668
		3,983	1,439	207,622	213,044
Transactions with owners in their capacity as owners:					
Dividends paid	26	-	-	(19,139)	(19,139)
Employee shares issued	30,(b)	100	-	-	100
Option expense through share based payments	30,(c)	-	354	-	354
		100	354	(19,139)	(18,685)
Balance at 30 June 2012		4,083	1,793	188,483	194,359

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

Parent	Notes	Contributed equity $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2010		3,850	610	298,771	303,231
Total comprehensive income		-	-	33,831	33,831
		3,850	610	332,602	337,062
Transactions with owners in their capacity as owners:					
Dividends paid	26	-	-	(15,307)	(15,307)
Employee shares issued	30,(b)	133	-	-	133
Option expense through share based payments reserve	30,(c)	-	421	-	421
		133	421	(15,307)	(14,753)
Balance at 30 June 2011		3,983	1,031	317,295	322,309
Total comprehensive income		-	-	15,115	15,115
		3,983	1,031	332,410	337,424
Transactions with owners in their capacity as owners:					
Dividends paid	26	-	-	(19,139)	(19,139)
Employee shares issued	30,(b)	100	-	-	100
Option expense through share based payments reserve	30,(c)	-	354	-	354
		100	354	(19,139)	(18,685)
Balance at 30 June 2012		4,083	1,385	313,271	318,739

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

	Notes	Group 2012 $'000	Group 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		**585,137**	551,512	**-**	-
Payments to suppliers and employees (inclusive of goods and services tax)		**(495,588)**	(473,930)	**(2)**	(2)
		89,549	77,582	**(2)**	(2)
Interest received		**197**	168	**-**	-
Other revenue		**485**	706	**-**	-
Interest paid		**(4,077)**	(5,637)	**-**	-
Income tax paid		**(1,346)**	(1,392)	**-**	-
Net goods and services tax paid		**(32,677)**	(28,108)	**-**	-
Net cash inflow / (outflow) from operating activities	31	**52,131**	43,319	**(2)**	(2)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**230**	157	**-**	-
Payments for property, plant and equipment		**(18,127)**	(14,010)	**(5)**	-
Net cash (outflow) from investing activities		**(17,897)**	(13,853)	**(5)**	-
Cash flows from financing activities					
Proceeds from borrowings		**39,742**	82,457	**-**	-
Repayment of borrowings		**(51,280)**	(94,419)	**-**	-
Proceeds from sale of treasury stock		**90**	119	-	-
Dividends paid to Company's shareholders	26	**(19,139)**	(15,307)	**(19,139)**	(15,307)
Intercompany advance		**-**	-	**19,081**	15,375
Net cash (outflow) / inflow from financing activities		**(30,587)**	(27,150)	**(58)**	68
Net increase / (decrease) in cash and cash equivalents		**3,647**	2,316	**(65)**	66
Cash and cash equivalents at the beginning of the financial year		**8,540**	6,270	**80**	14
Effects of exchange rate changes on cash and cash equivalents		**(123)**	(46)	**21**	-
Cash and cash equivalents at end of year	9	**12,064**	8,540	**36**	80

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

1 Summary of significant accounting policies

(a) Basis of preparation

The financial statements for the year ended 30 June 2012 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit orientated entities.

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

The Company and Group are designated as profit-oriented entities for financial reporting purposes.

Statutory base

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 16 August 2012.

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

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 2012 and the results of all subsidiaries for the year then ended. Michael Hill International Limited and its subsidiaries together are referred to in these financial statements as the Group or the Consolidated Entity.

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

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

1 Summary of significant accounting policies (continued)

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

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

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 consolidated and Parent financial statements are presented in New Zealand dollars, which is the Michael Hill International Limited's functional and presentation currency.

(ii) Transactions and balances

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each 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.

1 Summary of significant accounting policies (continued)

(e) Revenue recognition

(i) Sales of goods - retail

Sales of goods and services are recognised when a Group entity delivers a product or renders a service to the customer. Retail sales are usually in cash, payment plan or by credit card. The recorded revenue is the gross amount of sale (excluding 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 recognises this revenue as deferred revenue and subsequently recognises the income in revenue from services in the comprehensive income statement once these services are performed. An estimate is used as a basis to establish the amount of service revenue to recognise in the comprehensive income statement.

Services expected to be settled within 12 months of reporting date are recognised as deferred revenue in current liabilities. Services expected to be settled after 12 months of reporting date are recognised as deferred revenue in non-current liabilities. They are measured at the amounts expected to be utilised as the services are provided. Those direct and incremental bonuses associated with the sale of these plans are deferred and amortised in proportion to the revenue recognised.

(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 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 Company's subsidiaries and associates operate and generate 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.

1 Summary of significant accounting policies (continued)

(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 comprehensive income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the 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% and 11.5% (2011: 10.25% and 12.5%).

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. 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 income statement.

(k) 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.

1 Summary of significant accounting policies (continued)

(l) Investments and other financial assets

The Group classifies its investments 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.

(m) 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 is 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.

1 Summary of significant accounting policies (continued)

(n) 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.

(o) 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.

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

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

(q) 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.

1 Summary of significant accounting policies (continued)

(r) 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.

(s) 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.

(t) 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 fund 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.

1 Summary of significant accounting policies (continued)

(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 of the Group 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 is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, 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.

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 income statement 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 employees become entitled to the shares.

(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.

(u) 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.

(v) 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.

(w) 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.

1 Summary of significant accounting policies (continued)

(x) Standards, amendments and interpretations to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are not mandatory for 30 June 2012 reporting periods. The new standards have been reviewed and there are no standards that will have an impact on the Group.

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, ie 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.

There were no derivatives at balance sheet date.

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. The contracts are entered into to hedge future purchase commitments denominated in foreign currencies.

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

	30 June 2012			30 June 2011		
	USD	**AUD**	**CAD**	USD	AUD	CAD
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Cash and cash equivalents	**1,439**	**5,301**	**1,964**	737	4,317	1,051
Trade receivables	**62**	**2,818**	**214**	22	2,068	522
Commercial bills	**-**	**26,000**	**-**	-	35,000	-
Trade payables	**5,810**	**2,330**	**409**	6,811	2,410	136

The Parent Entity's financial assets and liabilities are denominated in New Zealand dollars.

Group sensitivity
The Group's principal foreign currency exposures arise from trade payables outstanding at year end and commercial bills owing at year end.

Based on the US dollar trade payables due for payment at 30 June 2012, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's pre tax profit for the year would have been NZ$812,000 lower / NZ$665,000 higher (2011: NZ$931,000 lower / NZ$762,000 higher).

All trade payables are repaid within 30 days so there is no equity impact arising from foreign currency exposures.

Based on the AUD commercial bills owing at 30 June 2012, had the New Zealand dollar weakened/strengthened by 10% against the Australian dollar with all other variables held constant, the Group's equity for the year would have been NZ$3,673,000 lower / NZ$3,005,000 higher (2011: NZ$5,046,000 lower / NZ$4,128,000) higher on restatement of commercial bills to spot rate.

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

2 Financial risk management (continued)

(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 a minimum 50% in fixed rate instruments. All the Group's borrowings are denominated in Australian Dollars. The majority of the Group's sales are generated in Australian Dollars which reduces the overall net exposure.

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

Group sensitivity

At 30 June 2012, if interest rates had changed by -/+100 basis points from the year end rates with all other variables held constant, pre tax profit for the year would have been NZ$331,000 lower/higher (2011: NZ$454,000 lower/higher), mainly as a result of higher/lower interest expense on commercial bills. 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.

(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 balance sheet. 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.

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 discussed 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 both the binomial model and the Black-Scholes formula. The related assumptions are detailed in note 30. 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 Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted (see note 30).

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 comprehensive income statement. Management judgement is required to determine the amount of service revenue that can be recognised based on the useage 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.

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.

4 Segment information

Identification and description of segments

The operating segments are identified by the board and executive team based on the country in which the item is sold.

The Executive 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 report.

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

Accounting policies and inter-segment transactions

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

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

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

Statement of segmented results
for the year ended 30 June 2012

NOTE 4 cont.	MHJ NEW ZEALAND 2012 $'000	MHJ NEW ZEALAND 2011 $'000	+/-%	MHJ AUSTRALIA 2012 $'000	MHJ AUSTRALIA 2011 $'000	+/-%	MHJ CANADA 2012 $'000	MHJ CANADA 2011 $'000	+/-%	MHJ USA 2012 $'000	MHJ USA 2011 $'000	+/-%	GROUP 2012 $'000	GROUP 2011 $'000	+/-%
Operating revenue															
Sales to customers	**109,110**	101,843	7.1%	**333,174**	327,146	1.8%	**55,124**	48,228	14.3%	**11,999**	10,663	12.5%	**509,408**	487,880	4.4%
Unallocated revenue													**2,089**	1,450	44.1%
Total operating revenue													**$ 511,497**	$ 489,330	4.5%
Segment results															
Operating surplus / (loss)	**21,550**	18,484	16.6%	**47,509**	50,454	(5.8%)	**713**	(299)	338.5%	**(3,296)**	(4,500)	26.8%	**66,476**	64,138	3.6%
Unallocated revenue less unallocated expenses													**(24,440)**	(24,153)	1.2%
Profit before income tax													**42,036**	39,985	5.1%
Income tax (expense)													**(5,525)**	(5,486)	0.7%
Profit for the year													**$ 36,511**	$ 34,499	5.8%
Segment assets	**42,743**	39,215	9.0%	**120,167**	111,339	7.9%	**36,476**	31,994	14.0%	**12,393**	11,642	6.5%	**211,778**	194,190	9.1%
Unallocated													**111,870**	98,918	13.1%
Total													**$ 323,648**	$ 293,108	10.4%
Segment liabilities	**13,514**	8,962	50.8%	**47,841**	33,772	41.7%	**8,086**	4,711	71.6%	**2,730**	1,488	83.5%	**72,172**	48,933	47.5%
Unallocated													**57,117**	65,799	(13.2%)
Total													**$ 129,289**	$ 114,732	12.7%
Segment acquisitions of property, plant & equipment and intangibles	**3,114**	1,893	64.5%	**10,229**	5,758	77.7%	**3,030**	2,466	22.9%	**280**	2,041	(86.3%)	**16,653**	12,157	37.0%
Unallocated													**1,473**	1,853	(20.5%)
Total													**$ 18,127**	$ 14,010	29.4%
Segment depreciation and amortisation expense	**1,896**	1,757	7.9%	**6,525**	5,809	12.3%	**1,662**	1,448	14.8%	**533**	460	15.9%	**10,615**	9,474	12.1%
Unallocated													**1,713**	1,979	(13.5%)
Total													**$ 12,328**	$ 11,453	7.6%

5 Revenue

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
From continuing operations:				
Sales revenue				
Revenue from sale of goods	**505,154**	488,493	**-**	-
Revenue from services	**6,025**	560	**-**	-
	511,179	489,053	**-**	-
Other revenue				
Interest revenue	**197**	168	**130**	121
Intercompany dividends	**-**	-	**17,946**	35,046
Rent income	**121**	109	**-**	-
	511,497	489,330	**18,076**	35,167

6 Other income

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Net gain on disposal of property, plant and equipment	**-**	-	**-**	45
Insurance recovery relating to earthquake	**79**	443	**-**	-
Net foreign exchange gains (Net loss in 2011 - see note 7)	**1,051**	-	**10**	-
Other income	**364**	155	**-**	-
	1,494	598	**10**	45

7 Expenses

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Profit before income tax includes the following specific expenses:				
Depreciation				
Leasehold improvements	**5,720**	5,629	**-**	-
Furniture and fittings	**2,021**	1,735	**-**	-
Plant and equipment	**3,153**	2,839	**2**	1
Motor vehicles	**220**	209	**24**	7
Display material	**1,134**	893	**-**	-
Total depreciation	**12,248**	11,305	**26**	8
Amortisation				
Software	**80**	148	**-**	-
Total amortisation	**80**	148	**-**	-
Total depreciation and amortisation	**12,328**	11,453	**26**	8
Impairment of property, plant and equipment	**27**	2	**-**	-
Net loss on disposal of property, plant and equipment	**457**	163	**-**	-
Rental expense relating to operating leases	**47,531**	43,716	**-**	-
Defined contribution superannuation expense	**7,761**	7,279	**-**	-
Net foreign exchange losses (Net gain in 2012 - see note 6)	**-**	1,289	**-**	308
Donations	**23**	30	**-**	-

7 Expenses (continued)

Remuneration of auditors

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

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
(a) Assurance services				
Audit services				
Ernst & Young Australian firm				
Audit and review of financial reports and other audit work	**332**	276	-	-
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work	**-**	26	-	-
Total remuneration for audit services	**332**	302	-	-
Total remuneration for assurance services	**332**	302	-	-
(b) Taxation services				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of tax returns	**-**	179	-	-
Corporate planning and related tax advice for the Group	**-**	750	-	-
Related practices of PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of tax returns	**-**	170	-	-
Corporate planning and related tax advice for the Group	**-**	360	-	-
Total remuneration for taxation services	**-**	1,459	-	-
(c) Advisory services				
Ernst & Young Australian firm				
Consulting fees	**98**	33	-	-
	430	1,794	-	-

8 Income tax expense

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
(a) Income tax expense				
Current tax	**9,579**	7,351	**(1,097)**	(525)
Deferred tax	**(4,083)**	(2,153)	**-**	4
Under provided in prior years	**29**	288	**7**	3
Income tax expense / (benefit)	**5,525**	5,486	**(1,090)**	(518)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	**42,036**	39,985	**14,025**	33,313
Tax at the New Zealand tax rate of 28% (2011: 30%)	**11,770**	11,995	**3,927**	9,994
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non deductible entertainment expenditure	**132**	156	**1**	1
Non deductible legal expenditure	**38**	-	**-**	-
Share of partnership	**(6,778)**	(7,311)	**-**	-
Dividends not assessable	**-**	-	**(5,025)**	(10,514)
Sundry items	**98**	147	**3**	1
	5,260	4,987	**(1,094)**	(518)
Difference in overseas tax rates	**309**	90	**-**	-
Change in tax rate on deferred tax balance	**46**	511	**-**	-
Under / (over) provision in prior years	**26**	(104)	**4**	-
Tax losses not recognised	**(116)**	2	**-**	-
	265	499	**4**	-
Income tax expense / (benefit)	**5,525**	5,486	**(1,090)**	(518)
(c) Tax losses				
Unused tax losses for which no deferred tax has been recognised	**4,847**	7,365	**-**	-
Potential tax benefit @ 40%	**1,939**	2,946	**-**	-

All unused tax losses were incurred by the USA entity.

9 Current assets - Cash and cash equivalents

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Cash at bank and on hand	**12,064**	8,540	**36**	80

(a) Cash at bank and on hand

Interest rates for the bank accounts has been between 0.00% and 2.25% during the year (2011: between 0.00% and 1.95%).

10 Current assets - Trade and other receivables

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Trade receivables	**5,936**	4,332	**-**	-
Provision for impaired receivables	**(694)**	(819)	**-**	-
	5,242	3,513	**-**	-
Other receivables	**3,194**	2,189	**-**	-
Prepayments	**2,925**	2,849	**-**	61
Related party receivables	**-**	-	**3,812**	6,722
Deferred expenditure	**486**	-	**-**	-
	11,847	8,551	**3,812**	6,783

(a) Impaired receivables

Trade receivables are from sales made to customers mainly through third party credit providers, are non-interest bearing and are generally on 30-60 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 $581,000 (2011: $955,000) has been recognised by the Group. All trade receivables past 90 days have been impaired.

Movements in the provision for impairment loss were as follows:

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Opening balance	**819**	644	**-**	-
Amounts written off	**(581)**	(955)	**-**	-
Additional provisions recognised	**470**	1,080	**-**	-
Exchange differences	**(14)**	50	**-**	-
Closing balance	**694**	819	**-**	-

At 30 June 2012, the ageing analysis of trade receivables is as follows:

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
0 - 30 days	**4,813**	3,111	**-**	-
31 - 60 days	**373**	299	**-**	-
61 - 90 days	**131**	100	**-**	-
91+ days	**619**	822	**-**	-
	5,936	4,332	**-**	-

The other 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.

(b) Other receivables

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

10 Current assets - Trade and other receivables (continued)

(c) Related party receivables

Related party receivables are designated short term with no fixed repayment date.

(d) Effective interest rates

All receivables are non-interest bearing.

11 Current assets - Inventories

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Raw materials	**10,957**	11,519	**-**	-
Finished goods	**175,157**	160,695	**-**	-
Packaging and other consumables	**903**	841	**-**	-
	187,017	173,055	**-**	-

All inventories are held at cost.

12 Current assets - Current tax receivables

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Income tax	**-**	-	**2**	525
	-	-	**2**	525

13 Non-current assets - Property, plant and equipment

Group	Plant and equipment $'000	Fixtures and fittings $'000	Motor vehicles $'000	Leasehold improvements $'000	Display material $'000	Total $'000
At 1 July 2010						
Cost	18,949	13,053	999	45,112	6,125	84,238
Accumulated depreciation	(10,986)	(7,314)	(458)	(24,457)	(1,969)	(45,184)
Net book amount	7,963	5,739	541	20,655	4,156	39,054
Year ended 30 June 2011						
Opening net book amount	7,963	5,739	541	20,655	4,156	39,054
Exchange differences	291	294	4	46	170	805
Additions	4,048	3,157	329	6,234	242	14,010
Additions - make good asset	-	-	-	(31)	-	(31)
Disposals	(48)	(63)	(89)	(120)	-	(320)
Depreciation charge	(2,839)	(1,735)	(209)	(5,629)	(893)	(11,305)
Impairment charge	(2)	-	-	-	-	(2)
Closing net book amount	9,413	7,392	576	21,155	3,675	42,211
At 30 June 2011						
Cost	23,425	16,657	983	50,791	6,526	98,382
Accumulated depreciation	(14,012)	(9,265)	(407)	(29,636)	(2,851)	(56,171)
Net book amount	9,413	7,392	576	21,155	3,675	42,211

Group	Plant and equipment $'000	Fixtures and fittings $'000	Motor vehicles $'000	Leasehold improvements $'000	Display material $'000	Total $'000
Year ended 30 June 2012						
Opening net book amount	9,413	7,392	576	21,155	3,675	42,211
Exchange differences	(161)	(122)	(5)	(283)	(56)	(627)
Additions	3,719	4,040	323	7,882	2,163	18,127
Additions - make good asset	-	-	-	367	-	367
Disposals	(99)	(77)	(53)	(296)	(162)	(687)
Depreciation charge	(3,153)	(2,021)	(220)	(5,720)	(1,134)	(12,248)
Impairment charge	(26)	(1)	-	-	-	(27)
Closing net book amount	9,693	9,211	621	23,105	4,486	47,116
At 30 June 2012						
Cost	26,259	19,811	1,085	55,864	8,273	111,292
Accumulated depreciation	(16,566)	(10,600)	(464)	(32,759)	(3,787)	(64,176)
Net book amount	9,693	9,211	621	23,105	4,486	47,116

14 Non-current assets - Deferred tax assets

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
The balance comprises temporary differences attributable to:				
Doubtful debts	**205**	245	**-**	-
Fixed assets and intangibles	**5,880**	5,667	**-**	-
Intangible assets from intellectual property transfer	**42,592**	44,580	**-**	-
Unearned income	**520**	461	**-**	-
Employee benefits	**2,626**	2,570	**-**	-
Retirement benefit obligations	**446**	269	**-**	-
Deferred service revenue	**8,347**	2,796	**-**	-
Provision for warranties and legal costs	**745**	368	**-**	-
Other provisions	**730**	792	**-**	-
Deferred expenditure	**(497)**	-	**-**	-
Straight line lease provision	**1,161**	1,115	**-**	-
Prepayments	**(10)**	(14)	**-**	-
Tax losses	**1,340**	1,750	**-**	-
Net deferred tax assets	**64,085**	60,599	**-**	-
Movements:				
Opening balance at 1 July	**60,599**	58,349	**-**	4
Credited / (charged) to the income statement (note 8)	**4,083**	2,153	**-**	(4)
Prior year adjustment	**(110)**	-	**-**	-
Losses utilised	**(349)**	-	**-**	-
Foreign exchange differences	**(138)**	97	**-**	-
Closing balance at 30 June	**64,085**	60,599	**-**	-
Expected settlement				
Within 12 months	**7,365**	5,429	**-**	-
In excess of 12 months	**56,720**	55,170	**-**	-
	64,085	60,599	**-**	-

15 Non-current assets - Intangible assets

Group	**Patents, trademarks and other rights $'000**	**Computer software $'000**	**Total $'000**
At 1 July 2010			
Cost	14	3,961	3,975
Accumulated amortisation	-	(3,695)	(3,695)
Net book amount	14	266	280
Year ended 30 June 2011			
Opening net book amount	14	266	280
Exchange differences	1	19	20
Amortisation charge *	-	(148)	(148)
Closing net book amount	15	137	152
At 30 June 2011			
Cost	15	4,244	4,259
Accumulated amortisation	-	(4,107)	(4,107)
Net book amount	15	137	152

Group			
Year ended 30 June 2012			
Opening net book amount	15	137	152
Exchange differences	-	(2)	(2)
Amortisation charge *	-	(80)	(80)
Closing net book amount	15	55	70
At 30 June 2012			
Cost	15	4,159	4,174
Accumulated amortisation	-	(4,104)	(4,104)
Net book amount	15	55	70

* Amortisation of $80,000 (2011: $148,000) is included in depreciation and amortisation expense in the comprehensive income statement.

The Parent has no intangible assets.

16 Non-current assets - Other non-current assets

	Group		**Parent**	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
Deferred expenditure	**1,449**	-	-	-

17 Non-current assets - Investments in subsidiaries

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Shares in subsidiaries	**-**	-	**314,869**	314,869
	-	-	**314,869**	314,869

The subsidiaries of Michael Hill International Limited are set out in note 29. All investments in subsidiary companies are eliminated on consolidation.

18 Current liabilities - Trade and other payables

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Trade payables	**32,882**	33,803	**5**	1
Accrued expenses	**7,115**	7,290	**-**	-
Annual leave liability	**6,949**	6,507	**-**	-
Other payables	**4,314**	3,801	**72**	64
	51,260	51,401	**77**	65

19 Current liabilities - Current tax liabilities

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Income tax	**5,325**	893	**-**	-
	5,325	893	**-**	-

20 Current liabilities - Provisions

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Employee benefits - long service leave	**1,685**	1,505	-	-
Returns provision	**2,133**	1,139	-	-
Make good provision	**53**	53	-	-
	3,871	2,697	-	-

(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 when the lease expires. 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 lease expiry.

(d) Movements in provisions

Movements 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 start of year	1,505	1,139	53	2,697
Additional provisions recognised	393	2,148	-	2,541
Amounts incurred and charged	(182)	(1,123)	-	(1,305)
Exchange differences	(31)	(31)	-	(62)
Carrying amount at end of year	1,685	2,133	53	3,871

21 Current liabilities - Deferred revenue

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Deferred service revenue	**7,915**	1,798	-	-
Lease incentive income	**415**	403	-	-
	8,330	2,201	-	-

22 Non-current liabilities - Borrowings

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Secured				
Bank loans	**33,058**	45,413	-	-
Total non-current borrowings	**33,058**	45,413	-	-

(a) Assets pledged as security

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

22 Non-current liabilities - Borrowings (continued)

(b) 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 3 November 2011 that provides for a $96,631,000 multi option borrowing facility, the availability of which is adjusted throughout the year in line with business requirements. At balance date $50,858,000 was available, and of that, $33,058,000 was utilised.

The Group also has access to various uncommitted credit facility lines serving working capital needs that, at balance date, totalled $4,271,000. No amounts were drawn under these credit facility lines at year end.

The Parent Entity has no facilities available as at balance date.

(c) Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods.

Exposures arise predominantly from liabilities bearing variable interest rates as the Group intends to hold fixed rate liabilities to maturity.

The carrying amount of commercial bills reflects fair value.

	Less than 6 months $'000	6 - 12 months $'000	Over 1 less than 5 years $'000	Over 5 years $'000	Total $'000
2012					
Commercial bill acceptance facility	16,529	7,629	8,900	-	33,058
	16,529	7,629	8,900	-	33,058
Weighted average interest rate	4.57 %	5.29 %	5.95 %	- %	
2011					
Commercial bill acceptance facility	2,595	15,570	27,248	-	45,413
	2,595	15,570	27,248	-	45,413
Weighted average interest rate	5.91 %	7.13 %	6.29 %	- %	

The Group retains the discretion to roll all commercial bills as they fall due until the commercial bill facility terminates on 29 August, 2014, so long as the facility limit has not been reached.

23 Non-current liabilities - Provisions

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Employee benefits - long service leave	**1,453**	1,215	-	-
Make good provision	**609**	228	-	-
	2,062	1,443	-	-

(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
Group - 2012			
Non-current			
Carrying amount at start of year	1,215	228	1,443
Additional provisions recognised	263	387	650
Amounts incurred and charged	-	-	-
Exchange differences	(25)	(6)	(31)
Carrying amount at end of year	1,453	609	2,062

24 Non-current liabilities - Deferred revenue

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Deferred service revenue	**23,755**	9,272	-	-
Lease incentive income	**1,628**	1,412	-	-
	25,383	10,684	-	-

25 Contributed equity

	Parent		Parent	
	2012	2011	**2012**	2011
	Shares	Shares	**$'000**	$'000
(a) Share capital				
Ordinary shares				
Fully paid (b)	**383,053,190**	383,053,190	**4,221**	4,177
Treasury stock held for Employee Share Scheme (c)	**(277,604)**	(388,717)	**(138)**	(194)
	382,775,586	382,664,473	**4,083**	3,983

(b) Fully paid ordinary share capital

Opening balance of ordinary shares issued	**383,053,190**	383,053,190	**4,177**	4,141
Issues of ordinary shares during the year				
Employee share scheme issue	**111,113**	195,573	**100**	133
Transfer from treasury stock	**(111,113)**	(195,573)	**(56)**	(97)
Closing balance of ordinary shares issued	**383,053,190**	383,053,190	**4,221**	4,177

(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 30).

	Parent		Parent	
	2012	2011	**2012**	2011
	Shares	Shares	**$'000**	$'000
Opening balance of treasury stock shares issued	**388,717**	584,290	**194**	291
Allocated to employee share ownership plan	**(111,113)**	(195,573)	**(56)**	(97)
Closing balance of treasury stock shares issued	**277,604**	388,717	**138**	194

(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 30.

(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 30.

26 Dividends

	Parent	
	2012	2011
	$'000	$'000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2011 of 3.0 cents (2010 - 2.5 cents) per fully paid share paid on 10 October 2011 (2010 - 11 October 2010).	**11,483**	9,567
Interim dividend for the year ended 30 June 2012 of 2.0 cents (2011 - 1.5 cents) per fully paid share paid on 2 April 2012 (2011 - 1 April 2011).	**7,656**	5,740
	19,139	15,307
(b) Dividends not recognised at year end		
Since year end, the Directors have declared the payment of a final dividend of 3.5 cents per fully paid ordinary share (2011 - 3.0 cents). No imputation credits are attached to the final dividend. The aggregate amount of the proposed dividend expected to be paid on 5 October 2012 out of retained profits at 30 June 2012, but not recognised as a liability at year end, is	**13,397**	11,483

(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 were $1,303k (2011: $217k).

Imputation credits available for subsequent financial years based on a 28% tax rate for the Parent were $633k (2011: $0).

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.

27 Earnings per share

	Group	
	2012	2011
	Cents	Cents

(a) Basic earnings per share

Profit attributable to the ordinary equity holders of the Company	**9.54**	9.02

(b) Diluted earnings per share

Profit attributable to the ordinary equity holders of the Company	**9.50**	8.99

(c) Reconciliations of earnings used in calculating earnings per share

	Group	
	2012	2011
	$'000	$'000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**36,511**	34,499
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**36,511**	34,499

(d) Weighted average number of shares used as the denominator

	Group	
	2012	2011
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**382,749,710**	382,618,393
Adjustments for calculation of diluted earnings per share:		
Options	**1,500,000**	750,000
Treasury Stock	**277,604**	388,717
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**384,527,314**	383,757,110

(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 30.

27 Earnings per share (continued)

(ii) **Treasury Stock**
Treasury stock held under the Michael Hill International Limited Employee Share Scheme are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. Treasury stock have not been included in the determination of basic earnings per share. Details relating to treasury stock are set out in note 25.

28 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, M R Doyle, A C Hill, E J Hill, D W McGeoch (Colvin).

(b) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2012 and 2011 is set out below. The key management personnel are all the Directors of the Company and the five executives with the greatest authority for the strategic direction and management of the Company.

	Short-term benefits	**Post-employment benefits**	**Share-based payments**	**Total**
	$'000	$'000	$'000	$'000
2012	**4,079**	**322**	**254**	**4,655**
2011	3,960	292	344	4,596

(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.

	Group		**Parent**	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Unsecured loans to key management personnel	**59**	59	**-**	-

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 applies 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 29.

(e) Transactions with related parties

The following transactions occurred with related parties:

28 Related party transactions (continued)

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Sales of goods and services				
Sale of property, plant and equipment to a related party of board members	**-**	45	**-**	45
Purchases of goods and services				
Services rendered for typing and editing the annual and half year reports to a related party of board members	**13**	9	**13**	9
Other transactions				
Annual sponsorship for Michael Hill Violin Charitable Trust	**63**	58	**63**	58

29 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**	
			2012	2011
			%	%
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
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 Jeweller (Canada) Limited	Canada	Ordinary	**100**	100
Michael Hill LLC	United States	Ordinary	**100**	100

30 Share-based payments

(a) Employee Option Plan

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

Options are granted under the plan for no consideration. Options are granted for a six or ten year period.

The six year options are only exercisable in the final three years. 25% of the options granted are exercisable during the fourth year, a further 25% during the fifth year and the remaining options outstanding can be exercised in the final year.

The ten year options 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 15% (six year options) or 30% (ten year options) above the weighted average price at which the Company's shares are traded on the New Zealand Stock Exchange for the calendar month following the announcement by the Group to the New Zealand Stock Exchange of its annual results.

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

	2012 Weighted average exercise price in $ per share	**2012 Number of options**	2011 Weighted average exercise price in $ per share	2011 Number of options
Outstanding at the beginning of the year	**1.16**	**5,750,000**	1.23	4,600,000
Granted during the year	**1.16**	**900,000**	0.91	1,150,000
Cancelled during the year	**1.15**	**(150,000)**	-	-
Outstanding at the end of the year	**1.16**	**6,500,000**	1.16	5,750,000

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

	Exercise price in $ per share	**2012 Number of options**	2011 Number of options
Expiry Date			
30 September 2017	**1.25**	**4,250,000**	4,250,000
30 September 2019	**0.94**	**200,000**	200,000
30 September 2019	**0.94**	**150,000**	150,000
30 September 2019	**0.94**	**400,000**	400,000
30 September 2020	**0.88**	**350,000**	350,000
30 September 2020	**0.88**	**400,000**	400,000
30 September 2021	**1.16**	**750,000**	-
		6,500,000	5,750,000

The weighted average remaining contractual life of share options outstanding at the end of the period was 6.3 years (2011: 6.9 years).

The range of exercise prices for options outstanding at the end of the year was $0.88 - $1.25. Refer to the table above for detailed information on each issue.

30 Share-based payments (continued)

Option pricing model

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, 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.

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 2012 and 30 June 2011:

	June 2012 16 September 2011	June 2012 8 July 2011	June 2011 5 November 2010	June 2011 5 November 2010	June 2011 17 September 2010
Number of options	**750,000**	**150,000**	**400,000**	**400,000**	**350,000**
Dividend yield (%)	5.00	5.00	5.00	5.00	5.00
Expected volatility (%)	30	30	30	30	30
Risk - free interest rate (%)	4.50	5.10	5.10	5.10	5.10
Expected life of option (years)	10	10	10	10	10
Option exercise price ($)	1.16	1.15	0.88	0.94	0.88
Weighted average share price at measurement date ($)	0.89	0.91	0.70	0.70	0.70

(b) Employee share scheme

The Michael Hill International Limited Employee Share Scheme was established by Michael Hill International Limited in 2001 to assist employees to become shareholders of the Company. Employees are able to purchase shares in the Company at a 10% discount to the average market price over the two weeks prior to the invitation to purchase. The shares will be held by a Trustee for a one year period during which time any dividends derived will be paid to the employee.

	Group		Parent	
	2012 Number	2011 Number	**2012 Number**	2011 Number
The plan held the following ordinary shares at the end of the year:				
Shares issued to participating employees (fully paid)	**111,113**	195,573	**111,113**	195,573
Not yet allocated to employees	**277,604**	388,717	**277,604**	388,717
	388,717	584,290	**388,717**	584,290

During the year, 111,113 (2011: 195,573) shares were issued to the Michael Hill Employee Share Ownership Plan at an average price of $0.90 (2011 - $0.68).

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.

30 Share-based payments (continued)

(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:

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Options issued under employee option plan	**354**	421	**-**	-
Shares issued under employee share scheme	**10**	14	**10**	14
	364	435	**10**	14

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

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Profit for the year	**36,511**	34,499	**15,115**	33,831
Depreciation	**12,248**	11,305	**26**	8
Amortisation	**80**	148	**-**	-
Non-cash employee benefits expense - share-based payments	**364**	435	**10**	14
Other non-cash expenses	**(340)**	33	**(18,648)**	(33,267)
Net loss on sale of non-current assets	**457**	163	**-**	-
Deferred taxation	**(3,715)**	(2,250)	**-**	4
Net exchange differences	**(1,051)**	1,289	**(10)**	308
(Increase) / decrease in trade and other receivables	**(3,389)**	(2,199)	**2,971**	(547)
(Increase) in inventories	**(16,070)**	(22,781)	**-**	-
Decrease / (increase) in current tax receivables	**4,815**	4,187	**523**	(262)
(Increase) in other non current assets	**(1,449)**	-	**-**	-
Increase / (decrease) in trade and other payables	**579**	5,581	**11**	(91)
Increase in deferred revenue	**21,182**	12,362	**-**	-
Increase in provisions	**1,909**	547	**-**	-
Net cash inflow / (outflow) from operating activities	**52,131**	43,319	**(2)**	(2)

32 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.

	Group		Parent	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**34,970**	35,244	**-**	-
Later than one year but not later than five years	**96,434**	89,532	**-**	-
Later than five years	**13,693**	17,229	**-**	-
	145,097	142,005	**-**	-

33 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities in respect of guarantees to bankers and other financial institutions of subsidiary companies' overdraft facilities and fixed assets at 30 June 2012 of $477,000 (30 June 2011 - $420,000).

The Parent Entity had contingent liabilities in respect of guarantees to bankers and other financial institutions of subsidiary companies' overdraft facilities and fixed assets at 30 June 2012 of $75,000 (30 June 2011 - $75,000).

The Group has two unresolved tax matters relating to the sale and financing of intellectual property between New Zealand and Australian Group members.

The New Zealand Inland Revenue is currently disputing the tax treatment adopted by the Group in relation to the financing arrangements between New Zealand and Australian Group members for the 2009, 2010 and 2011 financial years. The amount in dispute is $17,858,000, being the tax effect of deductions claimed by the New Zealand Group to 30 June 2011. The tax effect of deductions for the 2012 financial year is $6,778,000 (note 8). In the event any tax liability was payable, the Group would also incur an interest expense. The Group does not agree with the technical arguments advanced by Inland Revenue and believes the tax treatment it has adopted is correct. The Group continues to defend its position in the on-going discussions with Inland Revenue in relation to the 2009, 2010 and 2011 tax returns.

The Australian Taxation Office is questioning aspects of the value at which the intellectual property was transferred between the respective Group companies. The value was originally determined by reference to an independent valuation carried out by an internationally recognised firm and a deferred tax asset (DTA) was raised in 2009 for $52,942,000. The DTA was reduced to $50,197,000 in 2010 as a result of a review of the original valuation. The amount in dispute is approximately $40,027,000 of this revised DTA balance. The Group does not accept the Australian Taxation Office's position and believes its views are based on a number of factual, legal and technical valuation errors. If a different value is agreed, there may also be consequential adjustments to interest deductions claimed by Australian Group companies.

Both matters are capable of being resolved by agreement, but if the Group is unable to find common ground with either the Inland Revenue or Australian Taxation Office then further formal legal processes may be needed to achieve resolution. The board does not consider that either of the tax matters require a provision in the Group's financial statements for the 2012 financial year.

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.

34 Events occurring after the reporting period

There were no significant events occurring after 30 June 2012.

35 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.

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.

35 Deed of cross guarantee (continued)

Statements of comprehensive income

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

	2012 $'000	2011 $'000
Revenue from sale of goods and services	**468,119**	454,522
Sales to Group companies not in Closed Group	**26,931**	29,457
Other (expenses) / income	**(1,255)**	1,488
Cost of goods sold	**(193,506)**	(189,492)
Employee benefits expense	**(111,238)**	(106,307)
Occupancy costs	**(40,807)**	(37,586)
Depreciation and amortisation expense	**(10,121)**	(9,526)
Loss on disposal of property, plant and equipment	**(445)**	(166)
Other expenses	**(66,026)**	(69,543)
Finance costs	**(4,483)**	(6,267)
Profit before income tax	**67,169**	66,580
Income tax expense	**(13,072)**	(12,919)
Profit for the year	**54,097**	53,661

Statements of changes in equity

	2012 $'000	2011 $'000
Balance at 1 July	**169,380**	155,165
Total comprehensive income	**53,642**	53,107
Employee shares issued	**100**	133
Option expense through share based payments reserve	**354**	421
Dividends paid	**(43,772)**	(39,446)
Balance at 30 June	**179,704**	169,380

35 Deed of cross guarantee (continued)

Statements of financial position

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

	2012 $'000	2011 $'000
Current assets		
Cash and cash equivalents	**4,026**	3,976
Trade and other receivables	**9,104**	5,984
Inventories	**158,288**	146,422
Loans to related parties	**168,861**	171,751
Total current assets	**340,279**	328,133
Non-current assets		
Property, plant and equipment	**34,515**	30,520
Deferred tax assets	**61,197**	58,277
Intangible assets	**70**	152
Investments in subsidiaries	**123,039**	116,818
Other non-current assets	**1,256**	-
Total non-current assets	**220,077**	205,767
Total assets	**560,356**	533,900
Current liabilities		
Trade and other payables	**45,867**	47,367
Current tax liabilities	**5,325**	1,282
Provisions	**3,565**	2,498
Deferred revenue	**6,969**	1,813
Total current liabilities	**61,726**	52,960
Non-current liabilities		
Provisions	**1,951**	1,392
Deferred revenue	**21,542**	8,959
Total non-current liabilities	**23,493**	10,351
Total liabilities	**85,219**	63,311
Net assets	**475,137**	470,589
Equity		
Contributed equity	**295,590**	300,662
Reserves	**(158)**	547
Retained profits	**179,705**	169,380
Total equity	**475,137**	470,589

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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 financial statements of Michael Hill International Limited and its subsidiaries on pages 1 to 45, which comprise the statement of financial position of Michael Hill International Limited and the group as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the company and group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. 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 as a body, 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 of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, 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 of the financial statements that give a true and fair view of the matters to which they relate 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 Michael Hill International Limited or any of its subsidiaries.

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 1 to 45:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Michael Hill International Limited and the group as at 30 June 2012 and the financial performance and cash flows of the company and group for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by Michael Hill International Limited as far as appears from our examination of those records.

Ernst & Young

Ernst & Young
16 August 2012
Brisbane