ANNUAL REPORT 2016

michael hill

INTERNATIONAL LIMITED

The Directors are pleased to present the annual report of Michael Hill International Limited for the year ended 30 June 2016

WHAT'S INSIDE


Our mission is to be
the most people focused
Jeweller in the world

COMPANY PROFILE

Michael Hill International Limited owns the brands ‘Michael Hill’ and ‘Emma & Roe’ and operates a retail jewellery chain of 297 Michael Hill stores and 16 Emma & Roe stores in Australia, New Zealand, Canada and the United States as at 30 June 2016.

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

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

In September 2008, the Group entered the United States market and now has 10 stores in Illinois, Ohio, Minnesota and New York.

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

In June 2016, Shareholders voted overwhelmingly in favour of moving the primary stock exchange listing of the Company from the New Zealand Stock Exchange to the Australian Securities Exchange. On 7 July 2016 the Company was admitted to the official list of the Australian Securities Exchange as its primary listing with a secondary listing on the New Zealand Stock Exchange (ASX/NZX: MHJ).

As at 30 June 2016, the Group had 168 Michael Hill stores in Australia, 52 in New Zealand, 67 in Canada, and 10 stores in the USA. In addition there were 15 Emma & Roe stores in Australia and one in New Zealand. Around the world, the Group employs around 2,450 permanent employees across retail sales, manufacturing and administration roles.

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

PERFORMANCE HIGHLIGHTS

FOR THE 12 MONTHS

- ► Revenue increased 9.5% to $551.1m
- ► Group same store sales up 5.2%
- ► Branded Collection sales reached 14.4% of sales
- ► PCP sales up 10.6% to $39.3m with PCP income up 22.0% to $30.8m
- ► Earnings before interest and tax of $47.1m, up 11.9% from $42.1m
- ► Net profit after tax (NPAT) of $19.6m impacted by the booking of tax entries in relation to two separate matters being the settlement of the historical IR tax dispute and the tax consolidation cost base adjustments arising as a consequence of the ASX listing, down 29.5% from $27.8m
- ► Final dividend of AU 2.5¢, up from NZ 2.5¢ (AU 2.25¢). Total dividend for the year of AU 4.75¢
- ► Net operating cash inflow remained strong at $47.8m
- ► Net debt of $32.0m down 16.4%
- ► 19 new stores opened across the Group giving a total of 313 stores
- ► Eight new Emma & Roe stores opened bringing the total to 16

(all values stated in $AU unless stated otherwise)


...a symbol of strength and resilience and a celebration of the spirit of strong women, over the coming year we will be rolling out Spirits Bay collection to all New Zealand stores and 50 key sites internationally...

CHAIR'S REVIEW

Dear Shareholders,

I am pleased to report a record EBIT result of $47.1m for the Michael Hill Group. All the details of our results can be found in the Directors' Report. It was a fabulous year and the Company is well positioned for the future with an array of opportunities ahead of us. I am very excited about what the future holds, so let me explain how I see things unfolding.

The way in which customers shop has changed more in the last 10 years than it has in the previous 50 and looking forward, that rate of change will only accelerate. In the next 10 years, the retailers that will continue to prosper will be those that develop authentic differentiated brands, offer a customer-centric engaging experience and are agile and can adapt at speed.

1. Customers increasingly want to engage in a meaningful relationship with a brand, not just buy products.

We have been working for some time now to differentiate our ranges with unique jewellery collections designed in-house. We currently have 13 proprietary collections that all have a meaningful story behind their creation which builds emotional engagement. An example of this is our Spirits Bay collection – designed by Christine Lady Hill and inspired by the Totorere shells, shaped by the elements and washed up on New Zealand beaches. Spirits Bay is a symbol of strength and resilience and a celebration of the spirit of strong women. We will be rolling out the Spirits Bay collection to all New Zealand stores over the coming year and 50 key sites internationally. This unique collection, like others, will be supported by a very distinctive advertisement telling the story. You can view this at www.michaelhill.co.nz/collections/explore/spirits-bay

Building compelling collections like Spirits Bay is a core focus and over time we see them becoming the dominant part our business. In addition to driving customer preference our collections are delivering incremental margin which we are really enjoying too!

2. Retailers of the future will offer an inspirational, engaging experience - shopping should be enjoyable and fun.

Providing a superior customer experience has always been in our DNA. Since opening our very first store in Whangarei, led by Sir Michael, to today, we have spent 37 years building a core competency in exceptional salesmanship and customer service. We have, I believe, the best sales training and productivity model in the world. Our managers are trained and developed to be gifted sales coaches. Their mandate is to seek daily improvement through coaching and training of their team on the floor so when a customer visits they have an enjoyable experience that wins their trust. We don't get it right 100% of time, but by goodness we are determined to. We are totally committed to investing in and building the world's best sales professionals. Few retailers focus on this the way we always have, and always will.

3. We don't care how they reach us, as long as they arrive.

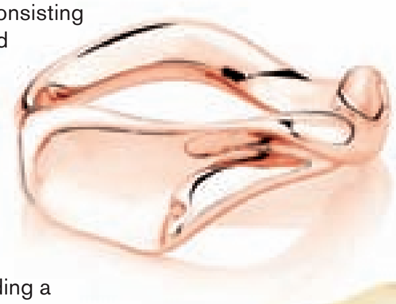
The customer journey has changed enormously over the last decade. 55% of our customers now visit our online channel before visiting a store. They are more informed, have less time, and are more connected than ever before. We are working hard to ensure we really know our customers – so we can talk to them at the right time and stage of their journey in ways that are relevant and meaningful to them. Over time we will become fully 'omni-channel' so we are accessible in whichever way our customers choose to engage with us, providing a totally seamless experience. We are currently investing in the systems to support this evolution. It's an exciting area for us, as it offers so much potential. This year we will make big strides in our customer relationship management program, to enable a single customer view and ensure we know our customers preferences, whichever channel they choose to engage with us through.

Stepping away from strategy to all important leadership.

As you will be aware we have had some recent changes. Mike Parsell, our CEO of 15 years, stepped down in August. He has had a truly remarkable career, rising from the shop floor in Whangarei to lead the Group into Australia and North America and most recently, in developing the Emma & Roe brand. On behalf of the Board and our shareholders, I want to thank Mike for his contribution to the Group and for making a meaningful impact on so many people. He can be incredibly proud of what he has achieved – we certainly are.

Phil Taylor, our long standing CFO, is acting CEO while we conduct both an internal and external global search for our next leader, to take us from $500m to $1bn in revenue. Phil has been with the Company since 1987, when he helped with the original listing on the NZX, and then joined Mike to establish the Australian arm of the business later that year. He was appointed the Group's Chief Financial Officer in 2003 and his expertise has provided a strong foundation for our growth. With Phil at the helm we are in exceptional hands while we go through leadership transition.

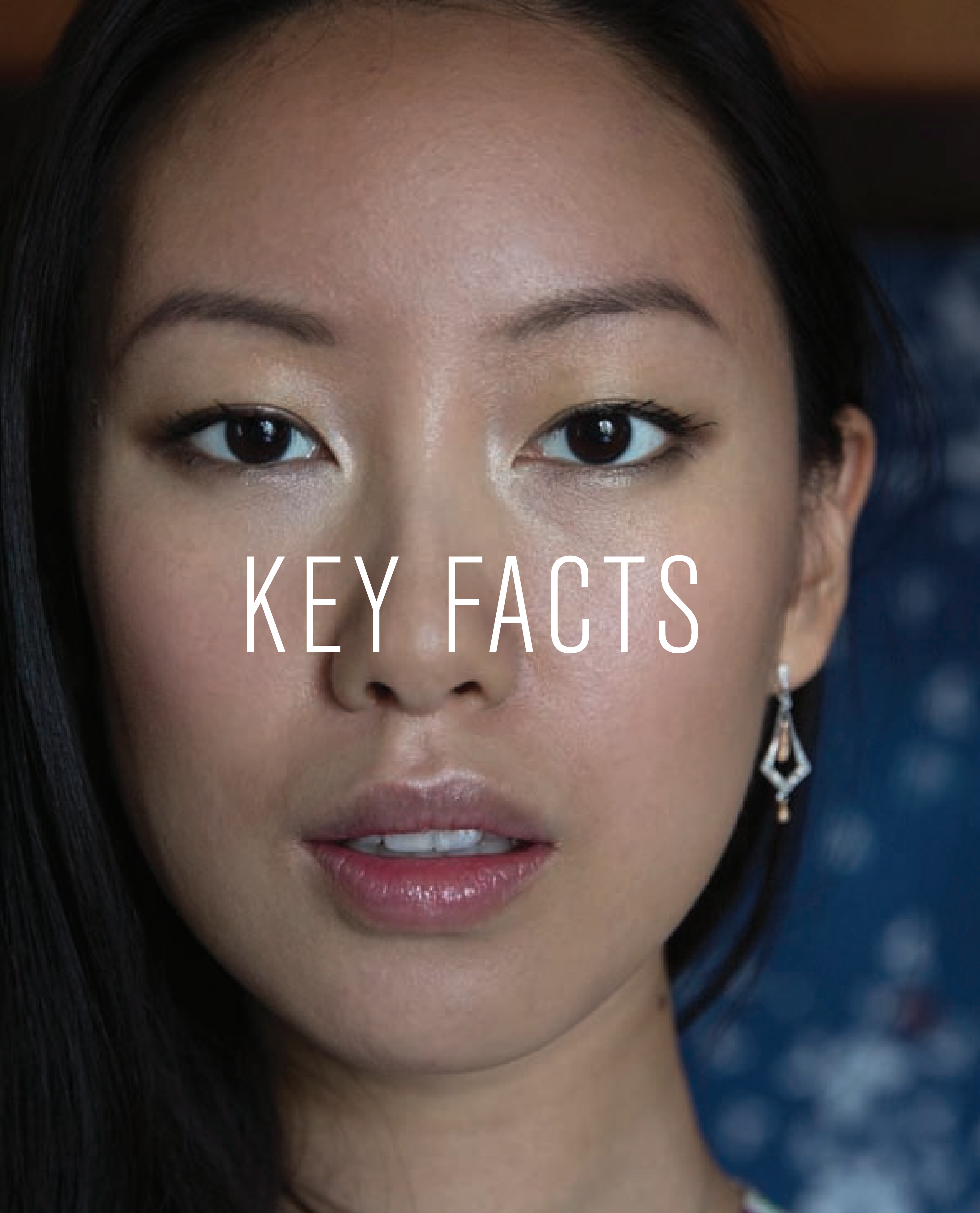
When we listed on the ASX, we formed our new Board consisting of Sir Michael, myself and three independent directors – Rob Fyfe, Janine Allis and Gary Smith. I could not be more satisfied with our board. They are highly engaged, passionate about what they do, and totally committed to building a world class company.



Finally, thank you to all our shareholders for your ongoing support and investment. I look forward to seeing you at our upcoming AGM in Brisbane.

Emma Hill
Chair

KEY FACTS



YEAR ENDED 30 JUNE / AU$000 UNLESS STATED	2016	2015	% CHANGE
TRADING RESULTS			
Group revenue	**551,127**	503,370	9.5%
Gross profit	**351,276**	320,326	9.7%
Earnings before interest and tax	**47,058**	42,061	11.9%
Net profit before tax	**41,534**	37,402	11.0%
Net profit after tax*	**19,577**	27,754	-29.5%
Net cash inflow from operating activities	**47,794**	54,566	-12.4%
FINANCIAL POSITION AT YEAR END			
Contributed equity 383,138,513 ordinary shares	**3,767**	3,760	0.2%
Total equity	**186,401**	187,621	-0.7%
Total assets	**384,197**	351,013	9.5%
Net debt	**32,034**	38,319	-16.4%
Capital expenditure	**24,549**	22,115	11.0%

KEY RATIOS

Return on average shareholders' funds*	**10.5%**	15.0%
Gross profit	**64.0%**	63.9%
Interest expense cover (times)	**7.7**	8.9
Equity ratio (total equity/total assets)*	**48.5%**	53.5%
Gearing Ratio (net debt/total equity)*	**17.2%**	20.4%
Current ratio (current assets/current liabilities)*	**2.4:1**	3.3:1

EARNINGS PER SHARE

Basic earnings per share*	**5.11¢**	7.24¢
Diluted earnings per share*	**5.09¢**	7.22¢

DISTRIBUTION TO SHAREHOLDERS

Dividends - including final dividend		
- Per ordinary share	**AU4.75¢**	NZ5.0¢
- Times covered by net profit after tax*	**1.08**	1.52

SHARE PRICE

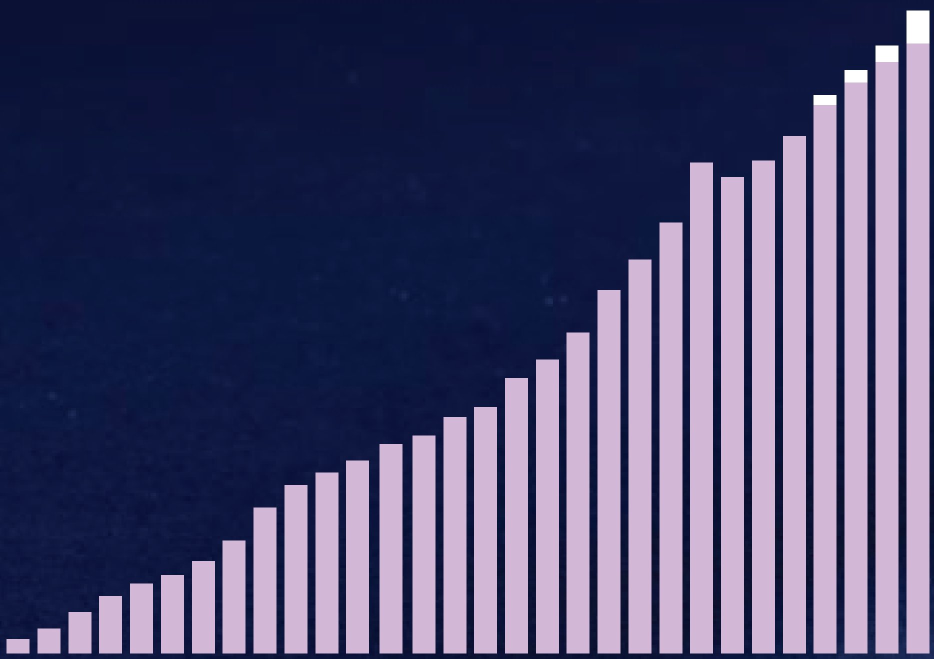
30 June	**NZ$1.14**	NZ$1.06

SAME STORE SALES

Michael Hill same store sales movement (in local currency)		
- Australia	**3.8%**	-2.5%
- New Zealand	**7.2%**	4.3%
- Canada	**5.3%**	2.5%
- United States	**3.5%**	3.5%
Emma & Roe same store sales movement (in local currency) - Australia	**34.6%**	-
Group same store sales movement	**5.2%**	0.7%

NUMBER OF STORES	2016	2015
Australia	**168**	167
New Zealand	**52**	52
Canada	**67**	60
United States	**10**	9
Michael Hill stores	**297**	288
Australia	**15**	7
New Zealand	**1**	1
Emma & Roe stores	**16**	8
Total stores	**313**	296

* Please note that several key measures have been materially affected by the separate booking of the IR tax settlement and the income tax consolidation cost base adjustments as a consequence of the ASX listing.



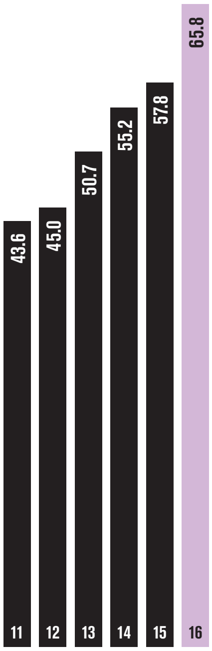
Total Michael Hill and Emma & Roe jewellery stores 313

1987 - 2016, YEAR ENDED 30 JUNE

■ MH STORES ■ E&R STORES

Group revenue up 9.5%

AU$ MILLIONS /
YEAR ENDED 30 JUNE



Earnings before interest, taxation, depreciation and amortisation (EBITDA) up 13.9%

AU$ MILLIONS /
YEAR ENDED 30 JUNE

Net profit after tax down 29.5%*

AU$ MILLIONS /
YEAR ENDED 30 JUNE

* Please note that net profit after tax has been materially affected by the separate booking of the IR tax settlement and the income tax consolidation cost base adjustments as a consequence of the ASX listing.

TREND STATEMENT

FINANCIAL PERFORMANCE	2016 $000	2015 $000	2014 $000	2013 $000	2012 $000	2011 $000
Group revenue	**551,127**	503,370	483,935	440,225	397,633	375,850
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**65,818**	57,799	55,221	50,711	45,023	43,640
Depreciation and amortisation	**18,760**	15,738	13,070	10,452	9,611	8,814
Earnings before interest and tax (EBIT)	**47,058**	42,061	42,151	40,259	35,412	34,826
Net interest paid	**5,524**	4,659	5,376	2,522	3,002	4,359
Net profit before tax (NPBT)	**41,534**	37,402	36,775	37,737	32,410	30,467
Income tax*	**21,957**	9,648	11,734	5,638	4,200	4,161
Net profit after tax (NPAT)*	**19,577**	27,754	25,041	32,099	28,210	26,306
Net operating cash flow	**47,794**	54,566	14,689	41,686	40,662	33,386
Ordinary dividends paid	**17,490**	23,176	22,336	18,482	15,021	11,689

FINANCIAL POSITION	2016 $000	2015 $000	2014 $000	2013 $000	2012 $000	2011 $000
Cash	**8,853**	6,797	8,109	10,461	9,488	6,580
Inventories	**199,961**	182,232	179,280	154,293	147,089	133,374
Other current assets	**31,298**	39,378	25,204	15,653	9,319	6,590
Total current assets	**240,112**	228,407	212,593	180,407	165,896	146,544
Other non-current assets	**74,450**	67,734	58,488	52,232	36,739	32,532
Deferred tax assets	**64,074**	48,381	62,324	56,064	50,403	46,703
Total tangible assets	**378,636**	344,522	333,405	288,703	253,038	225,779
Intangible assets	**5,561**	6,491	6,413	3,632	1,511	117
Total assets	**384,197**	351,013	339,818	292,335	254,549	225,896
Total current liabilities*	**100,986**	69,879	71,005	60,977	54,101	44,078
Non-current borrowings	**40,887**	45,116	56,000	28,000	26,000	35,000
Other long term liabilities	**55,923**	48,397	31,528	29,673	21,586	9,347
Total liabilities*	**197,796**	163,392	158,533	118,650	101,687	88,425
Net assets*	**186,401**	187,621	181,285	173,685	152,862	137,471
Reserves and retained profits*	**182,634**	183,861	177,634	170,261	149,500	134,187
Paid up capital	**3,767**	3,767	3,702	3,515	3,482	3,448
Treasury stock	**-**	(7)	(51)	(91)	(120)	(164)
Total shareholder equity	**186,401**	187,621	181,285	173,685	152,862	137,471
Per ordinary share						
Basic earnings per share*	**5.11¢**	7.24¢	6.54¢	8.38¢	7.37¢	6.88¢
Diluted earnings per share*	**5.09¢**	7.22¢	6.43¢	8.24¢	7.34¢	6.85¢
Dividends declared per share - interim	**NZ2.5¢**	NZ2.5¢	NZ2.5¢	NZ2.5¢	NZ2.0¢	NZ1.5¢
- final	**AU2.5¢**	NZ2.5¢	NZ4.0¢	NZ4.0¢	NZ3.5¢	NZ3.0¢
Net tangible asset backing*	**$0.47**	$0.47	$0.46	$0.44	$0.40	$0.36

* Please note that several key measures have been materially affected by the separate booking of the IR tax settlement and the income tax consolidation cost base adjustments as a consequence of the ASX listing.

ANALYTICAL INFORMATION	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
EBITDA to sales	**11.9%**	11.5%	11.4%	11.5%	11.3%	11.6%
EBIT to sales	**8.5%**	8.4%	8.7%	9.1%	8.9%	9.3%
Net profit after tax to sales*	**3.6%**	5.5%	5.2%	7.3%	7.1%	7.0%
EBIT to total assets	**12.2%**	12.0%	12.4%	13.8%	13.9%	15.4%
Return on average shareholders' funds*	**10.5%**	15.0%	14.1%	19.7%	19.4%	19.6%
Return on average total assets*	**5.3%**	8.0%	7.9%	11.7%	11.7%	12.0%
Current ratio*	**2.4**	3.3	3.0	3.0	3.1	3.3
EBIT interest expense cover	**7.7**	8.9	7.8	15.6	11.2	7.8
Effective tax rate	**52.9%**	25.8%	31.9%	14.9%	13.0%	13.7%
Gearing						
Net borrowings to equity	**17.2%**	20.4%	26.4%	10.1%	10.8%	20.7%
Equity ratio	**48.5%**	53.5%	53.3%	59.4%	60.1%	60.9%
Other						
Shares issued at year end excl Treasury	**383,138,513**	383,138,513	383,041,606	382,849,544	382,775,586	382,664,473
Treasury stock at year end	**-**	14,677	111,584	203,646	277,604	388,717
Exchange rate for translating						
New Zealand results	**1.09**	1.07	1.10	1.25	1.28	1.30
Canadian results	**0.97**	0.97	0.98	1.03	1.03	0.99
United States results	**0.73**	0.83	0.92	1.03	1.03	0.99
Number of Michael Hill stores						
Australia	**168**	167	164	162	153	146
New Zealand	**52**	52	52	52	53	52
Canada	**67**	60	54	45	37	33
USA	**10**	9	8	8	9	9
Total Michael Hill stores	**297**	288	278	267	252	240
Number of Emma & Roe stores						
Australia	**15**	7	6	5	-	-
New Zealand	**1**	1	-	-	-	-
Total Emma & Roe stores	**16**	8	6	5	-	-
Total stores	**313**	296	284	272	252	240

* Please note that several key measures have been materially affected by the separate booking of the IR tax settlement and the income tax consolidation cost base adjustments as a consequence of the ASX listing.

COMMUNITY SPIRIT

Michael Hill and Emma & Roe take great pride in giving back to the communities surrounding our 313 stores.

MICHAEL HILL INTERNATIONAL VIOLIN COMPETITION

The Michael Hill International Violin Competition aims to recognise and celebrate excellence, distinctiveness and musical artistry. We encourage talented young violinists from all over the world who are on the verge of launching themselves on the world stage and empower them with the necessary skills to broaden their career opportunities.

Suyeon Kang (the first Australian winner) undertook her 2016 Winner's Tour with performances in 14 New Zealand centres plus Melbourne and Sydney. She and New Zealand pianist Stephen De Pledge received ample praise in the media. *"Absolutely enthralling… I cannot seem to praise them enough. Michelangelo hinted that he felt his sculptures were within the marble waiting to be set free. I liken this analogy to both players, as it was as if the music was coming from themselves instead of through their instruments; that they were using their tools to carve out the music from the air."* (Emily Sharp, Wellington Regional News).

Across New Zealand, Suyeon visited with and gave a number of community outreach concerts, her natural gift of communication being warmly received. Her tour culminated in a recording on the Atoll label for release the end of 2016.

The careers of the past Michael Hill winners continue to demonstrate the calibre of the artists involved – the latest major appointment was that Nikki Chooi (2013 winner from Canada) was recently appointed Concertmaster of New York's Metropolitan Opera Orchestra (The Met).

The next competition will be held 2–10 June 2017 in Queenstown and Auckland, when 16 of the world's finest talents will be flown to New Zealand to compete for a total prize package worth $100,000. We invite you to come and see these spine-tingling performances for yourself.
violincompetition.co.nz

PINK HOPE

Emma & Roe continues its partnership with the Pink Hope Foundation to help support families facing hereditary breast and ovarian cancer. Since 2014, Emma & Roe has been working with Pink Hope founder Krystal Barter supporting awareness for the cause through an exclusive Pink Hope collection. The collection includes custom charms and a selection of bracelets, as well as limited edition items. A percentage of the gross profits from the sale of the Pink Hope Collection go to Pink Hope. Emma & Roe also actively supports the promotion of key Pink Hope initiatives, including #Bright Pink Lipstick Day. Customers are engaged in-store and online and encouraged to get behind the cause.

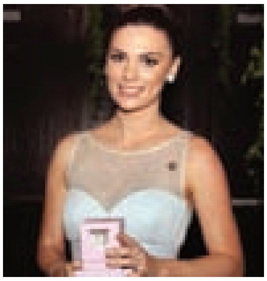
BMW ISPS HANDA NZ OPEN 2016

Michael Hill was once again one of the proud major sponsors of the BMW ISPS Handa NZ Golf Open 2016 hosted at Sir Michael's stunning golf course The Hills in Arrowtown, New Zealand. The NZ Open has been the biggest highlight on the NZ golf calendar dating back to 1907 and this year was no exception. The event drew a large crowd of over 15,000 spectators over the four days and was televised globally to 80 countries, with 145,000 viewers tuning in to watch the Professional and Amateur players fight it out on the course. This year it came down to a nail biting finish on the fourth day between Matthew Griffin (AUS) and Hideto Tanihara (JPN). Griffin came out on top with a clutch birdie on the final hole to take out the title. The event always draws in many sports people and celebrities to take part, this year saw the likes of Glenn Robbins, Stephen Ponting and Ivan Cleary playing in the Celebrity Challenge.

CELEBRATING OUR SUCCESS

International Managers' Conference 2015, Hawaii: Our Retail and Support Centre Management Teams come together to celebrate their phenomenal achievements. We recognise their contributions and share with them the Group's strategic direction for the coming year. Our culture, values and leadership principles are re-energised and focused, to drive our teams to continue to produce outstanding results and incredible customer experiences.





IT'S OUR PEOPLE
WHO MAKE OUR COMPANY

Our Senior Executive Team

SEPTEMBER 2016

PHIL TAYLOR
Acting CEO and Chief Financial Officer

GALINA HIRTZEL
Group Merchandising and Manufacturing Executive

ANNA SHAW
Chief Marketing Officer

MATT KEAYS
Chief Information Officer

STEWART SILK
Group Human Resources Executive

Our values

PEOPLE-FOCUSED	We delight our customers, employees and communities first, always and often
PRECISION	We lead with quality, attainable jewellery. We will anguish over detail in all aspects of our business
INTEGRITY	We build credibility with our honesty and ethics
ADAPTABILITY	We embrace practical irreverence
DRIVEN	We take ownership of and are accountable for our business and the brand

Our leadership principles

CUSTOMER FOCUS	We brighten, impress and delight our customers
	We consider our customers in everything we do
MINDSET FOR GROWTH	We show perseverance and determination to grow
	We are competitive and take the lead in the marketplace
	We innovate and challenge the status quo
	We display a positive attitude and confidence towards our future
	We are visible, accessible and clearly communicate the vision
BIAS FOR ACTION	We deliberately choose our priorities to achieve our vision
	We engage in thoughtful decision making and intelligent risk-taking
	We act with speed and a sense of urgency in executing initiatives and strategy

KEVIN STOCK
Retail General Manager, Australia

BRETT HALLIDAY
Retail General Manager, North America

GREG NEL
Retail General Manager, New Zealand

MARY-ANNE GREAVES
Company Secretary

BUILDING TALENT AND TEAMS	We personally invest in the development and success of our teams
	We identify and develop talent to achieve the Michael Hill vision
	We commit to being part of, and engendering an aligned and cohesive team
	We believe in having a diverse team and placing the best people in the right positions
ACCOUNTABILITY & RESPONSIBILITY	We lead by example, hold ourselves to the highest standards and deliver on our personal KPIs
	We hold our teams accountable by setting clear expectations and providing continuous feedback
	We personally drive positive change

DIRECTORS' REPORT

The Directors have pleasure in submitting their report on the consolidated entity (referred to hereafter as the 'Group') consisting of Michael Hill International Limited ACN 610 937 598 ('Michael Hill International' or the 'Company') and all controlled subsidiaries for the year ended 30 June 2016. As a result of the recent restructure of the Group which saw a new parent company, Michael Hill International, being interposed on the previous parent company, Michael Hill New Zealand Limited Company No. 342863 ('MHNZ') (formerly known as Michael Hill International Limited), certain sections of this report will reflect the position of Michael Hill International as well as the position of MHNZ (as the previous parent company for part of the financial year to which this report relates).

Principal activities

The Group operates predominately in the retail sale of jewellery and related services in Australia, New Zealand, Canada and the United States.

There were no significant changes in the nature of the Group's activities during the year.

Significant changes in state of affairs

The Company is a for profit company limited by shares and incorporated in Australia. The Company was admitted to the official list of the Australian Securities Exchange (ASX) on 7 July 2016 as its primary listing, and maintains a secondary listing on the New Zealand Stock Exchange (NZX).

Until 23 June 2016, MHNZ (formerly known as Michael Hill International Limited) was the parent of the Group. MHNZ is a public company registered under the Companies Act 1993 and remains domiciled in New Zealand. MHNZ had its primary listing on the New Zealand Stock Exchange. The listing was suspended on 22 June 2016 as part of the restructure of the Group.

Likely developments and expected results of operations

Information on likely developments in the Group's operations and the expected results of operations have been included in the Operational Overview and Outlook sections of this report.

Dividends

Dividends paid to ordinary equity holders of MHNZ during the financial year were as follows:

	2016 $000	**2015** $000
Final dividend for the year ended 30 June 2015 of NZ 2.5¢ (2014 - NZ 4.0¢) per fully paid ordinary share paid on 2 October 2015 (2014 - 3 Oct 2014)	8,870	13,765
Interim dividend for the year ended 30 June 2016 of NZ 2.5¢ (2015 - NZ 2.5¢) per fully paid ordinary share paid on 1 April 2016 (2015 - 2 April 2015)	8,620	9,411

Dividends not recognised at year end relating to Michael Hill International:

	2016 $000	**2015** $000
Since year end, the Directors have declared the payment of a final dividend of AU 2.5c per fully paid ordinary share (2015 - NZ 2.5c). The final dividend will be fully franked and imputed. The aggregate amount of the proposed dividend expected to be paid on 6 October 2016 out of retained profits at 30 June 2016, but not recognised as a liability at year end, is:	9,578	8,574

Result overview

In Australian dollars, the Group has reported operating revenues of $551.1m, with earnings before interest and tax of $47.1m, up 11.9% on the prior year. The Group reported a net profit after tax of $19.6m for the 2015-16 financial year.

CASH, CASH FLOW AND DIVIDENDS

The Group has an equity ratio of 48.5% at 30 June 2016 (53.5% in 2015), and a working capital ratio of 2.4:1 (3.3:1 in 2015). Net operating cash flows were $47.8m compared to $54.6m the previous year. Net debt at 30 June 2016 was $32.0m compared to $38.3m at 30 June 2015.

The Group remains in a sound financial position to take advantage of growth opportunities as they arise.

For shareholders, the dividend for the year was AU 4.75 cents (NZ 5.0 cents) per share. There will be a final dividend of AU 2.5 cents per share being payable on 6 October 2016. The final dividend will be fully franked for Australian shareholders and fully imputed for New Zealand shareholders.

INLAND REVENUE DISPUTE SETTLEMENT

On 17 August 2016, the Company reached a settlement with the Inland Revenue ('IR') on its long running tax dispute relating to the financing of the Intellectual Property transferred from its New Zealand subsidiary to its Australian subsidiary in 2008. As a result, the Company has recognised a tax liability payable of $28.8m (NZ$30.3m). All amounts payable under this settlement have been provided for in the 2015-16 year and this settlement resolves all matters in relation to these proceedings. The settlement does not involve the payment of any penalties by the Company. Tax pooling deposits, which the Company has entered into over a number of years, will fund a portion of the agreed settlement with the Commissioner, including UOMI (Use of Money Interest) and NZ $7.7m of core tax. The residual amount due of NZ $22.6m will be funded from the Group's existing financing facilities, without any impact on the Group's ongoing operations, and will not impact the planned store roll out program.

Implementation of the settlement will generate imputation credits enabling dividends to be fully imputed for the benefit of New Zealand shareholders for some years to come (assuming current levels of financial performance and dividend distribution are maintained), including the final dividend expected to be paid in October 2016.

The Board has been conscious of the increasing difficulties that this dispute has had for our shareholders in trying to understand and quantify the potential price impact of the contingency should an adverse outcome result (reflecting the uncertainty and risk involved in any formal litigation).

Accordingly, whilst the Board remains comfortable that the Group's tax treatment of the transaction, which has been the subject of the proceedings, fully complied with all relevant tax laws at that time, the Board is now of the opinion that removing the continued uncertainty and the significant cost associated with the dispute, is in the overall best interests of shareholders and that the settlement reached is accordingly a sensible commercial outcome.

OPERATIONAL REVIEW

During the year, the Group achieved some key outcomes for the 12 months:

- Revenue increased 9.5% to $551.1m
- Same store sales up 5.2%
- Branded Collection sales reached 14.9% of sales
- PCP sales up 10.6% to $39.3m lifting deferred revenue from PCP sales to $71.6m
- Gross profit lifted to 64.0%
- Earnings before interest and tax of $47.1m, up from $42.1m
- Net profit after tax (NPAT) of $19.6m impacted by the booking of tax entries in relation to two separate matters being the settlement of the historical IR tax dispute and the tax consolidation cost base adjustments arising as a consequence of the ASX listing, down 29.5% from $27.8m
- Net operating cash inflow remained strong at $47.8m
- Net debt of $32.0m down 16.4%
- 19 new stores opened across the Group giving a total of 313 stores
- Eight new Emma & Roe stores opened bringing the total to 16 stores

2015-16 was a significant year for the Group with a record EBIT result being achieved on the back of solid performances by our Australian, New Zealand and Canadian businesses. The Group has several years of new store growth in the Canadian market which will further lift revenues and profits. Our US trial continues and while the bottom line slipped on the previous year some headway was made with real estate and merchandise refinements. Experimentation in the lucrative US market will continue in the year ahead with a view to positioning the brand for growth in future years. Emma & Roe was moved from trial mode to growth in June 2016 and up to 12 new stores are planned for the 16-17 year. While the Group will continue to be cautious with the rate of growth for this exciting new brand, this rate can be accelerated as each new market proves up in the coming months and years.

Branded collections revenue lifted to 14.4% of total revenue in 2015-16. This strategy will remain in coming years as more of our investment in inventory is shifted from generic product to proprietary branded collections that offer higher margin and superior return on investment.

The continued growth in Professional Care Plan (PCP) revenue has again provided strong cash flow for the Group. The PCP program is designed to provide a comprehensive suite of product care services to our customers to ensure their jewellery is cared for by experts to enhance the look of their jewellery and to ensure it is maintained in top condition. Total sales from these plans grew by 10.6% this year to $39.3m and at 30 June 2016 there was $71.6 million of deferred PCP revenue held on the Balance Sheet.

The Group e-commerce platform continues to support the business well with e-commerce revenues increasing by 48%, driven by an uplift in online activity in all regions. We will continue to work on initiatives that better integrate our online and physical store environments providing a superior omni-channel experience for our valued customers. We continued to experience strong levels of customer engagement across our digital and social channels.

As at 30 June 2016, the Group operated Michael Hill e-commerce sites in all four countries we operate in, and an Emma & Roe e-commerce site in the Australian market. As part of our multichannel strategy, Emma & Roe merchandise is also sold across all Michael Hill e-commerce sites.

The Group opened 19 new stores for the year and closed 2 giving a total of 313 stores trading at 30 June 2016. This was comprised of 11 new Michael Hill stores during the year; 3 in Australia, 7 in Canada and 1 in the United States. Two stores were closed during the period, resulting in a total of 297 Michael Hill stores trading as at 30 June 2016. We also opened 8 Emma & Roe stores giving a total of 16 stores open as at 30 June 2016.

Review of 2015 -16 Priorities

PRIORITIES	RESULTS
To drive same store sales and EBIT performance across the Group	Group revenue increased 9.5%, and same store sales increased 5.2%. Group EBIT reached a record $47.1m.
To make further progress across our 4 strategic themes; Delight the mid-market, Expand our footprint, Empower our people, Brighten our bridal experience	Strategies and initiatives were rolled out across all 4 markets to achieve these themes and they have proven successful with solid same store sales growth for the Group compared to the industry generally.
To improve return on shareholders' funds and return on assets	If both the IR tax settlement of $28.8m (NZ$30.3m) and the income tax consolidation cost base adjustments of $19.4m are removed from our results, the Group would have achieved a return on shareholder funds of 15.5% compared to 15.0% last year and on total opening assets of 8.1% compared to 8.0% last year.
To open 20 new stores across the Group	19 new stores were opened during the year.
To increase sales from our e-commerce platforms across both brands while integrating the online and in-store experiences	Online sales increased by 48% during the period. Work continues on the integration of on-line and off-line channels.
To continue testing and refining our Michael Hill retail model in the US and our new Emma & Roe brand	The testing in the US market continues and progress has been made on topline sales and refinement of the investment mode. Emma & Roe was moved to growth mode in June 2016 with up to 12 new stores planned for 2016-17.
To continue to fine tune our in-house credit model in North America towards 'best practice' within our industry	Improvements have seen our model better support our two North American businesses and further adjustments will continue into 2016-17 around the data analysis and marketing opportunities.
Improve branded assortments as a portion of total sales, which will in turn drive sales and margins	Branded collection sales lifted from 13.2% the previous year to 14.4% in 15-16. This has been a successful strategy and will continue in 2016-17.

Segment Results

The segments reported below reflect the performance of the Group's Michael Hill retail operations in each geographic segment and also includes the Emma & Roe brand as a separate segment. The segments exclude revenue and expenses that do not relate directly to the relevant Michael Hill or Emma & Roe retail segments. These predominately relate to corporate costs and Australian based support costs, but also include the trading activity through our online presence, manufacturing activities, warehouse and distribution, interest and company tax.

The results below are expressed in local currency.

Australia

OPERATING RESULTS (AU $000)	**2016**	**2015**	**2014**	**2013**	**2012**
Revenue	**307,333**	294,442	298,474	289,333	259,032
EBIT	**50,339**	45,933	47,193	42,225	36,798
As a % of revenue	**16.4%**	15.6%	15.8%	14.6%	14.2%
Number of stores	**168**	167	164	162	153

The Australian retail segment revenue increased by 4.4% to $307.3m and same store sales lifted 3.8% contributing to an EBIT result of $50.3m, an increase of 9.6%. The EBIT as a percentage of revenue was 16.4% (15.6% last year). This result is particularly pleasing against a backdrop of a continued challenging retail environment, especially in regions impacted by the resources sector downturn.

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

- Broadway Mall, New South Wales
- Casey, Victoria
- Halls Head, Western Australia

Two stores closed during the period. There were 168 stores trading at 30 June 2016.

New Zealand

OPERATING RESULTS (NZ $000)	**2016**	**2015**	**2014**	**2013**	**2012**
Revenue	**122,201**	113,983	109,693	111,357	109,110
EBIT	**27,296**	23,545	22,062	22,128	21,550
As a % of revenue	**22.3%**	20.7%	20.1%	19.9%	19.8%
Number of stores	**52**	52	52	52	53
FX rate for profit translation	**1.09**	1.07	1.10	1.25	1.28

The New Zealand retail segment revenue increased 7.2% to a record NZ$122.2m for the twelve months, with an EBIT result of NZ$27.3m, up 15.9% on the corresponding period last year. The EBIT as a percentage of revenue was 22.3% (20.7% last year). The Company is delighted with the continued strong performance of this market and this result is a credit to the leadership team. No stores opened or closed during the year, with 52 stores trading at 30 June 2016.

Canada

OPERATING RESULTS (CA $000)	**2016**	**2015**	**2014**	**2013**	**2012**
Revenue	**94,073**	79,097	69,025	52,950	44,265
EBIT	**9,454**	6,041	3,794	1,121	518
As a % of revenue	**10.0%**	7.6%	5.5%	2.1%	1.2%
Number of stores	**67**	60	54	45	37
FX rate for profit translation	**0.97**	0.97	0.98	1.03	1.03

The Canadian retail segment revenue increased by 18.9% for the twelve months to CA$94.1m, with an EBIT of CA$9.5m compared to CA$6.0m the previous year, a 56.5% increase on the previous corresponding period. Same stores sales increased 5.3% for the twelve months. The operating surplus as a percentage of revenue was 10.0% (7.6% last year). The Canadian segment continues to show strong growth as we gain traction in the larger provinces such as Ontario. The Company is confident this trend will continue in coming years as we grow out the brand across Canada towards 110 stores.

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

- Cataraqui, Ontario
- Erin Mills, Ontario
- Londonderry, Alberta
- Maple View, Ontario
- Sherway, Ontario
- Sherwood Park, Alberta
- Yorkdale, Ontario

There were 67 stores trading at 30 June 2016. The Group plans to open up to ten new stores during the 2016-17 year subject to availability of suitable sites.

USA

OPERATING RESULTS (US $000)	**2016**	**2015**	**2014**	**2013**	**2012**
Revenue	**14,041**	11,290	9,994	10,265	9,576
EBIT	**(2,269)**	(1,916)	(1,679)	(2,359)	(2,650)
As a % of revenue	**(16.2%)**	(17.0%)	(16.8%)	(23.0%)	(27.7%)
Number of stores	**10**	9	8	8	9
FX rate for profit translation	**0.73**	0.83	0.92	1.03	1.03

The US retail segment increased its revenue by 24.4% to US$14.0m for the twelve months, and there was an EBIT loss of US$2.3m, in line with expectations. Same store sales in local currency increased 3.5% for the twelve months (adjusted for a temporary store closure at Woodfield Mall during the year for development). The focus in the US continues on the development of proprietary bridal and fashion collections to differentiate the brand in the market, new marketing initiatives to reach our target customer catchment, the development of a competitive in-house credit program, and delivering this through positioning the brand in malls with strong customer traffic flow and impressive retail mix.

A new store was opened at Roosevelt Field in New York during the period giving a total of ten stores operating at 30 June 2016.

Emma & Roe

The Emma & Roe segment revenue increased by 91.6% for the twelve months to $9.3m, with an EBIT loss of $2.4m compared to $2.9m the previous year, a 15.8% improvement on the previous corresponding period. Same store sales increased 34.6% for the twelve months.

In June 2016, the Company announced that the Emma & Roe brand was going into expansion. Up to ten new Emma & Roe stores are planned for 2016-17 in the Australian market and two for New Zealand.

The Emma & Roe concept is positioned towards a new and emerging customer who likes to collect and create new looks, expressing their own individuality and fashion through the various assortments and collections of complimentary charms, bracelets, rings, pendants and earrings the brand offers. The frequency of purchase is higher for an Emma & Roe customer compared to a Michael Hill customer however the average transaction value is lower. We believe these two brands are well complimented, and will extend our reach further into the fine jewellery category.

Strategic Update

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

DELIGHT THE MID-MARKET

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

- Strengthen marketing and brand position. Win more customers and business through creating more desire for products and services, affinity for the brand and differentiated collections. Drive foot traffic, online traffic and enquiries.
- Build stronger team engagement. Improve our processes, tools and technology that allow teams to drive better customer outcomes, thereby increasing personal performance, productivity, income and engagement.
- Drive customer engagement. Ensuring that all customer channels, places of engagement and touch points are optimised to allow customers the best possible experience; where, when and how they choose to engage us. Also innovating with new merchandising approaches, including physical and digital, to deliver a world class and leading assortment of innovative products in the fashion space.
- Develop omni-channel capability. Continue to develop and integrate our channel capabilities to deliver a seamless customer experience and drive conversion rate and repeat purchase.
- Establish differentiated bridal and fashion brands. Within this strategy we are committed to ongoing development and honing of our proprietary bridal and fashion brands, supported by strong and relevant stories, to drive consumer preference and deliver incremental margin gains.

EXPAND OUR FOOT PRINT

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

- Proving up the Michael Hill US model. To continue to refine the US model until we are confident we have a profitable model to expand in this market. The US still provides the Group the largest growth opportunity for the future.
- Grow the Emma & Roe business. To successfully transition the Emma & Roe business from trial mode to expansion mode, providing a complimentary business model to Michael Hill by engaging a new segment of jewellery consumer to drive market share growth, physical footprint and profitability.

PERFORMANCE THROUGH PEOPLE AND SYSTEMS

This strategy recognises the importance of building organisational capability to support the Group's strategic growth plan. The themes within this strategy are:

- Building a World-Class Team. Ongoing development of the Group's human resources across both Michael Hill and Emma & Roe businesses to provide a qualified talent pipeline to execute the retail model and grow the business. The focus will remain on building selling and leadership capabilities while ensuring key roles are adequately succession planned.
- Deliver Systems and Infrastructure to Support Growth. We will develop systems and infrastructure capability by investing in enabling technologies to support the Group's growth plan.

DRIVE RETURN ON INVESTMENT

This strategy recognises the importance of improved efficiency and a continued cost-control focus as the business scales. ROI will be driven through a focus on operational expenditure and continued tightening of capital control. The themes within this strategy are:

- Control operational costs. Increased focus on operational expenditures to lower Selling & General Administration expense as a percentage of sales, to drive profitability.
- Improve return on assets. To drive ROI through a stronger focus on capital expenditure and improved asset management.

Outlook

We are committed to expanding the Michael Hill brand fully in all 3 proven markets of New Zealand, Australia and Canada. This will see up to 335 Michael Hill stores opened. We are also committed to continuing to test the US market with the vision of being able to open up to 400 stores in this market eventually. The Australian segment is reaching maturity in store numbers but now offers the potential for improved EBIT performance during its mature phase much in the same way the New Zealand business has in recent years. Canada still has several years of growth for the Michael Hill brand and will then also reach a maturity phase where EBIT performance can be honed and improved.

We have plans to expand the Emma & Roe brand in Australasia initially in coming years and expect to be able to open up to 200 stores in this market which is well known to us. We expect to expand the Emma & Roe brand into Canada in a few years' time once the Australasian growth is well underway and results are meeting expectations. Canada will offer the opportunity of up to another 100 Emma & Roe stores.

e-commerce and online revenue from both brands is expected to grow steadily in coming years as this channel grows in acceptance and our omni-channel strategy builds both in-store and online sales. Investment in online capability will be required to take full advantage of this opportunity.

Proprietary collection revenues will continue to grow as we move investment in inventory into these ranges. Collections offer a brand premium and are unique to Michael Hill and therefore help build and cement our Brand in our customer's minds.

The economic environments in which we operate have been relatively stable and in the absence of a material economic downturn in one or a number of our key markets, the business should be able to continue to grow and achieve profitability goals.

Priorities for 2016/17

- To increase same store sales by more than CPI in each market and deliver improved EBIT performance across the Group
- To deliver a minimum return on opening shareholder funds of 15% and a return on opening assets of 9%
- To open more than 20 new stores across the Group. Ten Michael Hill stores and twelve Emma & Roe stores
- To continue to evolve the Emma & Roe model and produce positive EBIT from the stores opened for the full year
- To continue to evolve our omni-channel capability and lift revenue from our online channel for both brands
- To improve efficiency of our inventory and lift return on investment
- To continue experimentation and testing of our US segment and bringing the majority of ten US stores to a positive EBIT position
- Improved CRM capability allowing our sales force to communicate effectively with their customers and to foster leads secured in store or via the web site
- To drive branded collection sales to 15% of total revenue

Risk management

RISK	STRATEGIES AND MITIGATION
Insufficient leadership talent to meet growth plans	People supply chain planning is in place and talent development workshops are being deployed to fast track talent through the system to meet new store openings
Inadequate Business Continuity Planning and/or Disaster Recovery Strategies	We are committed to undertaking and updating the Group's Business Continuity Plan and Disaster Recovery processes. The Group is also investing heavily in new software and systems to protect the key business systems
Economic downturn in key markets	The Group's Balance Sheet is positioned conservatively so if there is a downturn in any of our key economies or another global event the Company is well placed to deal with it. Growth in Canada, in particular, will offer some mitigation by spreading reliance on our two traditional Australasian markets
Supply Chain disruption	We use a number of key suppliers to spread risk of a key supplier losing their plant and factory through natural disaster or other adverse event. Our product also turns quite slowly so we generally will have time to find alternative suppliers or time to resolve any issues with freighters or import/export authorities before material damage is caused to the business
Cost controls inadequate	Sophisticated cost monitoring systems exist that manage key costs in the business and we also dedicate key financial staff to the monitoring of cost variances to budget. A robust budget and forecast cycle is in place to plan and control overheads in the business

Information on Directors

Information on directors of Michael Hill International Limited ACN 610 937 598 in office during the financial year and until the date of this report are set out below. Michael Hill International was incorporated on 24 February 2016. Gary Smith, Mike Parsell and Phil Taylor were appointed as the initial directors of the Company. As a result of the recent restructure of the Group, on 9 June 2016 Mike Parsell and Phil Taylor resigned as directors and Emma Hill (Chair), Sir Michael Hill, Rob Fyfe and Janine Allis were appointed as directors from that date.

Emma Jane Hill B.Com, M.B.A.

Emma was appointed a Director of the Company on 9 June 2016.

Emma has over 30 years' experience with subsidiaries of the Company commencing on the shop floor in Whangarei, New Zealand. She held a number of management positions in the Australian company before successfully leading the expansion of the Group into Canada as Retail General Manager in 2002. Emma was appointed a director of Michael Hill New Zealand Limited on 22 February 2007.

In 2011 Emma was appointed as Deputy Chair of the listed New Zealand entity and was appointed by the Board as Chair of that company in December 2015.

Emma holds a Bachelor of Commerce degree and an MBA from Bond University.

RESPONSIBILITIES

Chair

Non-Executive Director

Member Audit and Risk Committee

Member People Development and Remuneration Committee

DIRECTOR'S SHARE INTERESTS

185,012,276 ordinary shares

Sir Richard Michael Hill K.N.Z.M.

Sir Michael was appointed a Director of the Company on 9 June 2016.

Sir Michael is the founder of Michael Hill Jeweller and was appointed as a director of Michael Hill New Zealand Limited on 30 March 1990. He had 23 years of jewellery retailing experience before establishing Michael Hill in 1979 which then listed on the New Zealand Stock Exchange in 1987. Sir Michael's visionary leadership has been the foundation for the Company's successful international expansion. In 2008 he was recognised as Ernst & Young's 'Entrepreneur of the Year' and in 2011 was appointed a Knight Companion of the New Zealand Order of Merit for services to business and the arts.

Sir Michael was appointed Founder President of the New Zealand listed entity in 2015 in recognition of his special connection with Michael Hill for over 35 years. Sir Michael led the Group as Chairman from 1987 until December 2015.

RESPONSIBILITIES

Non-Executive Director

DIRECTOR'S SHARE INTERESTS

164,330,600 ordinary shares

Gary Warwick Smith B.Com, F.C.A., F.A.I.C.D.

Gary was appointed a Director of the Company upon incorporation on 24 February 2016. Gary was appointed a Director of Michael Hill New Zealand Limited on 2 November 2012.

Gary has had extensive director experience. He is Chairman of Flight Centre, one of Australia's top 100 public companies and is a member of their Audit and Remuneration sub-committee. He is a Chartered Accountant and a Fellow of the Australian Institute of Company Directors.

He has extensive director experience in many tourism and leisure industry companies in Australia. He is also a Director of Tourism Events Queensland and Chair of its Audit and Risk Committee. His former governance roles include being Chairman of the Queensland Tourism Industry Council and being a Director of Ecotourism Australia.

RESPONSIBILITIES

Non-Executive and Independent Director

Chair Audit and Risk Management Committee

Member People Development and Remuneration Committee

DIRECTOR'S SHARE INTERESTS

30,000 ordinary shares

Robert Ian Fyfe

Rob was appointed a Director of the Company on 9 June 2016. Rob was appointed a Director of Michael Hill New Zealand Limited on 6 January 2014.

Rob served as CEO of Air New Zealand between 2005 and 2012, a period that saw a resurgence in Air New Zealand to become one of the most recognised and awarded airlines in the world and one of the best performers in a tough industry. Prior to Air New Zealand, Rob gained extensive general management experience in various retail businesses operating in New Zealand, Australia and Great Britain.

He is currently CEO and director of New Zealand merino wool clothing company Icebreaker and a director of Antarctica New Zealand.

RESPONSIBILITIES

Non-Executive and Independent Director

Chair People Development and Remuneration Committee

Member Audit and Risk Management Committee

DIRECTOR'S SHARE INTERESTS

Nil

Janine Suzanne Allis

Janine was appointed a Director of the Company on 9 June 2016.

Janine is the Founder and Executive Director of Retail Zoo which currently owns the three brands Boost Juice, Salsa's Fresh Mex Grill and Cibo. The Retail Zoo network has over 500 stores in 13 countries.

Janine's strong retail experience was obtained by creating Boost Juice Bars and turning it into an iconic Australian brand with over 95% awareness rate in the Australian market. Drive and passion has translated into over $2 billion in global sales from inception and has earned Janine many accolades, including Telstra Businesswoman of the Year, Amex Franchisor of the Year and ARA Retailer of the Year. She was inducted into the Australian Business Women Hall of Fame as well as BRW listing Janine in the top 15 people who have changed the way we do business in the last 20 years.

Janine now shares her knowledge with others, including through her role as a 'Shark', investor and mentor on Channel Ten's Shark Tank.

RESPONSIBILITIES

Non-Executive and Independent Director

DIRECTOR'S SHARE INTERESTS

Nil

Michael Robin Parsell

Mike was appointed a Director of the Company upon incorporation on 24 February 2016.

Mike resigned as Director of the Company on 9 June 2016. Mike resigned from his position as Chief Executive Officer of the Michael Hill Group on 8 August 2016.

RESPONSIBILITIES

Former Chief Executive Officer of the Michael Hill Group

DIRECTOR'S SHARE INTERESTS

6,789,264 ordinary shares

6,000,000 options

Philip RoyTaylor A.C.A., A.C.I.M., A.I.M.M.

Phil was appointed a Director of the Company upon incorporation on 24 February 2016.

Phil resigned as Director of the Company on 9 June 2016. Phil is currently the Acting CEO and Chief Financial Officer of the Michael Hill Group.

Phil joined Michael Hill in New Zealand in 1987 and moved with the Group to Australia later that year as part of a start-up team in the role of Financial Controller before assuming the role of Chief Financial Officer of the Group in 2003. In August this year Phil was appointed Acting Chief Executive Officer. Over the past 30 years Phil has worked closely with most functions and departments within the Group. He has been instrumental in the success of both the Australian business in its establishment years, and the wider Group since assuming the role of CFO in 2003. More specifically Phil oversaw a major restructuring of the Group in 2008 and more recently led the successful ASX listing project.

RESPONSIBILITIES

Acting CEO and Chief Financial Officer of the Michael Hill Group

DIRECTOR'S SHARE INTERESTS

2,000,000 ordinary shares

2,250,000 options

Information on directors of MHNZ, the former parent company, who are not Directors of the Australian listed entity, Michael Hill International, and set out above, in office during the financial year and until the date of this report are set out below:

Ann Christine Lady Hill

Lady Hill has been associated with the Michael Hill Group since its inception in 1979 and has been closely involved with the artistic direction of the Michael Hill Group's store design and interior layouts over the years.

Lady Hill joined the Board of Michael Hill New Zealand Limited on 23 February 2001 and resigned on 29 June 2016.

RESPONSIBILITIES

Non-Executive Director

DIRECTOR'S SHARE INTERESTS

164,330,600 ordinary shares

Gary John Gwynne

Gary has an extensive background in marketing, retailing and property development. He is currently a Director of Oyster Property Group, the operator of Dress Smart Factory Shopping Centres and Sheppard Industries.

Gary joined the Board of Michael Hill New Zealand Limited on 19 February 1998 and resigned on 29 June 2016.

RESPONSIBILITIES

Non-Executive Director

DIRECTOR'S SHARE INTERESTS

1,972,000 ordinary shares

Company Secretary

The names and details of the Company Secretaries of Michael Hill International in office during the financial year and until the date of this report are set out below:

Philip Roy Taylor A.C.A., A.C.I.M., A.I.M.M.,	Appointed 24 Feb 2016	Resigned 11 July 2016
Mary-Anne Greaves LLM., LL.B., ACIS, AGIA	Appointed 11 July 2016	

Mary-Anne Greaves

Mary-Anne joined Michael Hill in July 2016 with over 15 years' experience in Company Secretarial and Law. Mary-Anne has a strong interest in the area of corporate governance and is admitted as a solicitor of the Supreme Court of Queensland, is a Chartered Secretary and an Associate of the Governance Institute of Australia. Mary-Anne brings a wealth of experience from her previous roles as Company Secretary of a number of ASX and NSX listed entities. Mary-Anne is also a qualified real estate principal and has an additional 16 years' experience in the finance and property industries.

Directors' meetings

The number of meetings held throughout the past year is detailed below for both Michael Hill International and MHNZ.

The agenda for meetings is determined by the Chair in conjunction with the Chief Executive Officer. Any member of the Board may request the addition of an item to the agenda. Board papers are circulated to Directors a week in advance of meetings.

The following table sets out the Board meetings attended by Directors during the course of the financial year for Michael Hill International. This Company was incorporated on 24 February 2016. A number of directors were appointed on 9 June 2016 and therefore were only eligible to attend a certain number of board meetings as set out below.

Board of Directors	Meetings held	Number of meetings eligable to attend	Meetings attended
E.J. Hill[2]	9	5	5
Sir Michael Hill[2]	9	4	4
G.W. Smith	9	9	9
R.I. Fyfe[2]	9	4	4
J.S. Allis[2]	9	4	4
M.R. Parsell[1]	9	4	4
P.R. Taylor[1]	9	4	4

[1] Resigned 9 June 2016 [2] Appointed 9 June 2016

The number of meetings held throughout the past year is detailed below for both Michael Hill International and MHNZ.

	Board of Directors		Audit and Risk Management Sub-committee		People Development and Remuneration Sub-committee		Nominations Sub-committee	
	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended
E.J.Hill	8	8	2	2	2	2	1	1
Sir Michael Hill[2]	8	8	-	-	-	-	-	-
A.C Hill[2]	8	8	-	-	-	-	-	-
G.W. Smith	8	8	2	2	2	2	-	-
R.I. Fyfe	8	8	2	2	2	2	1	1
G.J. Gwynne[2]	8	7	-	-	-	-	1	1
M.R. Parsell[1]	4	3	-	-	-	-	-	-

[1] Resigned 4 December 2015 reappointed 24 February 2016
[2] Resigned 29 June 2016

Committee membership

As at the date of this report, Michael Hill International has an Audit and Risk Management Committee and a People Development and Remuneration Committee.

No meetings of these Committees were held during the financial year as the Company was only incorporated on 24 February 2016. Members of these committees of the Board are:

Audit and Risk Management Committee	People Development and Remuneration Committee
Gary Smith*	Rob Fyfe*
Emma Hill	Emma Hill
Rob Fyfe	Gary Smith

*designates chair of the committee

As a result of the recent restructure and as at the date of this report, MHNZ does not now have any committees of the Board. MHNZ previously had an Audit and Risk Management sub-committee, a People Development and Remuneration sub-committee and a Nominations sub-committee during the financial year.

Members acting on those Committees of the Board of MHNZ during the financial year were:

Audit and Risk Management Sub-committee	People Development and Remuneration Sub-committee	Nominations Sub-committee
Gary Smith*	Rob Fyfe*	Rob Fyfe*
Emma Hill	Emma Hill	Emma Hill
Rob Fyfe	Gary Smith	Gary Gwynne

*designates chair of the committee

Indemnification and insurance of directors and officers

The Company's Constitution provides that it may indemnify any person who is, or has been, an officer of the Group, including the Directors, the Secretaries and other Executive Officers, against liabilities incurred whilst acting as such officers to the extent permitted by law. The Company has entered into a Deed of Indemnity, Insurance and Access with each of the Company's Directors. No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the year.

The Company has paid a premium for insurance for officers of the Group. This insurance is against a liability for costs and expenses incurred by officers in defending civil or criminal proceedings involving them as such officers, with some exceptions. The contract of insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditor, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Environmental regulations

The Group has determined that no particular or significant environmental regulations apply to it.

Share options

UNISSUED SHARES

As at the date of this report, there were 12,550,000 unissued ordinary shares under options (12,550,000 at the reporting date). Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

SHARES ISSUED AS A RESULT OF THE EXERCISE OF OPTIONS

During the financial year, no employees and executives have exercised options to acquire fully paid ordinary shares in the Company.

Non-audit services

The following non-audit services were provided by the entity's auditor, Ernst & Young Australia. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young Australia received or are due to receive the following amounts for the provision of non-audit services:

Advisory services	$50,000

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 37C of the Corporations Act 2001, is set out on page 42.

Rounding

The amounts contained in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) where noted ($000) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

The Company is an entity to which the legislative instrument applies.

REMUNERATION REPORT AUDITED

Remuneration framework

PRINCIPLES OF COMPENSATION

Remuneration is referred to as compensation throughout this report.

Key management personnel ('KMP') have authority and responsibility for planning, directing and controlling the activities of the Group, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and senior executives for the Group.

For the 2015-16 financial year, it was determined that the KMP of Michael Hill International were:

- Chief Executive Officer (CEO) – Mike Parsell (resigned 8 August 2016)
- Chief Financial Officer (CFO) – Phil Taylor
- Group Executive Merchandising (GEM) – Galina Hirtzel
- Chief Marketing Officer (CMO) – Anna Shaw

Compensation levels for key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration committee obtains independent advice on the appropriateness of compensation packages of the Group given trends in comparative companies both locally and internationally, and the objectives of the Group's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- The capability and experience of the key management personnel
- The key management personnel's ability to control the relevant segment/s' performance
- The Group's performance including:
  - The Group's earnings
  - The amount of incentives within each key management person's compensation
  - Delivering constant returns on shareholder wealth.

The Remuneration framework consists of:

1 Total Fixed Remuneration ('TFR') - includes fixed cash remuneration, any car allowance and superannuation component.

2 Short term incentive ('STI') – on target performance is determined as a percentage of TFR, which is then converted to a share of the return on assets ('ROA') surplus above a minimum hurdle rate which would deliver the targeted STI in the 2015-16 financial year.
  - In the 2015-16 financial year the STI payment was derived solely from the ROA calculation.
  - Commencing in the 2016-17 financial year, 30% of the STI will be at risk and assessed based on achievement of individual performance goals which will be agreed at the commencement of each financial year.

3 Long term incentive ('LTI') – commencing in the 2016-17 financial year a regular allocation of performance rights will be introduced, the value of the issue will be determined as a percentage of the STI earned for the preceding year.

The structure of the benefits for key management personnel for the 2016-17 financial year is as follows:

CEO	TFR set at 90% of market median, On target STI set at 75% of TFR, LTI commencing in 2016-17 set at 30% of STI achieved in the preceding year
CFO	TFR set at 90% of market median On target STI set at 70% of TFR (higher than market to recognise the broader scope of the current CFO/CEO role) LTI commencing in 2016-17 set at 30% of STI achieved in the preceding year
GEM	TFR set at 90% of market median On target STI set at 35% of TFR LTI commencing in 2016-17 set at 30% of STI achieved in the preceding year
CMO*	TFR set at 90% of market median On target STI set at 35% of TFR

*As the current CMO commenced in June 2016, there is no LTI component in the 2016-17 financial year. This benefit will commence in the 2017-18 financial year.

FIXED COMPENSATION

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as leave entitlements and employer contributions to superannuation funds.

Compensation levels are reviewed annually by the People Development and Remuneration Committee through a process that considers individual, segment and overall performance of the Group. In addition, external consultants provide analysis and advice to ensure the directors' and senior executives' compensation is competitive in the market place. A senior executive's compensation is also reviewed on promotion.

PERFORMANCE LINKED COMPENSATION

Performance linked compensation includes both short-term and long-term incentives, and is designed to reward senior executives for meeting or exceeding their financial and personal objectives. The STI is an 'at risk' bonus provided in the form of cash, while the LTI is provided as rights over ordinary shares of the Company under the rules of the Executive Incentive Plan. The Board did not exercise any discretion on the payment of bonuses and rights as the plans provide for no such discretion.

SHORT-TERM INCENTIVE BONUS

The performance framework through which each senior executive's performance will be measured is through the use of agreed Personal Performance Plan's ('PPP'). These PPP's include relevant business key performance indicators ('KPIs') as well as other goals and metrics which are assessed and measured. These plans set out the at-risk component of the STI as prescribed in the remuneration policy.

The process is designed to provide a basis for an ongoing performance management system, along with integrated reporting for visibility and transparency of progress by each senior executive. The framework aligns the senior executive KPIs to delivery of the strategic plan, divisional business plans along with critical operational measures and leadership measures of each role. The following points outline the framework:

- The policy and framework cascades from the CEO to Group Executives with the intention in 2016-17 to cascade relevant KPIs further down through all levels of management. This aims to ensure key aspects of the Group's strategic plan, divisional business plans, along with critical drivers of business outcomes are clearly identified at each level of leadership. This includes personal development plans, and leadership performance.
- The metrics are updated monthly (on a YTD basis) and along with normal operational metrics, provides the basis for monthly work in progress ('WIP') reviews. These metrics are cascaded through weekly WIP meetings with direct reports, which continue to track agreed progress and actions required to improve performance until the next rolled up monthly update.
- The framework consists of four sets of high level measures each representing 25% of the 'at-risk' component of the STI. Within each of the four groups there are between 3 and 5 KPIs that are tracked and managed.
- A subset of these KPIs, approximately 2 to 3, are agreed as critical success factors to meeting the overall performance objectives of the senior executive. This subset is referenced when assessing achievement of their STI.
- This framework provides for the future design and implementation of a scheme to add an incremental STI for management currently outside of this scheme, following approval by the People Development and Remuneration Committee. Under such a scheme full performance may trigger an additional 10% over and above senior executive's fixed remuneration.

The Group PPP and KPI frameworks are structured into four major groups:

1. **Financial Performance** - this focuses on high level financial results. Metrics measured at Group or divisional level - to budget or policy i.e. sales, GP%, expenses, EBIT, ROA (opening) balance sheet metrics, cash flow etc.
2. **Operational Performance** - this focuses on operational drivers, adherence to policy, key drivers of sales, margins, expense control, efficiency, drivers of ROA, and critical business measures etc.
3. **Business Growth** - this focuses on key drivers of business growth particularly expansion of business channels, delivery of new initiatives, physical foot print expansion, customer satisfaction, improving customer experience.
4. **Leadership Performance** - this focuses on our leadership capability, work force capability, training and development, staff engagement, productivity, and talent development and succession planning etc.

LONG-TERM INCENTIVE

Options are issued under the Executive Incentive Plan (made in accordance with thresholds set in plans approved by shareholders at the Company's AGM), and it provides for senior executives to receive options over ordinary shares for no consideration. The ability to exercise the options is conditional on continuing employment with the Company.

No further options will be issued to senior executives other than the tranches already in place for four senior executives including one KMP. The Company intends to introduce a new Incentive Plan commencing for the 2016-17 financial year which will be submitted to shareholders for approval at the Company's next Annual General Meeting.

SHORT-TERM AND LONG-TERM INCENTIVE STRUCTURE

The People Development and Remuneration Committee considers that the above performance-linked compensation structure is generating the desired outcome. The evidence for this is:

- The performance-linked element of the structure appears to be appropriate as all of the senior executives achieved their performance targets last year;
- This in turn led to strong growth in profits; and
- High levels of retention among senior executives.

The tenure of the KMP, as at the date of this report, are as follows:

KMP	No of years of service
Mike Parsell, former CEO	34 years
Phil Taylor, Acting CEO and CFO	29 years
Galina Hirtzel, GEM	24 years
Anna Shaw, CMO	2 months

Currently, the performance linked component of compensation comprises approximately forty-one percent of total payments to senior executives.

In the current year the Group exceeded its overall Board targets, with all major segments meeting budgeted results.

CONSEQUENCES OF PERFORMANCE ON SHAREHOLDER WEALTH

In considering the Group's performance and benefits for shareholder wealth, the People Development and Remuneration Committee have regard to the following indices in respect of the current financial year and the previous four financial years.

	2016 $000	**2015** $000	**2014** $000	**2013** $000	**2012** $000
EBIT	**47,058**	42,061	42,151	40,259	35,412
Net profit attributable to owners of the Company	**19,577**	27,754	25,041	32,099	28,210
Dividends paid	**17,490**	23,176	22,336	18,482	15,021
Share price as at 30 June (NZ$)	**$1.14**	$1.06	$1.24	$1.31	$0.98
Return on capital employed	**10.5%**	15.0%	14.1%	19.7%	19.4%

Profit is considered the primary financial performance target in setting the STI. Profit amounts for 2012 to 2016 have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. This also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The overall level of compensation takes into account the performance of the Group over a number of years.

OTHER BENEFITS

Key management personnel do not receive additional benefits such as non-cash benefits, as part of the terms and conditions of their appointment.

LOANS TO KEY MANAGEMENT PERSONNEL

The Company does not provide loans to KMP's or other senior executives.

SERVICE CONTRACTS

It is the Group's policy that service contracts for senior executives, excluding the chief executive officer, are unlimited in term but capable of termination on six months' notice and that the Group retains the right to terminate the contract immediately, by making payment equal to six months' pay in lieu of notice.

The Group has entered into service contracts with each senior executive, excluding the chief executive officer, that are capable of termination on six months' notice. The Group retains the right to terminate a contract immediately by making payment equal to six months' pay in lieu of notice. The senior executives are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The service contract outlines the components of compensation but does not prescribe how compensation levels are modified year to year. The remuneration committee reviews compensation levels each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of compensation policy.

Mr Mike Parsell, former chief executive officer, had a contract of employment with the Group. Mr Parsell commenced his employment with the Group in 1981 and in 2004 was engaged to act as CEO of the Group. The contract specifies the duties and obligations to be fulfilled by the chief executive officer. The CEO remuneration package is revised by the Board annually. Either party may terminate the contract of employment in writing by giving 1 year's notice, or payment in lieu of notice (or as otherwise agreed by both parties). On termination (other than by the Company for cause) the CEO contract provides for the payment of an exit package to the CEO of up to 2 years remuneration based on an increasing scale commensurate with the CEO's length of employment in the Group at the time of termination.

The services contract terminated on 8 August 2016 upon the resignation of Mr Mike Parsell.

The Company will be seeking shareholder support at the upcoming Annual General Meeting of the Company for a termination package at a level substantially below that specified in Mr Parsell's employment contract of 2004.

SERVICES FROM REMUNERATION CONSULTANTS

The People Development and Remuneration Committee engaged Mercer Consulting (Australia) Pty Ltd ('Mercer') as remuneration consultant to the board to review the amount and elements of the key management personnel remuneration and provide recommendations in relation thereto.

In addition to the remuneration recommendations, Mercer provided the following other services to the Company throughout the year:

- Summarised the key terms and conditions of each contract for services to enable the remuneration committee to assess whether the terms and conditions are consistent across different parts of the business;
- Advice in relation to the embodiment of risk in the assessment of performance for the vesting of remuneration awards; and
- Advice on structuring various management roles and market trends.

Mercer was paid $38,000 for the remuneration recommendations in respect of reviewing the amount and elements of remuneration. Mercer was paid $22,112 in total for all other services.

The engagement of Mercer by the People Development and Remuneration Committee was based on a documented set of protocols that would be followed by Mercer, members of the People Development and Remuneration Committee and members of the key management personnel for the way in which remuneration recommendations would be developed by Mercer and provided to the board.

The protocols included the prohibition of Mercer providing advice or recommendations to key management personnel before the advice or recommendations were given to members of the People Development and Remuneration Committee and not unless Mercer had approval to do so from members of the People Development and Remuneration Committee.

These arrangements were implemented to ensure that Mercer would be able to carry out its work, including information capture and the formation of its recommendations, free from undue influence by members of the key management personnel about whom the recommendations may relate.

The Board undertook its own enquiries and review of the processes and procedures followed by Mercer during the course of its assignment and is satisfied that its remuneration recommendations were made free from undue influence.

These enquiries included arrangements under which Mercer was required to provide the Board with a summary of the way in which it carried out its work, details of its interaction with key management personnel in relation to the assignment and other services, and respond to questioning by members of the Board after the completion of the assignment.

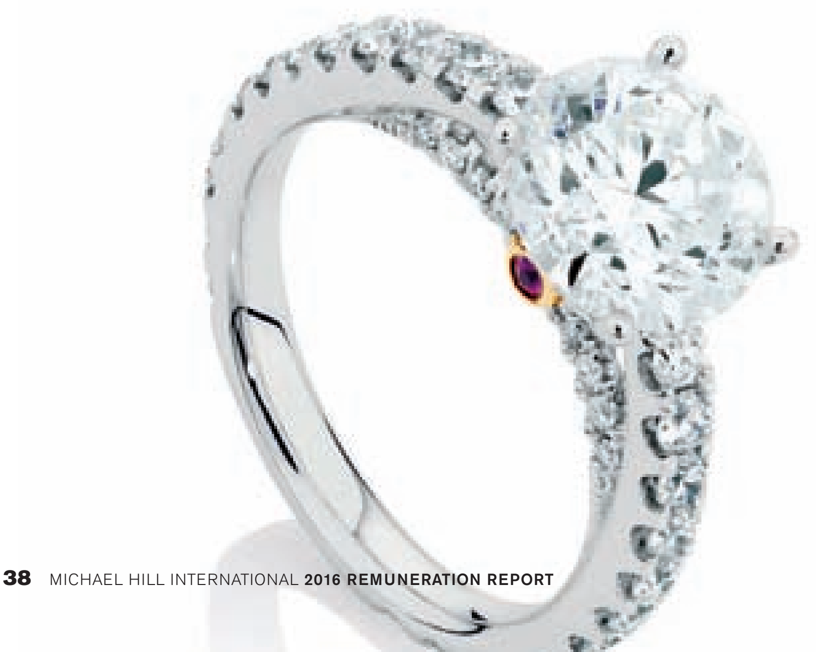
PriceWaterhouseCoopers assisted the Company in relation to taxation aspects of the remuneration recommendations.

NON-EXECUTIVE DIRECTORS

Total compensation for all non-executive directors, last voted upon by shareholders, is not to exceed $840,000 per annum and is set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Directors' base fees are presently up to $95,000 per annum. Where a Director serves as Chair on a Board Committee they are entitled to an extra payment of $20,000 per annum.

The Chair receives up to twice the base fee. Non-executive directors do not receive performance-related compensation. Directors' fees cover all main board activities and membership of committees.

Non-executive directors are not provided with retirement benefits apart from statutory superannuation.



DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION

Details of the nature and amount of each major element of remuneration of each Director of the Company, and other key management personnel of the consolidated entity and includes Michael Hill International and MHNZ are:

		Short-term				Post-employment	Other long term		Share-based payments			
		Salary & fees	STI cash bonus	Non-monetary benefits (motor vehicle)	Total	Superannuation benefits		Termination benefits	Options and rights	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
		$	$(a)	$	$	$	$	$	$(b)	$	$	%
Non-executive Directors												
Sir Richard Michael Hill	2016	136,735	-	30,000	166,735	-	-	-	-	166,735	-	-
	2015	148,915	-	27,922	176,837	-	-	-	-	176,837	-	-
Emma Jane Hill	2016	162,845	-	-	162,845	-	-	-	-	162,845	-	-
	2015	117,597	-	-	117,597	-	-	-	-	117,597	-	-
Ann Christine Lady Hill *(resigned 29 June 2016)*	2016	95,000	-	-	95,000	-	-	-	-	95,000	-	-
	2015	88,419	-	-	88,419	-	-	-	-	88,419	-	-
Gary Warwick Smith	2016	105,023	-	-	105,023	9,977	-	-	-	115,000	-	-
	2015	95,652	-	-	95,652	8,848	-	-	-	104,500	-	-
Robert Ian Fyfe	2016	115,000	-	-	115,000	-	-	-	-	115,000	-	-
	2015	94,370	-	-	94,370	-	-	-	-	94,370	-	-
Gary Gwynne *(resigned 29 June 2016)*	2016	95,000	-	-	95,000	-	-	-	-	95,000	-	-
	2015	88,419	-	-	88,419	-	-	-	-	88,419	-	-
Janine Suzanne Allis *(appointed 9 June 2016)*	2016	-	-	-	-	-	-	-	-	-	-	-
Total Directors' remuneration	2016	709,603	-	30,000	739,603	9,977	-	-	-	749,580	-	-
	2015	633,371	-	27,922	661,294	8,848	-	-	-	670,142	-	-
Executives												
Mike Parsell, CEO	2016	824,000	794,481	-	1,618,481	35,000	-	-	-	1,653,481	48.04%	-
	2015	771,845	358,965	-	1,130,810	25,000	-	-	-	1,155,810	31.05%	-
Phil Taylor, CFO	2016	399,000	374,642	-	773,642	35,000	-	-	-	808,642	46.33%	-
	2015	301,256	143,586	-	444,842	25,000	-	-	-	469,842	30.56%	-
Galina Hirtzel, GEM	2016	250,000	133,184	-	383,184	30,000	-	-	32,826	446,010	29.86%	7.36%
	2015	215,549	44,871	-	260,420	24,089	-	-	37,340	321,849	13.94%	11.60%
Anna Shaw, CMO *(appointed 20 June 2016)*	2016	5,288	-	-	5,288	502	-	-	-	5,790	-	-
Former executives												
J Talcott, CMO *(resigned 26 January 2016)*	2016	201,821	63,232	-	265,053	25,180	-	-	-	290,233	21.79%	-
	2015	286,596	81,250	-	367,846	25,000	-	-	-	392,846	20.68%	-
Total executives' remuneration	2016	1,680,109	1,365,539	-	3,045,648	125,682	-	-	32,826	3,204,156	42.68%	1.02%
	2015	1,575,246	628,672	-	2,203,918	99,089	-	-	37,340	2,340,347	26.86%	1.60%
Total Directors' and executives' remuneration	2016	2,389,712	1,365,539	30,000	3,785,251	135,659	-	-	32,826	3,953,736	34.54%	0.83%
	2015	2,208,617	628,672	27,922	2,865,212	107,937	-	-	37,340	3,010,489	20.88%	1.24%

Notes in relation to the table of Directors' and executive officers' remuneration:

a The short-term incentive bonus is for performance during the respective financial year using the criteria set out on pages 36 and 37. The amount was finally determined on 18 August 2016 after performance reviews were completed and approved by the People Development and Remuneration Committee.

b The fair value of the options is calculated at the date of grant using the Binomial option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised as an expense in each reporting period.

DETAILS OF PERFORMANCE RELATED REMUNERATION

Details of the Group's policy in relation to the proportion of remuneration that is performance related is discussed on page 36.

ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the Company, and other key management personnel are detailed below.

Short-term incentive bonus	Included in remuneration **$(a)**	Vested in year **%**	Forfeited in year **%(b)**
Directors	-	-	-
Executives			
Mike Parsell	794,481	100%	-
Phil Taylor	374,642	100%	-
Galina Hirtzel	133,184	100%	-
Anna Shaw	-	-	-

a Amounts included in remuneration for the financial year represent the amount related to the financial year based on achievement of personal goals and satisfaction of specified performance criteria. The People Development and Remuneration Committee approved these amounts on 18 August 2016.

b The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

EQUITY INSTRUMENTS

All options refer to options over ordinary shares of Michael Hill International Limited, which are exercisable on a one-for-one basis under the Executive Incentive Plan.

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

Details on options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that vested during the reporting period are as follows:

	Number of options granted during 2016	Grant date	Fair value at grant date per option	Exercise price per option	Expiry date	Number of options vested during 2016
Directors	-	-	-	-	-	-
Executives						
Mike Parsell	-	-	-	-	-	-
Phil Taylor	-	-	-	-	-	-
Galina Hirtzel	100,000	22/01/16	NZ16.2¢	NZ$1.14	30/09/25	-
Anna Shaw	-	-	-	-	-	-

All options expire on the earlier of their expiry date or within 3 months of termination of the individual's employment. The options are exercisable 5 years from grant date. The options are conditional on continuing employment service. For options granted in the current year, the earliest exercise date is 30/09/2020.

MODIFICATION OF TERMS OF EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period. The exercise price of any future option grants will be set using the same method, with reference to the Australian Securities Exchange. Upon exercise of any option previously granted, the NZ$ exercise price will be converted to AU$ referenced to the Reserve Bank of Australia foreign exchange rate.

EXERCISE OF OPTIONS GRANTED AS COMPENSATION

During the reporting period, no shares were issued on the exercise of options previously granted as compensation.
There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2016 financial year.

ANALYSIS OF OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

Details of vesting profiles of the options granted as remuneration to each key management person of the Group are detailed below.

Options granted	Number	Grant date	Exercise price NZ$	% forfeited in year	% vested in year*	Financial years in which option vests	Financial years in which option exercisable
Directors	-	-	-	-	-	-	-
Executives							
Mike Parsell	2,000,000	Nov 2007	$1.25	100%	-	07/08	2013-2017
	400,000	Nov 2009	$0.94	100%	-	08/09	2014-2018
	400,000	Sep 2010	$0.88	100%	-	09/10	2015-2019
	400,000	Sep 2011	$1.16	100%	-	10/11	2016-2020
	400,000	Sep 2012	$1.41	100%	-	11/12	2017-2021
	400,000	Sep 2013	$1.82	100%	-	12/13	2018-2022
	2,000,000	Dec 2013	$1.82	100%	-	12/13	2018-2022
Total	6,000,000						
Phil Taylor	750,000	Nov 2007	$1.25	100%	-	07/08	2013-2017
	150,000	Nov 2009	$0.94	100%	-	08/09	2014-2018
	150,000	Sep 2010	$0.88	100%	-	09/10	2015-2019
	150,000	Sep 2011	$1.16	100%	-	10/11	2016-2020
	150,000	Sep 2012	$1.41	100%	-	11/12	2017-2021
	150,000	Sep 2013	$1.82	100%	-	12/13	2018-2022
	750,000	Dec 2013	$1.82	100%	-	12/13	2018-2022
Total	2,250,000						
Galina Hirtzel	500,000	Dec 2013	$1.82	100%	-	2014-2019	2020-2024
	100,000	Sep 2014	$1.63	100%	-	2015-2020	2021-2025
	100,000	Sep 2015	$1.14	100%	-	2016-2021	2022-2026
	100,000	Sep 2016	-	-	-	2017-2022	2023-2027
	100,000	Sep 2017	-	-	-	2018-2023	2024-2028
	100,000	Sep 2018	-	-	-	2019-2024	2025-2029
Total	1,000,000						
Anna Shaw	-	-	-	-	-	-	-

* The percentage forfeited in the year represents the reduction from the maximum number of options available to vest due to performance criteria not being achieved.

ANALYSIS OF MOVEMENTS IN OPTIONS

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person is detailed below.

	Value of options granted in year)	Value of options exercised in year	Number of options lapsed in year
Mike Parsell	-	-	-
Phil Taylor	-	-	-
Galina Hirtzel	NZ$16,200	-	-
Anna Shaw	-	-	-

The value of options granted in the year is the fair value of the options calculated at grant date using the Binomial option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 1 to 5).

The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option. The number of the options that lapsed during the year was nil.

PAYMENTS TO PERSONS BEFORE TAKING OFFICE

No payments were made to any person as consideration for the person agreeing to hold office.

RELATED PARTY TRANSACTIONS

As part of the reorganisation, Michael Hill International Limited acquired 100% of the share capital in Durante Holdings Pty Ltd (a company controlled by interests associated with the Hill Family which held 52.89% of the shares on issue in MHNZ). Durante Holdings Pty Ltd has been consolidated as a fully controlled subsidiary in accordance with the accounting policy described in note 2(b).

This Directors' Report is made out in accordance with a resolution of the Directors.

Emma Hill
Chair
Brisbane
18 August 2016

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AUDITOR'S INDEPENDENCE DECLARATION TO MICHAEL HILL INTERNATIONAL LIMITED

As lead auditor for the audit of Michael Hill International Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Michael Hill International Limited and the entities it controlled during the financial year.

Ernst & Young

Alison de Groot
Partner
Brisbane
18 August 2016

Financial Statements

The Directors are pleased to present the financial statements of Michael Hill International Limited for the year ended 30 June 2016. The Board of Directors of Michael Hill International Limited authorised these financial statements for issue on 18 August 2016.

Emma Hill
Chair

Statement of comprehensive income FOR THE YEAR ENDED 30 JUNE 2016

	NOTES	2016 $000	2015 $000
Revenue from continuing operations	6	**551,127**	503,370
Other income	7	**555**	2,259
Cost of goods sold		**(197,302)**	(181,135)
Employee benefits expense		**(144,724)**	(130,937)
Occupancy costs	8	**(54,238)**	(50,640)
Marketing expenses		**(30,158)**	(31,906)
Selling expenses		**(24,621)**	(22,748)
Depreciation and amortisation expense	8	**(18,760)**	(15,738)
Loss on disposal of property, plant and equipment	8	**(328)**	(204)
Other expenses		**(33,910)**	(30,211)
Finance costs	8	**(6,107)**	(4,708)
Profit before income tax		**41,534**	37,402
Income tax expense	9	**(21,957)**	(9,648)
Profit for the year		**19,577**	27,754
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges		**(116)**	(491)
Currency translation differences arising during the year		**(3,443)**	2,115
Other comprehensive income for the year, net of tax		**(3,559)**	1,624
Total comprehensive income for the year		**16,018**	29,378

Total comprehensive income for the year is attributable to:			
Owners of Michael Hill International Limited		**16,018**	29,378
Earnings per share attributable to the ordinary equity holders of the Company during the year, attributable to continuing operations:			
Basic earnings per share	30	**5.11¢**	7.24¢
Diluted earnings per share	30	**5.09¢**	7.22¢

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

Statement of financial position AS AT 30 JUNE 2016

	NOTES	2016 $000	2015 $000
ASSETS			
Current assets			
Cash and cash equivalents	10	**8,853**	6,797
Trade and other receivables	11	**26,263**	20,575
Inventories	12	**199,961**	182,232
Current tax receivables	13	**-**	11,376
Other current assets	14	**5,035**	7,427
Total current assets		**240,112**	228,407
Non-current assets			
Trade and other receivables	15	**325**	422
Property, plant and equipment	16	**71,933**	64,845
Deferred tax assets	17	**64,074**	48,381
Intangible assets	18	**5,561**	6,491
Other non-current assets	19	**2,192**	2,467
Total non-current assets		**144,085**	122,606
Total assets		**384,197**	351,013
LIABILITIES			
Current liabilities			
Trade and other payables	20	**46,377**	43,739
Current tax liabilities	21	**25,022**	-
Provisions	22	**4,902**	4,624
Deferred revenue	23	**24,685**	21,516
Total current liabilities		**100,986**	69,879
Non-current liabilities			
Borrowings	24	**40,887**	45,116
Provisions	25	**5,198**	4,254
Deferred revenue	26	**50,725**	44,143
Total non-current liabilities		**96,810**	93,513
Total liabilities		**197,796**	163,392
Net assets		**186,401**	187,621
EQUITY			
Contributed equity	27	**3,767**	3,760
Reserves	28	**4,131**	7,445
Retained profits	28	**178,503**	176,416
Total equity		**186,401**	187,621

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

Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2016

Attributable to members of Michael Hill International Limited	Notes	Contributed equity	Options reserve	Foreign currency translation reserve	Cash flow hedge reserve	Retained profits	Total equity
		$000	$000	$000	$000	$000	$000
Balance at 1 July 2014		3,651	1,918	4,155	(277)	171,838	181,285
Profit for the year		-	-	-	-	27,754	27,754
Currency translation differences		-	-	2,115	-	-	2,115
Currency forward contracts		-	-	-	77	-	77
Interest rate swaps		-	-	-	(568)	-	(568)
Total comprehensive income		-	-	2,115	(491)	27,754	29,378
Transactions with owners in their capacity as owners:							
Dividends paid	29	-	-	-	-	(23,176)	(23,176)
Employee shares issued	33(b)	109	-	-	-	-	109
Option expense through share based payments reserve	33(c)	-	162	-	-	-	162
Forfeiture of issued options	33(c)	-	(137)	-	-	-	(137)
		109	25	-	-	(23,176)	(23,042)
Balance at 30 June 2015		3,760	1,943	6,270	(768)	176,416	187,621
Profit for the year		-	-	-	-	19,577	19,577
Currency translation differences		-	-	(3,443)	-	-	(3,443)
Currency forward contracts		-	-	-	360	-	360
Interest rate swaps		-	-	-	(476)	-	(476)
Total comprehensive income		-	-	(3,443)	(116)	19,577	16,018
Transactions with owners in their capacity as owners:							
Dividends paid	29	-	-	-	-	(17,490)	(17,490)
Cancellation of treasury stock	33(b)	7	-	-	-	-	7
Option expense through share based payments reserve	33(c)	-	132	-	-	-	132
Forfeiture of issued options - reversal	33(c)	-	113	-	-	-	113
		7	245	-	-	(17,490)	(17,238)
Balance at 30 June 2016		3,767	2,188	2,827	(884)	178,503	186,401

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

Cash flow statement FOR THE YEAR ENDED 30 JUNE 2016

	NOTES	2016 $000	2015 $000
Cash flows from operating activities			
Receipts from customers (inclusive of GST and sales taxes)		**617,024**	566,544
Payments to suppliers and employees (inclusive of GST and sales taxes)		**(521,904)**	(462,663)
		95,120	103,881
Interest received		**583**	49
Other revenue		**555**	477
Interest paid		**(5,950)**	(4,626)
Income tax paid		**(2,257)**	(9,105)
Net GST and sales taxes paid		**(40,257)**	(36,110)
Net cash inflow / (outflow) from operating activities	34	**47,794**	54,566
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**213**	283
Payments for property, plant and equipment		**(22,949)**	(20,190)
Payments for intangible assets		**(1,600)**	(1,925)
Net cash inflow / (outflow) from investing activities		**(24,336)**	(21,832)
Cash flows from financing activities			
Proceeds from borrowings		**124,500**	68,507
Repayments of borrowings		**(128,500)**	(79,500)
Proceeds from sale of treasury stock		**-**	98
Dividends paid to Company's shareholders	29	**(17,490)**	(23,176)
Net cash inflow / (outflow) from financing activities		**(21,490)**	(34,071)
Net increase / (decrease) in cash and cash equivalents		**1,968**	(1,337)
Cash and cash equivalents at the beginning of the year		**6,797**	8,109
Effects of exchange rate changes on cash and cash equivalents		**88**	25
Cash and cash equivalents at the end of the financial year	10	**8,853**	6,797

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

Notes to the financial statements FOR THE YEAR ENDED 30 JUNE 2016

NOTE 1 Corporate information

The consolidated financial statements of Michael Hill International Limited and its subsidiaries (collectively, the Group) for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the directors on 18 August 2016. Michael Hill International Limited (the Company or Parent) is a for profit company limited by shares incorporated in Australia. The Company listed on the Australian Securities Exchange ('ASX') on 7 July 2016 as its primary listing, and maintains a secondary listing on the New Zealand Stock Exchange ('NZX').

Until 23 June 2016, Michael Hill New Zealand Limited (formerly known as Michael Hill International Limited) was the parent of the Group. Until that time, Michael Hill New Zealand Limited was a public company registered under the Companies Act 1993 and remains domiciled in New Zealand. Michael Hill New Zealand Limited had its primary listing on the New Zealand Stock Exchange. The listing was suspended on 22 June 2016 as part of the scheme of arrangement to move the primary listing to the ASX.

Michael Hill International Limited obtained control of the former parent, Michael Hill New Zealand Limited (formerly known as Michael Hill International Limited) on 23 June 2016. The reason for obtaining control was the move to the ASX. Michael Hill International Limited issued equity in exchange for the equity of Michael Hill New Zealand Limited. The assets and liabilities of the new group and the original group were the same immediately before and after the reorganisation. The owners of the original parent before the reorganisation had the same absolute and relative interests in the new assets of the original group and the new group immediately before and after the reorganisation. As it was a common control transaction, it is outside the scope of AASB 3 Business Combinations. The transaction is accounted for as a group reorganisation by applying the principles of reverse acquisition accounting. The Group financial statements represent a continuation of the original group.

As part of the reorganisation, Michael Hill International Limited acquired 100% of the share capital in Durante Holdings Pty Ltd (a company controlled by interests associated with the Hill Family which held 52.89% of the shares on issue in Michael Hill New Zealand Limited). Durante Holdings Pty Ltd has been consolidated as a fully controlled subsidiary in accordance with the accounting policy described in note 2(b).

NOTE 2 Summary of significant accounting policies

(a) BASIS OF PREPARATION

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

Prior to the change in parent, as described in note 1, the financial statements were prepared in accordance with New Zealand Generally Accepted Account Practice (NZ GAAP). They complied with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities. They also complied with the requirements of the Financial Reporting Act 2013, Financial Markets Conduct Act 2013 and the Companies Act 1993. There has been no significant changes in the statement of comprehensive income or statement of financial position as a result of the change.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand ($'000), except when otherwise indicated.

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements provide comparative information in respect of the previous period.

Compliance with IFRS

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(b) PRINCIPLES OF CONSOLIDATION

Subsidiaries

Subsidiaries are all those entities (including special purpose entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

As described in note 1, the Group inserted a new parent during the year. As it was a common control transaction, it is outside the scope of AASB 3 Business Combinations. The transaction is accounted for as a group reorganisation by applying the principles of reverse acquisition accounting. The Group financial statements represent a continuation of the original group.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income. Investments in subsidiaries are accounted for at cost in the individual financial statements of Michael Hill International Limited.

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

Michael Hill Trustee Company Limited was formed to administer the Group's Employee Share Scheme. Shares held by the Trust are disclosed as treasury shares and deducted from contributed equity. All treasury shares on hand at 24 June 2016 were cancelled as part of the move to the Australian Securities Exchange.

(c) SEGMENT REPORTING

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

(d) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Group financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances

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

(iii) Group companies

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- income and expenses for each profit and loss component of the statement of comprehensive income are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and
- all resulting exchange differences are recognised as other comprehensive income.

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

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

(e) REVENUE RECOGNITION

(i) Sales of goods - retail

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

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

(ii) Rendering of services - deferred service revenue

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

(iii) Rendering of services - repairs

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

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

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

(v) **Interest income**

Interest income is recognised using the effective interest method.

(f) TAXES

Current income tax

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

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

Current 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 income tax

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.

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.

Tax consolidation group

Michael Hill International Limited and its wholly-owned Australian controlled entities formed a tax consolidation group on 29 June 2016. As a consequence, one income tax return is completed for the Australian tax group and is treated for income tax purposes as one taxpayer.

Formerly, Michael Hill Jeweller (Australia) Pty Ltd and all wholly-owned Australian controlled entities formed the Australian tax consolidation group who completed one income tax return and was treated for income tax purposes as one taxpayer.

The tax balances have been attributed for reporting purposes to each of the entities on the basis of their individual results. Amounts of tax due to and receivable from the Australian Taxation Office are made by Michael Hill International Limited as the nominated member of the Australian tax consolidated group. The current tax balance for the Australian tax group has been allocated between the members based on each entity's current tax movement for the period. Where tax losses are incurred by Australian tax group members, these are offset within the group without payment.

As a result of the formation of the Australian tax consolidated group, the general income tax consolidation provisions apply relating to the setting of the tax cost base of the assets of the subsidiary members of the tax consolidated group. This includes resetting of the tax cost base of the assets of the Australian group including intellectual property, depreciating assets and trading stock. The resetting of the tax bases resulted in recognition of a deferred tax asset amounting to $19,438,000.

(g) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable; or
- When receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cashflows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

(h) LEASES

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

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

(i) 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 pre-tax discount rates used in determining the recoverable amount ranged between 10.3% and 13.3% (2015: 10.2% and 11.9%), depending on the geographical segment of the assets.

(j) CASH AND CASH EQUIVALENTS

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

(k) TRADE AND OTHER RECEIVABLES

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

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impaired receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the statement of comprehensive income.

(l) DEFERRED EXPENDITURE

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

(m) 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.

(n) INVESTMENTS AND OTHER FINANCIAL ASSETS

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

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

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

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

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

(o) DERIVATIVES

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

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

The fair values of various derivative financial instruments used for hedging purposes are:

(i) **Fair value hedge**

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

(ii) **Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss within other income or other expenses.

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

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

(p) 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.

(q) 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 2(i)).

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

(r) INTANGIBLE ASSETS

Computer software

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

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

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

(s) 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. The accounting policy used to recognise the revenue is detailed in note 2(e)(ii).

(t) 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.

(u) 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.

(v) 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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) **Retirement benefit obligations**

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

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

(iv) **Share-based payments**

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

The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date for options issued during 2016 were independently determined using a Binomial option pricing model, which is an iterative model for options that can be exercised at times prior to expiry. The model takes into account the grant date, exercise price, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. It also assumes the options will be exercised at the mid-point of the exercise period.

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

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

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

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

(w) 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.

(x) 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.

(y) 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.

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

Certain new standards, amendments and interpretations of existing standards have been published that are not mandatory for 30 June 2016 reporting periods.

AASB 9 Financial Instruments: Classification and measurement (effective 1 January 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 but is available for early adoption. The Group has not yet assessed the potential impact of this change.

AASB 15 Revenue from Contracts with Customers (effective 1 January 2018)

AASB 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. AASB 15 supersedes:

(a) AASB 111 Construction Contracts;
(b) AASB 118 Revenue;
(c) Interpretation 13 Customer Loyalty Programmes;
(d) Interpretation 15 Agreements for the Construction of Real Estate;
(e) Interpretation 18 Transfers of Assets from Customers;
(f) Interpretation 131 Revenue - Barter Transactions Involving Advertising Services; and
(g) Interpretation 1042 Subscriber acquisition costs in the Telecommunications Industry.

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

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

AASB 16 Leases (effective 1 January 2019)

AASB 16 addresses the recognition and measurement of assets and liabilities for all leases with a term of more than 12 months, unless they are of low value. It also contains the disclosure requirements for lessees and lessors. AASB 16 supersedes:

(a) AASB 117 Leases;
(b) Interpretation 4 Determining whether an Arrangement contains a Lease;
(c) SIC-15 Operating Leases - Incentives; and
(d) SEC-27 Evaluating the Substance of Transactions involving the Legal Form of a Lease.

The standard is not applicable until 1 January 2019 but is available for early adoption provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as AASB 16. The Group has not yet assessed the potential impact of this change.

NOTE 3 Financial risk management

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

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

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

(a) MARKET RISK

(i) Foreign exchange risk

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

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

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

The cash flow hedges of the expected future purchases were assessed to be highly effective and a net unrealised gain of $360,000 (2015: $77,000 gain) is included in Other comprehensive income. Fair value gain adjustments are included in Trade and other receivables. Fair value loss adjustments are included in Trade and other payables.

Forward exchange contracts - cash flow hedges

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

	Sell Australian dollars		**Average exchange rate**	
	2016 US$000	**2015** US$000	**2016**	**2015**
Buy US Dollars				
Maturity 0 - 3 months	**11,000**	2,810	0.7608	0.7800
Maturity 3 - 6 months	**4,000**	-	0.7459	-
	15,000	2,810		

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

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

	30 June 2016			**30 June 2015**		
	USD $000	**NZD** $000	**CAD** $000	**USD** $000	**NZD** $000	**CAD** $000
Cash and cash equivalents	**11**	**37**	**30**	30	80	106
Trade receivables	**2,967**	**-**	**10**	1,392	-	-
Trade payables	**867**	**3**	**60**	2,590	7	102

Group sensitivity

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

Based on the USD trade payables due for payment at 30 June 2016, had the Australian dollar weakened/strengthened by 10% against the USD with all other variables held constant, the Group's equity for the year would have been $130,000 lower / $107,000 higher (2015: $377,000 lower / $308,000 higher).

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

Based on the USD receivables at 30 June 2016, had the Australian dollar weakened/strengthened by 10% against the USD with all other variables held constant, the Group's equity for the year would have been $446,000 higher / $365,000 lower (2015: $203,000 higher / $166,000 lower).

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

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

The Group's main interest rate risk arises from long-term borrowings and cash. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain fixed interest cover of between 50% and 100% of core debt up to 12 months, between 50% and 75% of core debt between 1 and 3 years, and between 25% and 50% of core debt between 3 and 5 years.

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

	30 June 2016 Weighted average interest rate %	Balance $000	**30 June 2015** Weighted average interest rate %	Balance $000
Variable rate fully drawn down advance facility	**2.64%**	**40,887**	2.84%	45,116

An analysis by maturity and a summary of the terms and conditions is in note 24.

In order to reduce the variability of the future cash flows in relation to the interest bearing loans, the Group has entered into Australian dollar interest rate swap contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates. Swaps in place cover approximately 85.6% (2015: 55.4%) of the variable rate principal outstanding.

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

The cash flow hedges were assessed to be highly effective and a net realised loss of $476,000 (2015: $568,000) is included in Other comprehensive income. Fair value gain adjustments are included in Trade and other receivables. Fair value loss adjustments are included in Trade and other payables.

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

GROUP	**Rate** %	**2016** $000	**2015** $000
Swap terminating 1 July 2016	**3.29**	**5,000**	5,000
Swap terminating 1 September 2017	**3.46**	**5,000**	5,000
Swap terminating 1 May 2018	**3.58**	**5,000**	5,000
Swap terminating 12 September 2018	**3.44**	**5,000**	5,000
Swap terminating 1 October 2018	**2.30**	**5,000**	-
Swap terminating 12 September 2019	**3.60**	**5,000**	5,000
Swap terminating 1 October 2019	**2.43**	**5,000**	-
		35,000	25,000

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

Group sensitivity
At 30 June 2016, if interest rates had changed by -/+ 100 basis points from the year end rates with all other variables held constant, the Group's equity for the year would have been $409,000 higher / lower (2015: $451,000 higher / lower), mainly as a result of lower / higher interest expense on variable borrowings. All other non-derivative financial liabilities have a contractual maturity of less than 6 months.

(b) CREDIT RISK

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

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

An impairment analysis is performed at each reporting date. The maximum exposure to credit risk is the carrying value of in-house customer finance program as disclosed in note 11. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low.

(c) LIQUIDITY RISK

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

Please see note 24 for more information on the Group's borrowings, financing arrangements and interest rate exposures.

(d) CAPITAL RISK MANAGEMENT

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

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

NOTE 4 Critical accounting estimates and assumptions

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

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

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with the assistance of an external valuer using the Binomial model. The related assumptions are detailed in note 33. 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.

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 22 and note 25.

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

CRITICAL JUDGEMENTS IN APPLYING THE ENTITY’S ACCOUNTING POLICIES

Revenue recognition
Professional care plan revenue is recognised as sales revenue in the statement of comprehensive income. Management judgement is required to determine the amount of service revenue that can be recognised based on the usage pattern

of PCPs and general information obtained on the operation of service plans in other markets. Those direct and incremental bonuses associated with the sale of these plans are deferred and amortised in proportion to the revenue recognised. Management reviews trends in current and estimated future services provided under the plan to assess whether changes are required to the revenue and cost recognition rates used.

Due to management reviews conducted during the year, an adjustment to the revenue recognition pattern has been deemed necessary. As a result of this, an additional $2,214,000 has been recognised as revenue in the current financial year. Of this, $138,000 relates to the current financial year, and $2,076,000 relates to prior financial years. The change in estimate will result in lower revenue in future periods by the corresponding amount.

Taxation and recovery of deferred tax assets

The Group is subject to income taxes in Australia 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.

NOTE 5 Segment information

Identification and description of segments

Management have determined the operating segments based on the reports reviewed by the Board and Executive Team that are used to make strategic decisions. This definition was updated after it was announced on 10 June 2016 that the Emma & Roe brand was moving from the trial phase into growth mode. Prior year comparatives were also restated in line with the updated definition.

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

The amounts provided to the Board and Executive Team in respect of total assets and liabilities are measured in a manner consistent with the financial statements. These reports do not allocate total assets or total liabilities based on the operations of each segment or by geographical location.

The Group operates in four geographical segments: Australia, New Zealand, Canada and the United States of America (see note 32).

The corporate and other segment includes revenue and expenses that do not relate directly to the relevant Michael Hill or Emma & Roe retail segments. These predominately relate to corporate costs and Australian based support costs, but also include the trading activity through our online presence, manufacturing activities, warehouse and distribution, interest and company tax. Inter-segment pricing is at arm's length or market value.

Types of products and services

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

Major customers

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

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period.

SEGMENT INFORMATION BY BRAND

for the period ended 30 June 2016	Michael Hill $000	Emma & Roe $000	Corporate & other $000	Group $000
Operating revenue	536,424	9,347	5,356	551,127
EBITDA	96,840	(1,817)	(29,205)	65,818
Depreciation and amortisation	(14,733)	(611)	(3,416)	(18,760)
EBIT	82,107	(2,428)	(32,621)	47,058
Interest income	-	-	583	583
Finance costs	(149)	(14)	(5,944)	(6,107)
Net profit before tax	81,958	(2,442)	(37,982)	41,534
Income tax expense				(21,957)
Net profit after tax				19,577
for the period ended 30 June 2015				
Operating revenue	495,580	4,879	2,911	503,370
EBITDA	84,621	(2,539)	(24,283)	57,799
Depreciation and amortisation	(12,766)	(345)	(2,627)	(15,738)
EBIT	71,855	(2,884)	(26,910)	42,061
Interest income	-	-	49	49
Finance costs	(135)	8	(4,581)	(4,708)
Net profit before tax	71,720	(2,876)	(31,442)	37,402
Income tax expense				(9,648)
Net profit after tax				27,754

MICHAEL HILL RETAIL SEGMENT INFORMATION BY COUNTRY

for the period ended 30 June 2016	MHJ Australia $000	MHJ New Zealand $000	MHJ Canada $000	MHJ United States $000	Michael Hill $000
Segment operating revenue	307,333	112,473	97,322	19,296	536,424
Segment EBITDA	57,540	27,729	13,475	(1,904)	96,840
Segment depreciation and amortisation	(7,201)	(2,542)	(3,753)	(1,237)	(14,733)
Segment EBIT	50,339	25,187	9,722	(3,141)	82,107
Segment EBIT as a % of revenue	16.4%	22.4%	10.0%	(16.3%)	15.3%
Segment finance costs	(135)	(12)	-	(2)	(149)
Segment net profit before tax	50,204	25,175	9,722	(3,143)	81,958
for the period ended 30 June 2015					
Segment operating revenue	294,442	106,180	81,348	13,610	495,580
Segment EBITDA	52,492	24,434	9,289	(1,594)	84,621
Segment depreciation and amortisation	(6,559)	(2,496)	(2,963)	(748)	(12,766)
Segment EBIT	45,933	21,938	6,326	(2,342)	71,855
Segment EBIT as a % of revenue	15.6%	20.7%	7.8%	(17.2%)	14.5%
Segment finance costs	(96)	(37)	(2)	-	(135)
Segment net profit before tax	45,837	21,901	6,324	(2,342)	71,720

Notes to the financial statements cont. FOR THE YEAR ENDED 30 JUNE 2016

NOTE 6 Revenue

	2016 $000	2015 $000
From continuing operations:		
Sales revenue		
Revenue from sale of goods and repair services	**517,820**	476,253
Revenue from professional care plans	**30,758**	25,208
Interest and other revenue from in-house customer finance program	**1,966**	1,860
	550,544	503,321
Other revenue		
Interest income	**583**	49
	551,127	503,370

NOTE 7 Other income

	2016 $000	2015 $000
Insurance recoveries	**102**	137
Net foreign exchange gains (Net foreign exchange losses in 2016)	**-**	1,783
Other income	**453**	339
	555	2,259

NOTE 8 Expenses

	2016 $000	2015 $000
Profit before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	**3,681**	3,499
Furniture and fittings	**3,498**	2,987
Motor vehicles	**214**	212
Leasehold improvements	**7,126**	5,826
Display materials	**1,720**	1,354
Total depreciation	**16,239**	13,878
Amortisation – software	**2,521**	1,860
Total depreciation and amortisation	**18,760**	15,738
Bank and interest charges	**2,793**	3,508
Interest expense - make good provision	**161**	127
Interest paid in regards to tax pooling arrangement	**3,153**	1,073
Total finance costs	**6,107**	4,708
Net foreign exchange losses (Net foreign exchange gains in 2015)	**352**	-

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:

	2016 $000	2015 $000
(a) Assurance services - audit services		
Ernst & Young Australian firm audit and review of financial reports	**367**	337
Grant Thornton New Zealand firm audit of ordinary shares register	**2**	2
Total remuneration for assurance services	**369**	339
(b) Advisory services		
Ernst & Young Australian firm advisory fees	**50**	5
	419	344

NOTE 9 Income tax expense

	2016 $000	2015 $000
(a) Income tax expense		
Current tax	**12,139**	7,139
Deferred tax	**332**	1,532
Over provided in prior years	**(65)**	(24)
Derecognised tax losses	**208**	1,001
Tax consolidation cost base adjustments (see note 2(f))	**(19,439)**	-
Inland Revenue tax settlement provision	**28,782**	-
Income tax expense	**21,957**	9,648
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**41,534**	37,402
Tax at the Australian tax rate of 30% (2015: at the NZ tax rate of 28%)	**12,460**	10,473
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non deductible entertainment expenditure	**178**	171
Non deductible legal expenditure	**89**	98
Debt deduction denied	**-**	28
Share of partnership	**(515)**	(3,601)
Unrealised foreign exchange loss not included in accounting profit	**(500)**	39
Sundry items	**1**	3
Tax consolidation cost base adjustments	**(19,439)**	-
Inland Revenue tax settlement provision	**28,782**	-
	21,056	7,211
Difference in overseas tax rates	**(414)**	325
Over provided in prior years	**(65)**	(24)
Tax losses not recognised	**1,380**	2,136
Income tax expense	**21,957**	9,648
(c) Tax losses		
Unused United States tax losses for which no deferred tax has been recognised	**15,199**	10,451
Potential tax benefit @ 40%	**6,079**	4,181
Unused New Zealand tax losses for which no deferred tax has been recognised	**413**	4,330
Potential tax benefit @ 28%	**116**	1,212

NOTE 10 Current assets - Cash and cash equivalents

	2016 $000	2015 $000
Cash at bank and on hand	**8,853**	6,797

Interest rates for the bank accounts have been between 0.00% and 1.15% during the year (2015: between 0.00% and 4.00%).

NOTE 11 Current assets - Trade and other receivables

	2016 $000	2015 $000
Trade receivables	**4,533**	4,917
Provision for impaired receivables	**(675)**	(455)
	3,858	4,462
In-house customer finance	**13,911**	11,881
Provision for impaired receivables	**(879)**	(751)
	13,032	11,130
Other receivables		
Sundry debtors	**8,923**	4,923
Financial assets*	**450**	60
	9,373	4,983

*See note 3 for more information on derivative contracts.

(a) Impaired trade receivables

Trade receivables from sales made to customers through third party credit providers are non-interest bearing and are generally on 0-30 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $252,000 (2015: $452,000) has been recognised by the Group. All trade receivables related to third party credit providers past 90 days have been impaired.

At 30 June 2016, the ageing analysis of trade receivables related to third party credit providers is as follows:

	2016 $000	2015 $000
0 - 30 days	**3,600**	4,271
31 - 60 days	**243**	188
61 - 90 days	**107**	32
91 + days	**583**	426
	4,533	4,917

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

Opening balance	**455**	731
Amounts written off	**(252)**	(452)
Additional provisions recognised	**468**	178
Exchange differences	**4**	(2)
	675	455

(b) In-house customer finance

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

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

NOTE 11 continued

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

	2016 $000	2015 $000
Performing:		
Current, aged 0 - 30 days	**13,437**	11,564
Past due, aged 31 - 90 days	**397**	364
Non performing:		
Past due, aged more than 90 days	**424**	404
	14,258	12,332

Ageing has been calculated with reference to payment due dates.

This has been disclosed as:		
Current receivables	**13,911**	11,881
Non-current receivables	**347**	451
	14,258	12,332

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

	2016 $000	2015 $000
Opening balance	**780**	675
Amounts written off	**(1,814)**	(1,407)
Additional provisions recognised	**1,945**	1,446
Exchange differences	**(10)**	66
	901	780

This has been disclosed as:		
Current receivables	**879**	751
Non-current receivables	**22**	29
	901	780

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

(c) Other receivables

Other receivables relate to supplier credits, security deposits, revaluation of derivatives and other sundry receivables.

(d) Effective interest rates

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

NOTE 12 Current assets - Inventories

	2016 $000	**2015** $000
Raw materials	**7,461**	7,128
Finished goods	**188,723**	172,827
Packaging and other consumables	**3,777**	2,277
	199,961	182,232

All inventories are held at cost.

NOTE 13 Current assets - Current tax receivables

	2016 $000	**2015** $000
Income tax (Current tax liability in 2016)	**-**	11,376

NOTE 14 Current assets - Other current assets

	2016 $000	**2015** $000
Prepayments	**4,050**	3,192
Deferred expenditure	**985**	1,092
Tax pool deposits	**-**	3,143
	5,035	7,427

Tax pooling deposits have been applied to the estimated IR tax settlement liability provided for in Current tax liabilities (see note 21).

NOTE 15 Non-current assets - Trade and other receivables

	2016 $000	**2015** $000
In-house customer finance	**347**	451
Provision for impaired receivables	**(22)**	(29)
	325	422

Notes to the financial statements cont. FOR THE YEAR ENDED 30 JUNE 2016

NOTE 16 Non-current assets - Property, plant and equipment

	Plant and equipment $000	Fixtures and fittings $000	Motor vehicles $000	Leasehold improvements $000	Display materials $000	Total $000
At 1 July 2014						
Cost	24,587	21,092	1,000	55,665	10,076	112,420
Accumulated depreciation	(14,465)	(10,392)	(553)	(27,010)	(4,600)	(57,020)
Net book amount	10,122	10,700	447	28,655	5,476	55,400
Year ended 30 June 2015						
Opening net book amount	10,122	10,700	447	28,655	5,476	55,400
Exchange differences	264	139	3	1,083	182	1,671
Additions	5,696	5,631	363	5,917	2,583	20,190
Additions - make good asset	-	-	-	2,116	-	2,116
Disposals	(154)	(62)	(91)	(171)	(8)	(486)
Reclassification to intangible assets	(10)	1	-	-	-	(9)
Depreciation charge	(3,499)	(2,987)	(212)	(5,826)	(1,354)	(13,878)
Impairment charge	(29)	(23)	-	(107)	-	(159)
Closing net book amount	12,390	13,399	510	31,667	6,879	64,845
At 30 June 2015						
Cost	29,856	26,393	953	63,697	12,576	133,475
Accumulated depreciation	(17,466)	(12,994)	(443)	(32,030)	(5,697)	(68,630)
Net book amount	12,390	13,399	510	31,667	6,879	64,845
Year ended 30 June 2016						
Opening net book amount	12,390	13,399	510	31,667	6,879	64,845
Exchange differences	51	101	12	117	19	300
Additions	4,350	4,865	367	10,730	2,637	22,949
Additions - make good asset	-	-	-	713	-	713
Disposals	(218)	(65)	(141)	(71)	(44)	(539)
Depreciation charge	(3,681)	(3,498)	(214)	(7,126)	(1,720)	(16,239)
Impairment charge	(20)	(39)	-	(37)	-	(96)
Closing net book amount	12,872	14,763	534	35,993	7,771	71,933
At 30 June 2016						
Cost	33,203	30,206	930	72,926	12,767	150,032
Accumulated depreciation	(20,331)	(15,443)	(396)	(36,933)	(4,996)	(78,099)
Net book amount	12,872	14,763	534	35,993	7,771	71,933

NOTE 17 Non-current assets - Deferred tax assets

	2016 $000	2015 $000
The balance comprises temporary differences attributable to:		
Doubtful debts	**391**	298
Fixed assets and intangibles	**1,414**	2,664
Intangible assets from intellectual property transfer	**30,304**	33,873
Deferred expenditure	**(841)**	(932)
Prepayments	**(1)**	(53)
Deferred service revenue	**4,400**	4,408
Unearned income	**888**	769
Employee benefits	**2,597**	2,437
Retirement benefit obligations	**789**	692
Provision for warranties and legal costs	**722**	739
Straight-line lease provision	**1,401**	1,501
Other provisions	**2,371**	1,988
Unrealised foreign exchange losses	**(17)**	(3)
Sundry items	**217**	-
Tax consolidation cost base adjustments	**19,439**	-
Net deferred tax assets	**64,074**	48,381
Movements:		
Opening balance at 1 July	**48,381**	62,324
Credited / (charged) to the income statement (note 9)	**19,107**	(1,532)
Prior year adjustment - deferred service revenue	**-**	(9,300)
Prior year adjustment - other	**(65)**	(41)
Losses utilised	**-**	(155)
Derecognised tax losses	**-**	(1,001)
Foreign exchange differences	**(3,349)**	(1,914)
Closing balance at 30 June	**64,074**	48,381
Expected settlement:		
Within 12 months	**14,943**	6,852
In excess of 12 months	**49,131**	41,529
	64,074	48,381

NOTE 18 Non-current assets - Intangible assets

	Patents, trademarks and other rights $000	Computer software $000	Total $000
At 1 July 2014			
Cost	24	13,206	13,230
Accumulated amortisation	-	(6,817)	(6,817)
Net book amount	24	6,389	6,413
Year ended 30 June 2015			
Opening net book amount	24	6,389	6,413
Exchange differences	1	4	5
Additions	54	1,871	1,925
Disposals	-	(1)	(1)
Reclassification from property, plant and equipment	-	9	9
Amortisation charge*	-	(1,860)	(1,860)
Closing net book amount	79	6,412	6,491
At 30 June 2015			
Cost	79	15,085	15,164
Accumulated amortisation	-	(8,673)	(8,673)
Net book amount	79	6,412	6,491
Year ended 30 June 2016			
Opening net book amount	79	6,412	6,491
Exchange differences	-	(6)	(6)
Additions	-	1,600	1,600
Disposals	-	(2)	(2)
Amortisation charge*	-	(2,521)	(2,521)
Impairment	-	(1)	(1)
Closing net book amount	79	5,482	5,561
At 30 June 2016			
Cost	79	16,675	16,754
Accumulated amortisation	-	(11,193)	(11,193)
Net book amount	79	5,482	5,561

*Amortisation of $2,521,000 (2015: $1,860,000) is included in depreciation and amortisation expense in the statement of comprehensive income.

NOTE 19 Non-current assets - Other non-current assets

	2016 $000	2015 $000
Deferred expenditure	**2,038**	2,253
Prepayments	**154**	214
	2,192	2,467

NOTE 20 Current liabilities - Trade and other payables

	2016 $000	2015 $000
Trade payables	**23,734**	24,505
Annual leave liability	**7,725**	7,354
Accrued expenses	**8,553**	5,772
Financial liabilities*	**1,333**	828
Other payables	**5,032**	5,280
	46,377	43,739

*See note 3 for more information on derivative contracts.

NOTE 21 Current liabilities - Current tax liabilities

	2016 $000	2015 $000
Income tax (Current tax receivable in 2015)	**25,022**	-

Tax pooling deposits of NZ$7.7m have been applied to the estimated IR tax settlement liability (see note 37). These were previously accounted for as tax pool deposits, included in Other current assets (see note 14).

NOTE 22 Current liabilities - Provisions

	2016 $000	2015 $000
Employee benefits - long service leave	**2,081**	1,704
Returns provision	**2,609**	2,818
Make good provision	**212**	102
	4,902	4,624

(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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(b) Returns provision

Provision is made for the estimated sale returns for the Group's return policies, being 30 day change of mind, 12 month guarantee on the quality of workmanship and the 3 year watch guarantee. In addition, all Michael Hill watches are sold with a lifetime battery replacement guarantee. Management estimates the provision based on historical sale return information and any recent trends that may suggest future claims could differ from historical amounts.

(c) Make good provision

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

(d) Movements in provisions

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

	Employee benefits $000	Returns provision $000	Make good provision $000	Total $000
Carrying amount at the start of the year	1,704	2,818	102	4,624
Additional provisions recognised	671	2,611	458	3,740
Amounts incurred and charged	(297)	(2,817)	(350)	(3,464)
Exchange differences	3	(3)	2	2
Carrying amount at the end of the year	2,081	2,609	212	4,902

NOTE 23 Current liabilities - Deferred revenue

	2016 $000	2015 $000
Deferred service revenue	**23,421**	20,504
Lease incentive income	**1,006**	731
Deferred interest free revenue	**258**	281
	24,685	21,516

NOTE 24 Non-current liabilities - Borrowings

	2016 $000	2015 $000
Bank loans	**40,887**	45,116
Total non-current borrowings	**40,887**	45,116

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

(a) Financing arrangements

The Group's objectives when managing capital are to ensure sufficient liquidity to support its financial obligations and execute the Group's operational and strategic plans. The Group continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. Accordingly, the Group entered into an agreement with ANZ on 24 June 2015 that provides for a $110,000,000 multi option borrowing facility, the availability of which is adjusted throughout the year in line with business requirements. At balance date, $70,000,000 was available, and of that, $40,887,000 was utilised.

The Group also has access to various uncommitted credit facility lines serving working capital needs that, at balance date, totalled $1,957,000. No amounts were drawn under these credit facility lines as at balance date.

(b) Interest rate risk exposures

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

Exposures arise predominantly from liabilities bearing variable interest rates. To manage this exposure the Group has taken out interest rate swaps, as described in note 3(a)(ii). The carrying amount of the fully drawn advance facility reflects fair value.

		FIXED INTEREST RATE				
	Floating interest rate	**Less than 6 months**	**6 - 12 months**	**Over 1 year less than 5 years**	**Over 5 years**	**Total**
	$000	$000	$000	$000	$000	$000
2016						
Variable rate fully drawn advance facility	40,887	-	-	-	-	40,887
Weighted average interest rate	2.64%	-	-	-	-	
2015						
Variable rate fully drawn advance facility	45,116	-	-	-	-	45,116
Weighted average interest rate	2.84%	-	-	-	-	

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

NOTE 25 Non-current liabilities - Provisions

	2016 $000	2015 $000
Employee benefits - long service leave	**1,789**	1,641
Make good provision	**3,409**	2,613
	5,198	4,254

(a) Employee benefits - long service leave

The basis used to measure the liability for long service leave is set out in note 22(a).

(b) Make good provision

The basis used to calculate the make good provision is set out in note 22(c).

(c) Movements in provisions

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

	Employee benefits $000	Make good provision $000	Total $000
Carrying amount at the start of the year	1,641	2,613	4,254
Additional provisions recognised	145	759	904
Exchange differences	3	37	40
Carrying amount at the end of the year	1,789	3,409	5,198

NOTE 26 Non-current liabilities - Deferred revenue

	2016 $000	2015 $000
Deferred service revenue	**48,201**	41,805
Lease incentive income	**2,509**	2,318
Deferred interest free revenue	**15**	20
	50,725	44,143

NOTE 27 Contributed equity

	PARENT		PARENT	
	2016 Shares	**2015** Shares	**2016** $000	**2015** $000
(a) Share capital: Ordinary shares				
Fully paid (b)	**383,138,513**	383,153,190	3,767	3,767
Treasury stock held for Employee Share Scheme (c)	**-**	(14,677)	-	(7)
	383,138,513	383,138,513	3,767	3,760

(b) Fully paid ordinary share capital				
Opening balance of ordinary shares issued	**383,153,190**	383,153,190	3,767	3,702
Issues of ordinary shares during the year				
Employee Share Scheme issue	**-**	96,907	-	109
Transfer from treasury stock	**-**	(96,907)	-	(44)
Cancellation of treasury stock	**(14,677)**	-	-	-
Closing balance of ordinary shares issued	**383,138,513**	383,153,190	3,767	3,767

Refer to note 1 for details of the change in parent company that occurred during the year.

(c) Treasury stock

Treasury shares were shares in Michael Hill New Zealand Limited (formerly known as Michael Hill International Limited) that were held by Michael Hill Trustee Company Limited for the purpose of issuing shares under the Michael Hill International Employee Share Scheme. As part of the reorganisation described in note 1, all shares not allocated to employees were cancelled on 24 June 2016 (see note 33).

	PARENT		PARENT	
	2016 Shares	**2015** Shares	**2016** $000	**2015** $000
Opening balance of treasury stock shares issued	**14,677**	111,584	7	51
Allocated to Employee Share Scheme	**-**	(96,907)	-	(44)
Cancelled shares	**(14,677)**	-	(7)	-
Closing balance of treasury stock shares issued	**-**	14,677	-	7

(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 previously issued under the scheme, is set out in note 33.

(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 33.

NOTE 28 Reserves and retained profits

Nature and purpose of reserves

(i) **Hedging reserve - cash flow hedges**
The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge. The amounts are recognised in the profit and loss component of the statement of comprehensive income when the associated hedged transactions affect profit or loss, as described in note 2(o).

(ii) **Options reserve**
The share-based payments reserve is used to recognise the fair value of options issued but not exercised. Refer to note 33(a) for further details.

(iii) **Foreign currency translation reserve**
Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 2(d).

NOTE 29 Dividends

	2016 $000	2015 $000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2015 of NZ 2.5c (2014 - NZ 4.0c) per fully paid share paid on 2 October 2015 (2014 - 3 October 2014).	**8,870**	13,765
Interim dividend for the year ended 30 June 2016 of NZ 2.5c (2015 - NZ 2.5c) per fully paid share paid on 1 April 2016 (2015 - 2 April 2015).	**8,620**	9,411
	17,490	23,176
(b) Dividends not recognised at year end		
Since year end, the Directors have declared the payment of a final dividend of AU 2.5c per fully paid ordinary share (2015 - NZ 2.5c). The final dividend will be fully franked and imputed. The aggregate amount of the proposed dividend expected to be paid on 6 October 2016 out of retained profits at 30 June 2016, but not recognised as a liability at year end, is:	**9,578**	8,574
(c) Franking and imputation credits		
Franking credits available for subsequent reporting periods based on a 30% tax rate for the Group in AUD are:	**2,710**	(3,727)
Imputation credits available for subsequent reporting periods based on the New Zealand 28% tax rate for the Group in NZD are:	**13,118**	5,840

The dividends paid during the current financial period and corresponding previous financial period were not franked or imputed.

The above franking credit amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking credits that will arise from the payment of income tax payable.

The above imputation credit amounts represent the balance of the imputation account as at the end of the financial year, adjusted for imputation credits that will arise from the payment of income tax payable. It has not been adjusted to reflect amounts payable under the IR settlement.

The impact on the franking account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $4,105,000 (2015: Nil).

The impact on the imputation credit account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, is estimated to be a reduction in the imputation credit account of NZ$3,890,000 (2015: Nil). The amount of imputation credits is dependant on the NZD exchange rate at the time of the dividend.

NOTE 30 Earnings per share

	2016 Cents	2015 Cents
(a) Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company	**5.11**	7.24
(b) Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company	**5.09**	7.22

(c) Reconciliation of earnings used in calculating earnings per share	2016 $000	2015 $000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**19,577**	27,754
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**19,577**	27,754

(d) Weighted average number of shares used as the denominator	2016 Number	2015 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**383,138,513**	383,117,273
Adjustments for calculation of diluted earnings per share:		
Options	**1,700,000**	1,300,000
Treasury stock	**-**	14,677
Weighted average number of ordinary shares for diluted earnings per share	**384,838,513**	384,431,950

(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 33.

(ii) Treasury stock

Treasury stock held under the Michael Hill International Limited Employee Share Scheme are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. Treasury stock has not been included in the determination of basic earnings per share. Details relating to treasury stock are set out in note 27.

NOTE 31 Related party transactions

(a) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2016 and 2015 is set out below. Those determined to be key management personnel was reviewed during the year with reference to the applicable accounting standard. Prior year comparatives have been restated to include the updated definition of who is key management.

	Short-term benefits $000	Post-employment benefits $000	Share-based payments $000	Total $000
2016	**3,785**	**136**	**33**	**3,954**
2015	2,900	108	37	3,045

(b) Subsidiaries

The ultimate parent and controlling entity of the Group is Michael Hill International Limited. Interests in subsidiaries are set out in note 32.

As part of the reorganisation, Michael Hill International Limited acquired 100% of the share capital in Durante Holdings Pty Ltd (a company controlled by interests associated with the Hill Family which held 52.89% of the shares on issue in Michael Hill New Zealand Limited). Durante Holdings Pty Ltd has been consolidated as a fully controlled subsidiary in accordance with the accounting policy described in note 2(b).

(c) Transactions with other related parties

The following transactions occurred with related parties for the relevant financial year:

	2016 $000	2015 $000
Services rendered for graphic design of the annual and half year reports by a related party of board members	**13**	12
Other transactions		
Annual sponsorship of the New Zealand PGA	**214**	215
Annual sponsorship of the Michael Hill Violin Charitable Trust	**52**	59

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

NOTE 32 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 2(b):

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING 2016 %	EQUITY HOLDING 2015 %
Michael Hill Jeweller (Australia) Pty Limited	Australia	Ordinary	100	100
Michael Hill Wholesale Pty Limited	Australia	Ordinary	100	100
Michael Hill Manufacturing Pty Limited	Australia	Ordinary	100	100
Michael Hill Franchise Pty Limited	Australia	Ordinary	100	100
Michael Hill Franchise Services Pty Limited	Australia	Ordinary	100	100
Michael Hill Finance (Limited Partnership)	Australia	-	100	100
Michael Hill Group Services Pty Limited	Australia	Ordinary	100	100
Michael Hill Charms Pty Limited	Australia	Ordinary	100	100
Michael Hill Online Pty Limited	Australia	Ordinary	100	100
Emma & Roe Pty Limited	Australia	Ordinary	100	100
Emma & Roe Online Pty Limited	Australia	Ordinary	100	100
Durante Holdings Pty Limited	Australia	Ordinary	100	-
Michael Hill New Zealand Limited (formerly known as Michael Hill International Limited)	New Zealand	Ordinary	100	-
Michael Hill Jeweller Limited	New Zealand	Ordinary	100	100
Michael Hill Trustee Company Limited	New Zealand	Ordinary	100	100
Michael Hill Finance (NZ) Limited	New Zealand	Ordinary	100	100
Michael Hill Franchise Holdings Limited	New Zealand	Ordinary	100	100
MHJ (US) Limited	New Zealand	Ordinary	100	100
Emma & Roe NZ Limited	New Zealand	Ordinary	100	100
Michael Hill Online Holdings Limited	New Zealand	Ordinary	100	100
Michael Hill Jeweller (Canada) Limited	Canada	Ordinary	100	100
Michael Hill LLC	United States	Ordinary	100	100

NOTE 33 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 ten year period and are exercisable at any time during the final five years.

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The exercise price of the options previously granted was set at 30% above the weighted average price at which the Company's shares were 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.

The exercise price of any future option grants will be set using the same method, with reference to the Australian Securities Exchange.

NOTE 33 continued

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

	2016 Weighted average exercise price in NZ$ per share	2016 Number of options	2015 Weighted average exercise price in NZ$ per share	2015 Number of options
Outstanding at the beginning of the year	1.48	12,150,000	1.48	12,750,000
Granted during the year	1.14	400,000	1.63	400,000
Forfeited during the year	-	-	1.54	(1,000,000)
Outstanding at the end of the year	1.47	12,550,000	1.48	12,150,000

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

	Exercise price in NZ$ per share	2016 Number of options	2015 Number of options
30 September 2017	**1.25**	**3,750,000**	3,750,000
30 September 2019	**0.94**	**650,000**	650,000
30 September 2020	**0.88**	**650,000**	650,000
30 September 2021	**1.16**	**650,000**	650,000
30 September 2022	**1.41**	**650,000**	650,000
30 September 2023	**1.82**	**5,400,000**	5,400,000
30 September 2024	**1.63**	**400,000**	400,000
30 September 2025	**1.14**	**400,000**	-

The weighted average remaining contractual life of share options outstanding at the end of the period was 5.0 years (2015: 5.9 years). The range of exercise prices for options outstanding at the end of the year was NZ$0.88 - NZ$1.82. Refer to the table above for detailed information on each issue. The exercise price will be converted to Australian dollars using the Reserve Bank of Australia exchange rate on the day the option is exercised.

The fair value at grant date for the options issued during the 2016 financial year were independently determined using a Binomial option pricing model, which is an iterative model for options that can be exercised at times prior to expiry. The model takes into account the grant date, exercise price, the expected life, the expiry date, the share price at grant date, expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The expected life assumes the option is exercised at the mid-point of the exercise period, and reflects the ability to exercise early and the non-transferability of the option.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information. The following table lists the inputs to the models used for the options issued during the years ended 30 June 2016 and 30 June 2015:

	June 2016 22 January 2016	June 2015 10 November 2014
Number of options	400,000	400,000
Dividend yield	5.00%	5.00%
Expected volatility	25%	25%
Risk-free interest rate	4.78%	4.78%
Expected life of option (years)	7.5	7.5
Option exercise price (NZ$)	$1.14	$1.63
Share price at grant date (NZ$)	$1.00	$1.46
Weighted average fair value per option (NZ¢)	16.2¢	17.0¢

NOTE 33 continued

(b) Employee Share Scheme

The Michael Hill International Limited Employee Share Scheme was established by Michael Hill International Limited in 2001 to assist employees to become shareholders of the Company. Employees are able to purchase shares in the Company at a 10% discount to the average market price over the two weeks prior to the invitation to purchase. The shares were held by a Trustee for a one year period during which time any dividends derived would be paid to the employee.
As part of the reorganisation described in note 1, all shares not allocated to employees were cancelled on 24 June 2016.

	2016 Number	**2015** Number
The plan held the following ordinary shares at the end of the year:		
Shares issued to participating employees (fully paid)	**-**	96,907
Not yet allocated to employees	**-**	14,677
	-	111,584

During the year, no shares (2015: 96,907) were issued to the Michael Hill Employee Share Scheme. The average 2015 price was NZ$1.25. Michael Hill International Limited acquired no shares through on-market purchases on the New Zealand Stock Exchange during the year that related to the Employee Share Scheme.

(c) Expenses arising from share-based payment transactions

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

	2016 $000	**2015** $000
Options issued under employee option plan	**245**	25
Shares issued under Employee Share Scheme	**6**	11
	251	36

NOTE 34 Reconciliation of profit after income tax to net cash inflow from operating activities

	2016 $000	**2015** $000
Profit for the year	**19,577**	27,754
Depreciation	**16,239**	13,878
Amortisation	**2,521**	1,860
Non-cash employee benefits expense - share-based payments	**245**	38
Other non-cash expenses	**65**	-
Net loss on sale of non-current assets	**328**	204
Deferred taxation	**(19,501)**	12,343
Net exchange differences	**371**	(1,732)
Decrease / (increase) in trade and other receivables	**(6,280)**	1,306
Decrease / (increase) in inventories	**(19,472)**	136
Decrease / (increase) in other non current assets	**2,762**	380
(Increase) in other non current assets	**192**	(3,248)
(Decrease) in tax payables	**36,557**	(11,279)
Increase / (decrease) in trade and other payables	**2,999**	1,500
Increase in deferred revenue	**10,791**	10,731
Increase in provisions	**400**	695
Net cash inflow from operating activities	**47,794**	54,566

NOTE 35 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.

	2016 $000	**2015** $000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**41,624**	41,279
Later than one year but not later than five years	**92,417**	99,239
Later than five years	**16,083**	20,597
	150,124	161,115

NOTE 36 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities in respect of guarantees to bankers and other financial institutions in respect of overdraft facilities and fixed assets at 30 June 2016 of $547,000 (30 June 2015 - $457,000). $72,000 has been released subsequent to 30 June 2016 in respect of a guarantee by the former parent (Michael Hill New Zealand Limited) to the New Zealand Stock Exchange.

The Group is not aware of any significant events occurring subsequent to balance date that have not been disclosed.

(b) Contingent assets

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

NOTE 37 Events occurring after the reporting period

On 17 August 2016, the Company reached a settlement with the Inland Revenue ('IR') on its long running tax dispute relating to the financing of the Intellectual Property transferred from its New Zealand subsidiary to its Australian subsidiary in 2008. As a result, the Company has recognised a tax liability payable of $28.8m (NZ$30.3m). All amounts payable under this settlement have been provided for in the 2015-16 year and this settlement resolves all matters in relation to these proceedings. There are no penalties payable by the Company in respect of the settlement. Tax pooling deposits, which the Company has entered into over a number of years, will fund a portion of the agreed settlement with the Commissioner, including UOMI (Use of Money Interest) and NZ$7.7m of core tax. The residual amount due of NZ$22.6m will be funded from the Group's existing financing facilities, without any impact on the Group's ongoing operations, and will not impact the planned store roll out program.

NOTE 38 Information relating to Michael Hill International Ltd (the Parent)

	2016 $000	2015 $000
Current assets	**1,672**	-
Total assets	**328,677**	-
Net assets	**328,677**	-
Issued capital	**283,910**	-
Retained earnings	**1,672**	-
Acquisition reserve	**40,907**	-
Option reserve	**2,188**	-
Total equity	**328,677**	-
Profit or loss of the Parent entity	**1,672**	-
Total comprehensive income of the Parent entity	**1,672**	-

The Parent has issued the following guarantees in relation to the debts of its subsidiaries:

- Pursuant to Class Order 98/1418, Michael Hill International Limited and the subsidiaries listed below entered into a deed of cross guarantee on 30 June 2016. The effect of the deed is that Michael Hill International Limited has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Michael Hill International Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.
- The subsidiaries subject to the deed are: Durante Holdings Pty Ltd, Michael Hill Group Services Pty Ltd, Michael Hill Jeweller (Australia) Pty Ltd, Michael Hill Manufacturing Pty Ltd, Michael Hill Wholesale Pty Ltd, Michael Hill Franchise Services Pty Ltd, Michael Hill Franchise Pty Ltd, Michael Hill New Zealand Ltd, Michael Hill Jeweller Ltd, Michael Hill Franchise Holdings Ltd, Michael Hill Finance (NZ) Ltd, Michael Hill Online Pty Ltd, Michael Hill Charms Pty Ltd, Emma & Roe Pty Ltd, Emma & Roe Online Pty Ltd, Michael Hill Online Holdings Ltd and Emma & Roe NZ Ltd.

The Parent entity had contingent liabilities in respect of guarantees to bankers and other financial institutions in respect of overdraft facilities and fixed assets at 30 June 2016 of $72,000.

NOTE 39 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: Durante Holdings Pty Ltd, Michael Hill Group Services Pty Ltd, Michael Hill Jeweller (Australia) Pty Ltd, Michael Hill Manufacturing Pty Ltd, Michael Hill Wholesale Pty Ltd, Michael Hill Franchise Services Pty Ltd, Michael Hill Franchise Pty Ltd, Michael Hill New Zealand Ltd, Michael Hill Jeweller Ltd, Michael Hill Franchise Holdings Ltd, Michael Hill Finance (NZ) Ltd, Michael Hill Online Pty Ltd, Michael Hill Charms Pty Ltd, Emma & Roe Pty Ltd, Emma & Roe Online Pty Ltd, Michael Hill Online Holdings Ltd and Emma & Roe NZ Ltd.

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

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

Statement of comprehensive income

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

	2016 $000	2015 $000
Revenue from sale of goods and services	**448,800**	424,064
Sales to Group companies not in Closed Group	**44,699**	33,707
Other income	**532**	457
Cost of goods sold	**(196,809)**	(177,894)
Employee benefits expense	**(118,525)**	(110,301)
Occupancy costs	**(41,529)**	(40,738)
Marketing expenses	**(21,342)**	(23,938)
Selling expenses	**(21,580)**	(20,452)
Depreciation and amortisation expense	**(13,494)**	(11,997)
Loss on disposal of property, plant and equipment	**(290)**	(83)
Other expenses	**(16,852)**	(15,796)
Finance costs	**(6,468)**	(5,077)
Profit before income tax	**57,142**	51,952
Income tax expense	**(25,460)**	(13,129)
Profit for the year	**31,682**	38,823
Other comprehensive income		
Currency translation differences arising during the year	**4,207**	(7,855)
Total comprehensive income for the year	**35,889**	30,968
Statement of changes in equity		
Balance at 1 July	**461,184**	466,503
Total comprehensive income	**35,889**	30,968
Cancellation of treasury stock	**7**	-
Employee shares issued	**-**	109
Option expense through share based payments reserve	**245**	25
Dividend paid	**(17,490)**	(36,421)
Balance at 30 June	**479,835**	461,184

Notes to the financial statements cont. FOR THE YEAR ENDED 30 JUNE 2016

NOTE 39 continued

Statement of financial position

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

	2016 $000	2015 $000
Current assets		
Cash and cash equivalents	**2,779**	2,060
Trade and other receivables	**11,758**	8,375
Inventories	**147,595**	134,767
Loans to related parties	**213,978**	103,045
Current tax receivables	**-**	11,060
Other current assets	**3,131**	5,412
Total current assets	**379,241**	264,719
Non-current assets		
Property, plant and equipment	**44,543**	39,928
Deferred tax assets	**60,131**	45,192
Intangible assets	**4,944**	6,429
Investments in subsidiaries	**121,033**	200,565
Other non-current assets	**1,799**	1,982
Total non-current assets	**232,450**	294,096
Total assets	**611,691**	558,815
Current liabilities		
Trade and other payables	**37,053**	36,387
Current tax liabilities	**25,033**	-
Provisions	**4,542**	4,232
Deferred revenue	**19,485**	17,175
Total current liabilities	**86,113**	57,794
Non-current liabilities		
Provisions	**5,198**	4,255
Deferred revenue	**40,545**	35,582
Total non-current liabilities	**45,743**	39,837
Total liabilities	**131,856**	97,631
Net assets	**479,835**	461,184
Equity		
Contributed equity	**302,756**	302,749
Reserves	**1,582**	(2,870)
Retained profits	**175,497**	161,305
Total equity	**479,835**	461,184

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

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Michael Hill International Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

INDEPENDENCE

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

OPINION

In our opinion:

a) the financial report of Michael Hill International Limited is in accordance with the Corporations Act 2001, including:

i 2016 and of its performance for the year ended on that date; and

ii complying with Australian Accounting Standards and the Corporations Regulations and 2001; and

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

OPINION

In our opinion, the Remuneration Report of Michael Hill International Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

Alison de Groot
Partner
Brisbane
18 August 2016

Corporate governance

The Board acknowledges the need for and continued maintenance of the highest standards of corporate governance practice and ethical conduct by all Directors and employees of Michael Hill International Limited and its subsidiaries.

The Board has adopted a Corporate Governance Charter and this can be obtained, at no cost, from the registered office of the Company and is also available on the Group's website www.michaelhill.com.au .

GENERAL

To the extent applicable, commensurate with the Company's size and nature, the Company has adopted The ASX Corporate Governance Principles and Recommendations (3rd Edition) as published by ASX Corporate Governance Council ('Recommendations'). The Directors will seek, where appropriate, to provide accountability levels that meet or exceed the Recommendations, which are not prescriptions, but guidelines. The Company's main corporate governance policies are outlined below.

BOARD OF DIRECTORS

The Board oversees the Company's business and is responsible for the overall corporate governance of the Group. It monitors the operational, financial position and performance of the Group and oversees its business strategy, including approving the strategy and performance objectives of the Group.

The Board is committed to maximising performance and generating value and financial returns for shareholders. To further these objectives, the Board has created a framework for managing the Group, including the adoption of relevant internal controls, risk management processes and corporate governance policies and practices which the Board believes are appropriate for the business and which are designed to promote the responsible management and conduct of the Group.

COMPOSITION OF THE BOARD

The Board is currently comprised of five non-executive Directors, including the Chair. Biographies of the Directors are set out in the Annual Report on pages 28-30.

As the Group's activities increase in size, nature and scope, the size of the Board required to adequately govern the Company's activities will be reviewed, and the optimum number of Directors will be determined within the limitations imposed by the Constitution.

In assessing the independence of Directors, the Company has regard to Principle 2 of the Recommendations. The Corporate Governance Charter sets out further matters that the Board will consider when determining the independence of Directors of the Company.

Each Director has confirmed to the Company that he or she anticipates being available to perform his or her duties as a non-executive director, without constraint from other commitments.

CORPORATE GOVERNANCE COMMITTEE

The Board does not consider it appropriate to establish a corporate governance committee at this time. Instead, the Board members will share the responsibility of ensuring that the Company meets its corporate governance obligations under the relevant provisions of the Corporations Act and the ASX Listing Rules. The Board will review this position and adopt a corporate governance committee when appropriate.

IDENTIFICATION AND MANAGEMENT OF RISK

The Company has established an audit and risk management committee (Audit and Risk Management Committee) to assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to the Company. The Audit and Risk Management Committee will be responsible for reviewing and making recommendations to the Board in relation to the adequacy of the Company's processes for managing risks and developing an appropriate risk management policy framework to provide guidance to company management.

ISO 9001 CERTIFICATION

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

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

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

REMUNERATION COMMITTEE

The Board has established a People, Development and Remuneration Committee to ensure that remuneration is fair and adequate, and accords with the Company's capacity and business plan. The People, Development and Remuneration Committee's role is to review and make recommendations in relation to management remuneration and incentive plans and policies, as well as in relation to the Group's recruitment, retention and termination policies and procedures for senior management.

NOMINATIONS COMMITTEE

The Board has not formally established a nominations committee at this time as the Board considers that it is able to deal efficiently and effectively with Board composition and succession issues without establishing a separate nominations committee and in doing so, the Board will be guided by the Corporate Governance Charter and applicable provisions of the ASX Listing Rules and Corporations Act.

DIVERSITY POLICY

Historically, the People, Development and Remuneration Committee of the Company has monitored and made recommendations regarding Group diversity at senior executive and Board level. The Company will continue to maintain this practice through its newly adopted Diversity Policy which the People, Development and Remuneration Committee is tasked with overseeing. Broadly, the Diversity Policy seeks to ensure that the Company is attuned to diverse corporate, business and market opportunities and strategies to achieve the Company's corporate targets through managing and facilitating the collective skills and experience of personnel within the Group's systems and culture.

ETHICAL STANDARDS

The Company is committed to the establishment and maintenance of appropriate ethical standards. Accordingly, the Company has adopted a Corporate Ethics Policy and a Corporate Code of Conduct. The Code of Conduct establishes the principles, standards and responsibilities to which the Company is committed with respect to both its internal dealings with employees and consultants, and external dealings with Shareholders and the community at large.

SHARE TRADING POLICY

The Company has adopted a Trading Policy which is intended to ensure that persons who are discharging managerial responsibilities, including but not limited to Directors, do not abuse, and do not place themselves under suspicion of abusing, inside information that they may be thought to have, especially in periods leading up to an announcement of the Company.

Under the terms of the Trading Policy, a 'Restricted Person' (as identified in the Trading Policy) must not deal with securities of the Company unless a clearance to deal is obtained in accordance with the Trading Policy or the dealing is an Excluded Dealing (as identified in the Trading Policy). Further, a Restricted Person must not deal with securities of the Company if such a dealing would involve:

- use of inside information;
- short-term selling;
- short selling; or
- hedging transactions.

COMPLIANCE WITH RECOMMENDATIONS

The following statement explains how the Company complies with the Recommendations, and, in the case of non-compliance, why not. The Board is of the view that with the exception of the departures from the Recommendations noted below it otherwise complies with all of the Recommendations.

PRINCIPLE AND BEST PRACTICE RECOMMENDATION	MICHAEL HILL INTERNATIONAL LIMITED'S COMPLIANCE WITH RECOMMENDATION
1 Lay solid foundations for management and oversight	
1.1 Role of Board and management Disclose the respective roles and responsibilities of the Board and management and those matters expressly reserved to the Board and those delegated to management.	**Comply** The respective roles and responsibilities of the Directors are set out in the Annual Report on pages 28-30. The Board has established a clear distinction between the functions and responsibilities reserved for the Board and those delegated to management, which are set out in the Company's Corporate Governance Charter. A copy of the Corporate Governance Charter is available from the Company's website, www.michaelhill.com.au
1.2 Information regarding election and re-election of Director candidates Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director and provide security holders with all material information in the Company's possession relevant to a decision on whether or not to elect or re-elect a Director.	**Comply** The Company carefully considers the character, experience, education and skillset, as well as interests and associations of potential candidates for appointment to the Board and conducts appropriate checks to verify the suitability of the candidate, prior to their election. The Company has appropriate procedures in place to ensure that material information relevant to a decision to elect or re-elect a Director, is disclosed in the notice of meeting provided to shareholders.
1.3 Written contracts of appointment Have a written agreement with each Director and senior executive setting out the terms of their appointment.	**Comply** In addition to being set out in the Corporate Governance Charter, the roles and responsibilities of Directors are also formalised in the letter of appointment which each Director receives and commits to on their appointment. The letters of appointment specify the term of appointment, time commitment envisaged, expectations in relation to committee work or any other special duties attaching to the position, reporting lines, remuneration arrangements, disclosure obligations in relation to personal interests, confidentiality obligations, insurance and indemnity entitlements and details of the Company's key governance policies, such as the Trading Policy. Each senior executive enters into a service contract which sets out the material terms of employment, including a description of the position and duties, reporting lines, remuneration arrangements and termination rights and entitlements. Contract details of senior executives which are KMP are summarized in the Company's Remuneration Report on page 35.
1.4 Company Secretary The Company Secretary should be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.	**Comply** The Company Secretary is accountable to the Board for facilitating the Company's corporate governance processes and the proper functioning of the Board. Each Director is entitled to access the advice and services of the Company Secretary. In accordance with the Company's Constitution, the appointment or removal of the Company Secretary is a matter for the Board as a whole. Details of the Company Secretary's experience and qualifications are set out on page 31 of the Annual Report.

PRINCIPLE AND BEST PRACTICE RECOMMENDATION	MICHAEL HILL INTERNATIONAL LIMITED'S COMPLIANCE WITH RECOMMENDATION

1.5 Diversity

- Have a diversity policy which includes requirements for the Board or a relevant committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the Company's progress in achieving them.
- Disclose that policy or a summary of it.
- Disclose at the end of each reporting period the measurable objectives for achieving gender diversity set by the Board or a relevant committee of the Board in accordance with the Company's diversity policy and its progress toward achieving them and either the respective proportions of men and women on the Board, in senior executive positions across the whole organisation (including how the entity has defined 'senior executive' for these purposes) or if the Company is a 'relevant employer' under the Workplace Gender Equality Act 2012 (Cth), the Company's most recent 'Gender Equality Indicators', as defined in and published under that Act.

Comply

The Company has adopted a Diversity Policy setting out its objectives and reporting practices with respect to diversity, which is set out in the Company's Corporate Governance Charter.

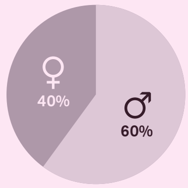
A copy of the Corporate Governance Charter is available from the Company's website, www.michaelhill.com.au

The measurable objectives for gender diversity, agreed by the Company's Board for FY2015-16, are set out below:

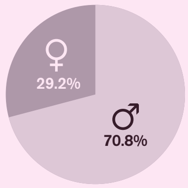
30% females on the Board; and

Female/male ratio in senior management roles of 40%:60%.

The outcomes of the Company's results against its measurable objectives are set out below and illustrates the Company's progress towards achieving its objectives:



BOARD
GENDER DIVERSITY



SENIOR MANAGEMENT
GENDER DIVERSITY

1.6 Board Reviews

Have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors and disclose whether a performance evaluation was undertaken in accordance with that process.

Comply

A performance review is undertaken annually in relation to the Board and the Board Committees. In addition to individual evaluation sessions between the Chair and individual Directors, a formal self-evaluation questionnaire is used to facilitate the annual performance review process. Where it considers necessary the Board may also engage a professional independent consultant experienced in Board reviews to conduct a review of the Board and its Committees and the effectiveness of the Board as a whole.

1.7 Management reviews

Have and disclose a process for periodically evaluating the performance of senior executives and disclose whether a performance evaluation was undertaken in accordance with that process.

Comply

Each year the Board sets financial, operational, management and individual targets for the CEO and the CFO. The CEO and the CFO (in consultation with the Board), in turn sets targets for their direct reports. Performance against these targets is assessed periodically throughout the year and a formal performance evaluation for senior management is completed for the year end. Details of the process followed are set out on page 36 of the Remuneration Report within this Annual Report.

PRINCIPLE AND BEST PRACTICE RECOMMENDATION	MICHAEL HILL INTERNATIONAL LIMITED'S COMPLIANCE WITH RECOMMENDATION

2 Structure the Board to add value

2.1 Nominations Committee Does the Board have a nominations committee? If the Board does not have a nominations committee, disclose that fact and the processes it employs to address Board succession issues and to ensure that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	**Non comply** The Board has not formally established a Nominations Committee as it considers that it is able to deal efficiently and effectively with Board composition and succession issues without establishing a separate nominations committee.
2.2 Board skills matrix Have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.	**Non comply** The Company has not adopted a Board skills matrix at this time. The Company is satisfied that it currently has an appropriate, balanced, rich and diverse range of skills and knowledge among the Board members, necessary to govern the Group. The Company's People, Development and Remuneration Committee will ensure that the necessary breadth and depth of skills and experience is maintained amongst Board members, in furtherance of the Committee's obligations under the Corporate Governance Charter.
2.3 Disclose independence and length of service ▪ Disclose the names of the Directors considered by the Board to be independent Directors. ▪ If a director has an interest, position, association or relationship that might cause doubts about the independence of a Director, disclose the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion. ▪ Disclose the length of service of each Director.	**Comply** In accordance with the Corporate Governance Charter, the majority of Directors are independent. Details regarding which Directors are considered independent and the length of their service are set out on pages 28 and 30 of the Directors' Report within this Annual Report.
2.4 Majority of Directors independent The majority of the Board should be independent Directors.	**Comply** In accordance with the Corporate Governance Charter and as disclosed against Recommendation 2.3, the majority of the Directors are independent. Details regarding the independence of the Directors are set out on pages 28 to 30 of the Directors' Report within this Annual Report.

PRINCIPLE AND BEST PRACTICE RECOMMENDATION	MICHAEL HILL INTERNATIONAL LIMITED'S COMPLIANCE WITH RECOMMENDATION
2.5 Chair independent The Chair of the Board should be an independent Director and, in particular, should not be the same person as the Chief Executive Officer.	**Non comply** The Chair of Michael Hill International Limited is Emma Hill, a non-independent Director. Ms Hill has a comprehensive understanding of the Group and its business. In light of this, the Company's Board considers Ms Hill to be the most appropriate candidate for the role of Chair. Given that the Company's Board is constituted by a majority of independent Directors, it is considered that governance will not be adversely affected by there being a non-independent Chair. Ms Hill is not the Chief Executive Officer of the Company.
2.6 Induction and professional development Have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.	**Comply** An induction process including appointment letters and ongoing education exists to promote early, active and relevant involvement of new members of the Board. All Directors are encouraged to become a member of the Australian Institute of Company Directors (AICD) and to further their knowledge through participation in seminars hosted by the AICD and other forums sponsored by professional, industry, governance and Government bodies. In addition to peer review, interaction and networking with other Directors and industry leaders, the Company's Directors participate, from time to time, in the Company's leadership forums and actively engage with the Company's employees by visiting the Company's stores to gain an understanding of the operational environment. During the course of the year Directors receive accounting policy updates, especially around the time when the Board considers the Half Year and Full Year accounts. The Board also includes educational sessions on legal, accounting, regulatory change, developments in communication including social media and human resource management. Directors are encouraged and given the opportunity to broaden their knowledge of the business by visiting stores in different locations. During the financial year, Directors made a number of visits to stores and to Company competitor sites.

3 Act ethically and responsibly

3.1 Code of conduct Have a code of conduct for Directors, senior executives and employees and disclose that code or a summary of it.	**Comply** The Board has established a Code of Conduct for its Directors, senior executives and employees, a copy of which is available on the Company's website, www.michaelhill.com.au

PRINCIPLE AND BEST PRACTICE RECOMMENDATION	MICHAEL HILL INTERNATIONAL LIMITED'S COMPLIANCE WITH RECOMMENDATION

4 Safeguard integrity in corporate reporting

4.1 Audit Committee The Board should have an Audit Committee which: ▪ has at least three members, all of whom are non-executive Directors; ▪ a majority of whom are independent Directors; ▪ be chaired by an independent Director who is not the Chair of the Board; ▪ disclose the Charter of the Committee, the relevant qualifications and experience of the members of the Committee; and ▪ in relation to each reporting period, the number of times the Committee met throughout the period and the individual attendances of the members at those meetings.	**Comply** The Audit and Risk Management Committee comprises three members (including the Chair), all of whom are non-executive Directors with the majority being independent Directors. Details of the membership of the Audit and Risk Management Committee, including the names and qualifications of the Committee members, are set out on pages 28 to 30 and page 32 of this Annual Report. In addition to the Audit and Risk Management Committee members, the CEO, CFO, external auditors and Company Secretary regularly attend Audit and Risk Management Committee meetings. The number of meetings held and attended by each member of the Audit and Risk Management Committee during the financial year are set out on page 32 of this Annual Report. The Audit and Risk Management Committee Charter is reviewed annually and is available on the Company's website, www.michaelhill.com.au
4.2 CEO and CFO certification of financial statements The Board should, before it approves the entity's financial statements for a financial period, receive from its Chief Executive Officer and Chief Financial Officer a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	**Comply** This Recommendation is not specifically addressed in the Corporate Governance Charter however will be discharged by the Company pursuant to its obligation under section 295A of the Corporations Act.
4.3 External auditor at AGM Ensure that the Company's external auditor attends the annual general meeting and is available to answer questions from security holders relevant to the audit.	**Comply** The Group's external audit function is performed by Ernst & Young (EY). Representatives of EY will attend the Annual General Meeting and be available to answer shareholder questions regarding the audit.

PRINCIPLE AND BEST PRACTICE RECOMMENDATION	MICHAEL HILL INTERNATIONAL LIMITED'S COMPLIANCE WITH RECOMMENDATION

5 Make timely and balanced disclosure

5.1 Disclosure and Communications Policy Establish a written policy designed to ensure compliance with ASX Listing Rule disclosure requirements and disclose that policy or a summary of it.	**Comply** The Company has adopted guidelines in relation to disclosure and communications which sets out the processes and practices that ensure its compliance with the continuous disclosure requirements under the ASX Listing Rules and the Corporations Act. The Company has also established guidelines to assist officers and employees of the Group to comply with the Company's disclosure and communications requirements. A copy of the guidelines is set out in the Company's Corporate Governance Charter which is available on its website, www.michaelhill.com.au

6 Respect the rights of Shareholders

6.1 Information on website Provide information about the Company and its governance to investors via the Company's website.	**Comply** The Company keeps investors informed of its corporate governance, financial performance and prospects via its website. Investors can access copies of all announcements to the ASX and NZX, notices of meetings, annual reports and financial statements, investor presentations webcasts and/or transcripts of those presentations and a key events calendar via the 'Investor Centre' tab and can access general information regarding the Company and the structure of its business under the 'About Us' and governance documents under the 'Governance Policies and Compliance' tabs. The Company's website is www.michaelhill.com.au
6.2 Investor relations programs Design and implement an investor relations program to facilitate effective two-way communication with investors.	**Comply** The Company conducts regular briefings including interim and full year results announcements, investor days, site visits and attends regional and industry specific conferences in order to facilitate effective two-way communication with investors and other financial market participants. Access to Executive and Operational management is provided at these events, with separate one-on-one or group meetings offered whenever possible. The presentation material provided at these events is posted on the Company's Investor Centre website, including the webcast and transcript if applicable.
6.3 Facilitate participation at meetings of security holders Disclose policies and processes in place to facilitate and encourage participation at meetings of security holders.	**Comply** The Company uses technology to facilitate the participation of security holders in meetings including live teleconferences and in respect of Annual General Meetings (AGM), provide a direct voting facility to allow security holders to vote ahead of the meeting without having to attend or appoint a proxy. Shareholders are encouraged to participate in general meetings and are given an opportunity to ask questions of the Company and its auditor at the AGM.
6.4 Facilitate electronic communications Give security holders the option to receive communications from, and send communications to, the Company and its security registry electronically.	**Comply** The Company provides its investors the option to receive communications from and send communications to, the Company and the share registry electronically.

PRINCIPLE AND BEST PRACTICE RECOMMENDATION	MICHAEL HILL INTERNATIONAL LIMITED'S COMPLIANCE WITH RECOMMENDATION
7 Recognise and manage risk	
7.1 Risk Committee Have a committee or committees to oversee risk, each of which has: ▪ at least three members; ▪ a majority of whom are independent directors; ▪ are chaired by an independent director; ▪ disclose the charter of the committee and the members of the committee; and ▪ at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.	**Comply** The Company's Audit and Risk Management Committee oversees the process for identifying and managing material risks in the Company in accordance with the Audit and Risk Management Committee Charter. A copy of the Audit and Risk Management Committee Charter is available on the Company's website, www.michaelhill.com.au . Further details regarding the Audit and Risk Management Committee, its membership and the number of meetings held during the financial year are set out in response to Recommendation 4.1.
7.2 Annual risk review The Board or committee of the Board should review the Company's risk management framework at least annually to satisfy itself that it continues to be sound and disclose, in relation to each reporting period, whether such a review has taken place.	**Comply** The Board has mandated Internal Audit to provide independent assurance on the effectiveness of the Company's risk management practices and report its findings to the Audit and Risk Management Committee. The purpose of the review is to confirm the Company's governance processes and practices continue to be sound and that the entity manages risk within the Board approved risk appetite. Internal Audit conducted its review during the financial year and concluded that control over risk management processes were considered adequate and effective.
7.3 Internal audit Disclose if it has an internal audit function, how the function is structured and what role it performs or if it does not have an internal audit function, that fact and the processes it employs for evaluation and continually improving the effectiveness of its risk management and internal control processes.	**Comply** The Company has an internal audit function that operates under a Board approved Internal Audit Charter. The internal audit function is independent of management and the external auditor and is overseen by the Audit and Risk Management Committee. In accordance with the Audit and Risk Management Committee Charter the appointment or removal of the Chief Internal Auditor is a matter for this Committee.
7.4 Sustainability risks Disclose whether the Company has any material exposure to economic, environmental and social sustainability risks and if it does, how it manages or intends to manage those risks.	**Comply** The Company identifies and manages material exposures to economic, environmental and social sustainability risks in accordance with its risk management framework incorporating the Board approved risk appetite. Steps have been taken to strengthen the governance of sustainability in the Company during the year.

PRINCIPLE AND BEST PRACTICE RECOMMENDATION	MICHAEL HILL INTERNATIONAL LIMITED'S COMPLIANCE WITH RECOMMENDATION

8 Remunerate fairly and responsibly

8.1 Remuneration Committee The Board should have a remuneration committee which has: ▪ at least three members, all of whom are independent directors; ▪ is chaired by an independent director; ▪ disclose the charter and the committee, the members of the committee; and ▪ at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.	**Non comply** The Company's remuneration function is performed by the People, Development and Remuneration Committee. Further details regarding the Committee, its composition and members are set out on page 32 of this Annual Report. Ms Hill is one of the three members of the People, Development and Remuneration Committee. Given the small size of the Board and Ms Hill's relevant expertise, the Company considers it appropriate for Ms Hill to be a member.
8.2 Disclosure of Executive and Non-Executive Director remuneration policy Separately disclose policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives.	**Comply** The Company seeks to attract and retain high performance Directors and Executives with appropriate skills, qualifications and experience to add value to the Company and fulfil the roles and responsibilities required. It reviews requirements for additional capabilities at least annually. Executive remuneration is to reflect performance and, accordingly, remuneration is structured with a fixed component and performance-based remuneration component. Non-executive Directors are paid fixed fees for their services in accordance with the Company's Constitution. Fees paid are a composite fee (covering all Board and Committee responsibilities) and any contributions by the Company to a fund for the purposes of superannuation benefits for a Director. No other retirement benefit schemes are in place in respect to non-executive Directors. Further details regarding the remuneration of executive and non-executive Directors are set out on page 39 of the Remuneration Report within this Annual Report.
8.3 Policy on hedging equity incentive schemes Have a policy on whether participants are permitted to enter into transactions (whether through use of derivatives or otherwise) which limit the economic risk of participating in the scheme and disclose that policy or a summary of it.	**Comply** The Company's Key Management Personnel must not enter into any hedge arrangement in relation to any element of the Key Management Personnel's remuneration that has not vested or has vested but remains subject to a holding lock. For the purposes of this policy, hedging includes the entry into any transaction, arrangement or financial product which operates to limit the economic risk of a security holding in the Company and includes financial instruments such as equity swaps and contracts for differences. The term 'Key Management Personnel' has the definition given in the Accounting Standard AASB 124 Related Party Disclosure as 'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any director (whether executive or otherwise) of that entity'. Further details regarding the Company's policy on hedging are set out in the Company's Trading Policy which is available in the Governance Policies and Compliance section of the Company's website, www.michaelhill.com.au .

Analysis of Shareholding

Twenty largest shareholders as at 31 August 2016

	Ordinary Shares	% of Shares
Hoglett Hamlett Limited	164,330,600	42.89
New Zealand Central Securities Depository Ltd	37,427,782	9.77
Mole Hill Limited	19,156,926	5.00
Squeakidin Limited	19,156,926	5.00
National Nominees Limited	9,130,836	2.38
Citicorp Nominees Pty Limited	8,829,599	2.30
J P Morgan Nominees Australia Limited	8,267,667	2.16
RBC Investor Services Australia Nominees Pty Limited	6,462,170	1.69
Hsbc Custody Nominees (Australia) Limited	4,977,559	1.30
M.R. Parsell	4,289,264	1.12
R.L. Parsell	3,350,250	0.87
HSBC Custody Nominees (Australia) Limited	3,165,439	0.83
Forsyth Barr Custodians Limited	3,086,057	0.81
Custodial Services Limited	2,936,581	0.77
P.R. Taylor	2,000,000	0.52
G.J & P.A. Gwynne	1,972,000	0.51
W.K. & C.A. Butler and R.M.J. Urlich	1,760,000	0.46
UBS Nominees Pty Ltd	1,720,390	0.45
Heffalump Holdings Limited	1,524,750	0.40
K.G. Stock	1,010,000	0.26
Total	304,554,796	79.49
Total remaining holders balance	78,583,717	20.51

Shareholding by range of shares as at 31 August 2016

	No. of Holders	% of Holders	No. of Shares
1 - 1,000	497	0.09	352,051
1,001 - 5,000	1,225	1.01	3,865,081
5,001 - 10,000	862	1.87	7,167,325
10,001 - 100,000	1,347	10.50	40,228,524
100,001 - 999,999,999	128	86.53	331,525,532
Total	4,059	100.00	383,138,513

Unmarketable parcels

	Minimum parcel size	Holders	Units
Minimum $500.00 parcel at $1.69 per unit	296	52	6,823

Substantial holders of 5% or more of fully paid ordinary shares as at 31 August 2016*

	Notice Date	Shares
Emma Jane Hill	31 August 2016	183,487,526
Hoglett Hamlett Limited	11 July 2016	164,330,600
Mole Hill Limited	11 July 2016	19,156,926
Squeakidin Limited	11 July 2016	20,681,676
Mark Simon Hill	11 July 2016	183,487,526
Blackcurrant Trustees Limited	8 July 2016	20,681,676

* as disclosed in substantial shareholder notices received by the Company

Investor Calendar

2016 Dates	Details
19 August 2016	Full year results and final dividend announcement
6 October 2016	Final dividend payment date
31 October 2016	Annual General Meeting

Corporate directory

DIRECTORS
E.J. Hill B.Com., M.B.A. (Chair)
Sir Richard Michael Hill K.N.Z.M.
G.W. Smith B.Comm., F.C.A., F.A.I.C.D.
R.I. Fyfe
J.S. Allis

COMPANY SECRETARY
Mary-Anne Greaves

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