michael hill
INTERNATIONAL LIMITED

ANNUAL REPORT 2012

THE DIRECTORS ARE PLEASED TO PRESENT

THE ANNUAL REPORT OF MICHAEL HILL INTERNATIONAL LIMITED

FOR THE YEAR ENDED 30 JUNE 2012

WHAT'S INSIDE

COMPANY PROFILE

Michael Hill International owns the brand "Michael Hill" and operates a retail jewellery chain of 252 stores in Australia, New Zealand, Canada and the United States as at 30 June 2012.

The Company had its origins in 1979 when Michael and Christine Hill opened their first store in the New Zealand town of Whangarei, some 160 kilometres north of Auckland.

A unique retail jewellery formula that included dramatically different store designs, a product range devoted exclusively to jewellery and high impact advertising, elevated the Company to national prominence. The Company listed on the New Zealand Stock Exchange in 1987, the same year it expanded into Australia.

In 2002, the Group expanded into Canada, opening its first stores in Vancouver. We now have a presence in British Columbia, Alberta, Manitoba, Saskatchewan and Ontario.

In September 2008, the Group entered the United States market.

As at 30 June 2012 the Group has 53 stores in New Zealand, 153 in Australia, 37 in Canada and 9 stores in Chicago, USA. It employs over 2,000 permanent employees who are involved in retail sales, manufacturing and administration. It has approximately 3,400 shareholders and is proud of its consistently high returns to shareholders.

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

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

PERFORMANCE HIGHLIGHTS FOR THE 12 MONTHS

- Operating revenue of $511.497m up 4.5% on same period last year
- EBIT of $45.892m up 0.6% on same period last year
- Same store sales were 0.3% down on same period last year
- Net profit before tax of $42.036m up 5.1% on same period last year
- Net profit after tax of $36.511m up 5.8% on same period last year
- Revenue collected from Professional Care Plans of $26.955m for the period
- Net debt of $20.994m at 30 June 2012 down from $36.873m last year
- Operating cash flow of $52.131m up from $43.319m last year
- 15 new stores opened and 3 closed during the period
- Total of 252 stores open at 30 June 2012
- Final dividend of 3.5 cents per share up 16.7%
- Total dividend for the year of 5.5 cents up 22.2% from 4.5 cents in 2011
- Equity ratio of 60.1% at 30 June 2012

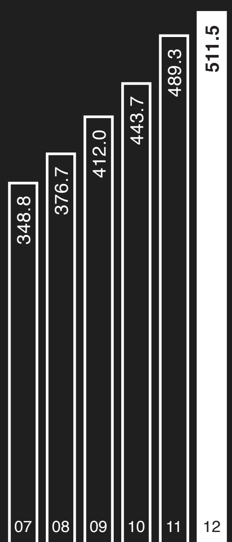
(all values stated in NZD unless stated otherwise)

KEY FACTS

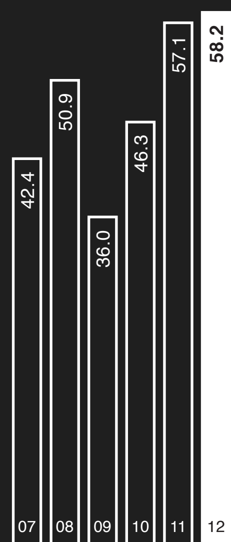
YEAR ENDED 30 JUNE / NZ$000 unless stated	2012	2011	% change
TRADING RESULTS			
Group revenue	**511,497**	489,330	4.5%
Earnings before interest and tax	**45,892**	45,638	0.6%
Group surplus after tax	**36,511**	34,499	5.8%
- First half	**26,297**	23,583	11.5%
- Second half	**10,214**	10,916	-6.4%
Net cash from operating activities	**52,131**	43,319	
FINANCIAL POSITION AT YEAR END			
Contributed equity			
382,775,586 ordinary shares	**4,083**	3,983	2.5%
Total equity	**194,359**	178,376	9.0%
Total assets	**323,648**	293,108	10.4%
Net debt	**20,994**	36,873	-43.1%
Capital expenditure - cash	**18,127**	14,010	29.4%
NUMBER OF STORES 30 JUNE			
New Zealand	**53**	52	
Australia	**153**	146	
Canada	**37**	33	
United States	**9**	9	
Total	**252**	240	

YEAR ENDED 30 JUNE	2012	2011
DISTRIBUTION TO SHAREHOLDERS		
Dividends - including final dividend		
- Per ordinary share	**5.5¢**	4.5¢
- Times covered by surplus after tax	**1.73**	2.00
SHARE PRICE		
30 June	**$0.98**	$0.90
KEY DATA PER SHARE		
Basic earnings per share	**9.54¢**	9.02¢
Diluted earnings per share	**9.50¢**	8.99¢
KEY MEASURES		
Same store sales up (in local currency)		
- New Zealand	**7.3%**	5.4%
- Australia	**-2.1%**	4.7%
- Canada	**5.8%**	12.1%
- United States	**17.2%**	20.3%
Return on average shareholders' funds	**19.6%**	20.5%
Interest expense cover (times)	**11.3**	7.8
Equity ratio	**60.1%**	60.9%
Current ratio	**3.1:1**	3.3:1

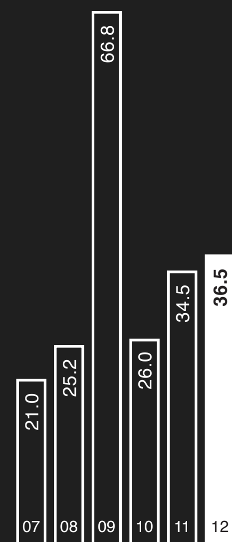
KEY FACTS



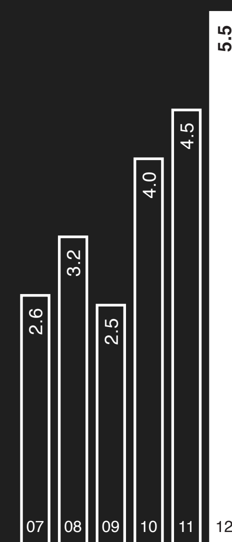
Group revenue up 5%
NZ$ millions / year ended 30 June



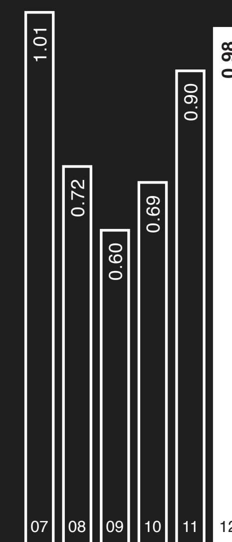
Earnings before interest, depreciation and amortisation (EBITDA) up 2%
NZ$ millions / year ended 30 June



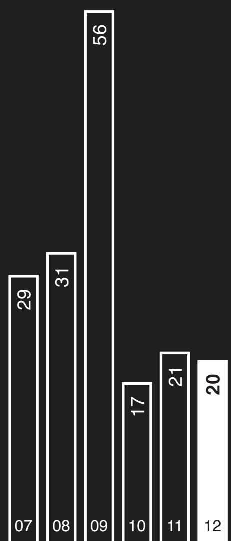
Net profit after tax up 6%
NZ$ millions / year ended 30 June



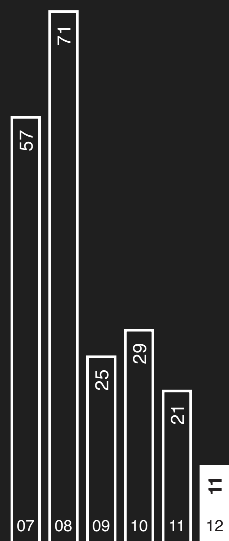
Ordinary dividend
Cents per share / year ended 30 June



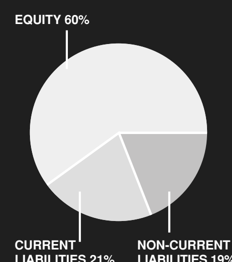
Share price performance - last six years
NZ$ / as at 30 June



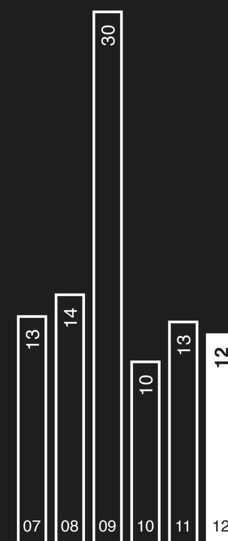
Return on average shareholders' funds 20%
% / year ended 30 June



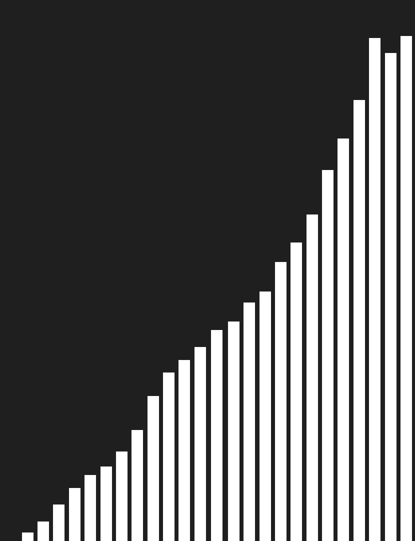
Gearing ratio 11%
% / year ended 30 June



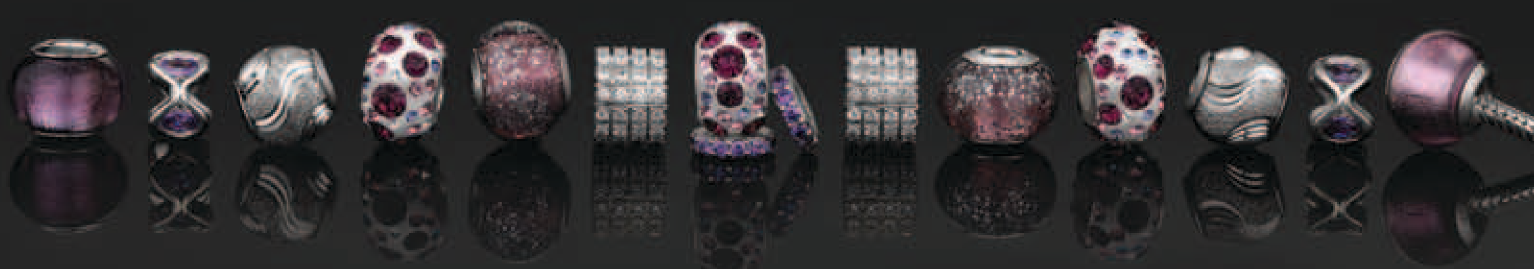
Source of funding
30 June 2012



Return on average assets 12%
% / year ended 30 June



Total jewellery stores 252
1987 - 2012, year ended 30 June



CHAIRMAN'S REVIEW

Dear Shareholders,

Our Group has reported a net profit after tax of $36.511m for the 2011-12 financial year, up 5.8% on 2010-11, and earnings before interest and tax of $45.892m, up 0.6% on the previous year. The Group's revenue of $511.497m was up 4.5% on the previous year. The net profit after tax represents a 19.6% return on average shareholders' funds for the year, with our average return over the past 5 years being 28.9%.

The Group continues to have a very sound balance sheet with an equity ratio of 60.1% at 30 June 2012 (60.9% in 2011), and a working capital ratio of 3.1:1 (3.3:1 in 2011). Net operating cash flows were $52.131m compared to $43.319m the previous year. Net debt at 30 June 2012 was $20.994m compared to $36.873m at 30 June 2011. The Group remains in a strong position to take advantage of growth opportunities as they arise. I would like to take this opportunity to thank the management team for this excellent result.

For shareholders, the dividend for the year was 5.5 cents per share, up 22.2% from 4.5 cents in 2010-11, with the final dividend of 3.5 cents per share to be paid on 5 October 2012. The final dividend will have no imputation credits attached for New Zealand shareholders but full franking credits for Australian shareholders.

New store openings are being evaluated in all 4 markets, however in the current uncertain economic climate only the very best opportunities will be considered. The emphasis will remain on growing same store sales, managing margins and controlling costs.

It will be recalled that the Group currently has two unresolved tax matters relating to the way the Group valued and financed the sale of intellectual property from one of our New Zealand companies to one of our Australian companies.

In New Zealand, the Inland Revenue (IR) has questioned the manner in which the transaction was financed. In Australia, the Australian Taxation Office (ATO) has queried the value at which the intellectual property was transferred. The Group does not agree with the positions advanced by either the IR or ATO and believes the tax treatment and values it has adopted are correct. Discussions continue with both the IR and ATO within their dispute process frameworks, but it remains unclear when final resolution will be achieved in respect of either matter.

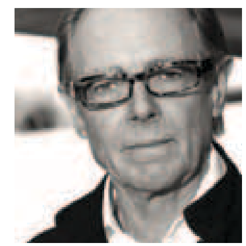
In New Zealand, the amount in dispute is $17,858,000, being the tax effect of deductions claimed by the New Zealand Group from the date of the sale through to 30 June 2011. The tax effect of deductions for the 2012 financial year is $6,778,000. In the event any tax liability was payable, the Group would also incur an interest expense.

In respect of Australia, the value at which the intellectual property was transferred was originally determined by reference to an independent valuation carried out by an internationally recognised firm and a deferred tax asset was raised in 2009 based on that valuation. The deferred tax asset balance at 30 June 2012 was $42,592,000 as a result of depreciation of components of the intellectual property and a previously announced adjustment in value. The ATO has signalled that it has issues with aspects of that valuation which, if correct, would reduce the amount of depreciation able to be deducted by the Group. As noted, the Group does not accept the ATO's position and believes the ATO's views are based on a number of factual, legal and technical valuation errors. The Group is presently preparing, and will file shortly, a formal response to the ATO.

Both matters are capable of being resolved by agreement, but if the Group is unable to find common ground with either the IR or ATO then further formal legal processes may be needed to achieve resolution. As is the case with almost all legal processes, there is inherent uncertainty as to the outcome and the Group does not believe that the outcome of either process can be predicted or the range of possible implications quantified. The Board does not consider that either of the above ongoing tax matters require a provision in the Group's 2012 financial statements but further detail is included at note 33 to the Financial Statements.

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

In particular, I would like to extend my sincere thanks and appreciation to Murray Doyle who has made the decision to not stand for re-election this year. Murray has been a Director of MHI since 2002 and has been a great asset and significant contributor to the success of this business including being Chair of the Audit Committee. The Board wish Murray all the very best in his future endeavours.



Sir Michael Hill
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS

A REVIEW OF PRIORITIES FROM LAST YEAR

PRIORITIES	RESULTS
To drive increases in same store sales and EBIT performance →	Same store sales decreased 0.3%, and EBIT grew 0.6%. Solid growth was achieved in 3 of our markets with Australia down 2.1% on a same store basis.
To open 20 new stores across the Group →	15 new stores were opened. Suitable new store sites were tougher to find than expected in our main growth markets of Australia and Canada.
To deliver a return on average shareholders' funds in excess of 25% →	A return on average shareholder funds of 19.6% was achieved. The shortfall was due to the downturn in our Australian results.
To return to profit in Canada →	Same store sales increased 5.8% and a segment profit of CA$0.518m was achieved.
To drive sales improvement in the 9 stores in the US →	Same store sales in the US increased 17.2% during the year.
To reduce operational costs as a % of sales →	Operational costs were contained within budget for the year.
To lift gross profit margin and gross return on inventory employed →	Gross profit margin fell slightly in 2011-12 as did our return on inventory employed. This result was driven in part by the tougher than expected Australian market and our need to drive sales revenue through aggressive marketing.

Our Group has reported operating revenues of $511.497m with a net profit after tax of $36.511m for the 2011-12 financial year. Earnings before interest and tax were $45.892m, up 0.6% on the previous year, and net profit before tax rose 5.1%.

A strong focus on the quality of our sales force and growing same store sales resulted in good sales and bottom line growth in three of our four markets. NZ increased 7.3%, Canada 5.8% and the US 17.2%. However the decline in consumer confidence and spending in Australia contributed to a flat bottom line for the Group.

Our refurbishment program to the new livery continued throughout 2011-12 and provided positive sales growth in those locations. The continued growth in sales of our Professional Care Plans has provided strong cash flow for the Group and net debt levels have reduced even further from last year. The Group closed the financial year with a strong balance sheet.

We have continued to further differentiate ourselves from our competitors through a strategy of developing proprietary collections. This ultimately will result in improved gross margins and volumes. Our collections have continued to perform well and now represent 13.8% of total sales. During the year we added a new collection called "Infinitas" to the stable which has been extremely well received in the market place.

We have also developed some new innovations in technology during the year which will be rolled out in 2012-13. These innovations include a handheld device for our sales teams. It will deliver vital information to them during sales presentations, including product information, pricing, customisation options, CRM and sales processing capabilities. This will improve customer service levels and make

...we have also run trials of in-store tablets for customers to browse products and services, along with media walls to deliver compelling imagery, stories and brand...

our sales presentations more seamless. We have also run trials of in-store tablets for customers to browse products and services, along with media walls to deliver compelling imagery, stories and brand.

In addition, we are testing a "higher inventory" CBD concept which will enhance our brand position and allow us to concentrate our upmarket ranges of diamonds into major cities. The first test is in Queen St, Auckland where our store is located next to other luxury brands. A second trial will open in Queens Plaza, Brisbane in September which is also located adjacent to other international luxury brands.

We opened 15 new stores during the year; 10 in Australia, 1 in New Zealand, 4 in Canada and 3 stores were closed resulting in a total of 252 stores open across the Group at 30 June 2012.

During the year, Professional Care Plans (PCP) generated revenue of $26.955m and $6.025m was brought to revenue in 2011-12. The PCP program has contributed significantly to cash flow for the Group since its introduction in October 2010.

As the PCP business is still relatively new, the Group feels that it remains too early to accurately predict the margins and therefore profitability of the PCP business. The Group is confident, however, that PCP's will contribute positively to the margins and profits of the overall business.

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

SEGMENT RESULTS

The segments reported on reflect the performance of the Group's retail operations in each geographic segment and exclude non-core retail activities such as manufacturing, wholesale and distribution, as well as other general corporate expenses. Note that the definition of "segment" has been amended with effect from 2011 to include Professional Care Plans.

AUSTRALIA

OPERATING RESULTS (AU $000)	**2012**	**2011**	**2010**	**2009**	**2008**
Revenue	**259,032**	251,261	236,314	221,113	212,095
Operating surplus	**36,798**	38,650	38,105	33,831	31,934
As a % of revenue	**14.2%**	15.4%	16.1%	15.3%	15.1%
Average assets employed	**90,160**	81,020	79,931	82,426	75,515
Return on assets	**40.8%**	47.7%	47.7%	41.0%	42.3%
Number of stores	**153**	146	141	143	136
Exchange rate	**0.78**	0.77	0.81	0.82	0.85

Total sales in Australian dollars, increased 3.1% to AU$259.032m and same store sales decreased by 2.1%. The operating surplus (EBIT) decreased 4.8% to AU$36.798m and this represented 14.2% of sales (2011 – 15.4%). Trading conditions tightened considerably in the Australian market over the course of 2011-12 and this has impacted adversely on our bottom line. NSW and Victoria in particular were affected by reduced consumer spending patterns. However, we are confident this trend can be arrested and more resource has been deployed in our Australian retail operations to improve productivity and lift performance during 2012-13.

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

- Burleigh, Queensland
- Canberra Centre, ACT
- Chatswood, New South Wales
- Doncaster, Victoria
- Highlands Marketplace, New South Wales
- Marrickville, New South Wales
- Orange, New South Wales
- Peninsula Fair, Queensland
- Runaway Bay, Queensland
- Warrnambool, Victoria

There were 153 stores trading at 30 June 2012.

The Australian business still has expansion opportunities available for future growth. New malls and expansions are creating new opportunities for us each year as landlords create additional space to cater for expanding and changing demographics. Our latest revision of the retail opportunities indicate there are at least 20 new stores which can be opened. This combined with our relocation and refurbishment strategy on existing stores provides the Group with excellent prospects to grow revenue and EBIT in the future. New stores are being actively pursued and we expect to open up to 10 new stores in Australia during 2012-13.

Despite the difficult retail environment in Australia, we will continue our operational focus on lifting same store sales and EBIT performance. We have taken several critical steps to achieve this including restructuring our operational retail teams to allow better execution of our core systems and initiatives. This is seen as an important strategy and we believe we can achieve further significant earnings growth from the existing store base in this market.

NEW ZEALAND

OPERATING RESULTS (NZ $000)	**2012**	**2011**	**2010**	**2009**	**2008**
Revenue	**109,110**	101,843	95,811	90,393	97,019
Operating surplus	**21,550**	18,484	16,050	14,954	18,435
As a % of revenue	**19.8%**	18.1%	16.8%	16.5%	19.0%
Average assets employed	**40,979**	37,946	39,454	40,418	42,355
Return on assets	**52.6%**	48.7%	40.7%	37.0%	43.5%
Number of stores	**53**	52	53	53	52

Total sales increased 7.1% to NZ$109.110m and same store sales increased by 7.3%. The operating surplus (EBIT) improved by 16.6% to NZ$21.550m and represented 19.8% of sales (2011 – 18.1%).

New Zealand again produced an excellent result and despite limited new store growth opportunities it lifted earnings to a record high in 2011-12. The refurbishment program commenced in 2010-11 has proven to be a successful strategy and the Group will continue to identify opportunities to relocate and/or refurbish key locations during 2012-13.

The results in New Zealand further demonstrate the strength of our selling systems and our ability to unlock earnings potential from mature stores through consistent improvement in operational execution, product development and the strengthening of our brand position.

One new store was opened in New Zealand at Pukekohe. There were 53 stores trading at 30 June 2012.

CANADA

OPERATING RESULTS (CA $000)	**2012**	**2011**	**2010**	**2009**	**2008**
Revenue	**44,265**	36,885	29,998	25,645	24,855
Operating surplus	**518**	(237)	(1,211)	(239)	998
As a % of revenue	**1.2%**	(0.6%)	(4.0%)	(0.9%)	4.0%
Average assets employed	**27,583**	22,837	17,593	15,387	12,565
Return on assets	**1.9%**	(1.0%)	(6.9%)	(1.6%)	7.9%
Number of stores	**37**	33	29	26	22
Exchange rate	**0.80**	0.76	0.76	0.70	0.77

Total sales in Canadian dollars grew by 20.0% to CA$44.265m and same store sales increased by 5.8%. The Canadian segment returned to profitability showing an operating surplus of CA$0.518m for the twelve months compared to a deficit of CA$0.237m for the previous corresponding period.

Once again the results for our Canadian business were pleasing with both an increase in same store sales and bottom line, while four new stores were opened. We had planned to open up to 10 stores in 2011-12 but good quality sites were hard to come by. A renewed effort is underway to secure more sites in 2012-13 and we are confident we can increase the number of openings in the coming year.

During the course of 2011-12 the company was advised by its consumer credit provider, HSBC, that it was closing its consumer credit division at the end of September 2012. As a result of this decision by HSBC we have decided to establish an in-house credit department to handle customer demand for consumer finance. The Group views this strategy as a way to reduce reliance on third party credit providers while allowing sales volumes to continue to grow. The in-house finance department will however continue to work in conjunction with another third party provider to reduce the level of funding required internally for this business.

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

- Market Mall, Alberta
- Polo Park, Manitoba
- Scarborough, Ontario
- St Vital, Manitoba

There were 37 stores trading at 30 June 2012.

USA

OPERATING RESULTS (US $000)	2012	2011	2010	2009*
Revenue	**9,576**	8,133	10,574	9,088
Operating surplus	**(2,650)**	(3,410)	(6,264)	(3,094)
As a % of revenue	**(27.7%)**	(41.9%)	(59.2%)	(34.1%)
Average assets employed	**9,653**	8,101	7,378	8,012
Return on assets	**(27.5%)**	(42.1%)	(84.9%)	(38.6%)
Number of stores	**9**	9	9	17
Exchange rate	**0.80**	0.76	0.72	0.58

*Commenced trading September 2008

Same store sales in the nine US stores increased by 17.2%. The operating deficit improved from US$3.410m to US$2.650m.

The US business continued to improve in 2011-12 and our average revenue per store exceeded $1 million for the first time. With our continued traction in sales combined with other strategies planned for 2012-13, our goal of achieving average sales of $1.2m per store is now in sight. Consumer credit has been a problem in the US since the effects of the GFC adversely impacted our approval levels in late 2008. This situation has not recovered to a level that will allow the business to meet our long term goals for profitability and growth. As a result of this ongoing issue, the decision has been made to establish our own in-house credit department to handle our customers' demands for credit on larger purchases. The in-house finance department will work in conjunction with an existing third party provider so the company does not have to carry the full funding requirements of this division.

We remain confident in the US business due to the continued same store sales growth. Despite the challenges we face due to lack of scale and brand awareness, our comparable store same store sales growth exceeds that of the industry as a whole. There are no current plans to open further stores as our major priority is to continue improving the performance of the existing stores. Once we feel confident our volumes will exceed the goal of $1.2 million per store, we will reconsider the expansion of our base in Chicago.

There were 9 stores trading at 30 June 2012.

OUR PRIORITIES

Our priorities for the 2012-13 financial year to build shareholder wealth are:

- To drive an increase in same store sales and EBIT especially in Australia
- To open 20 new stores across the Group
- To deliver a return on shareholders' funds in excess of 20%
- To achieve further profit growth in Canada
- To drive continued sales improvement in the 9 stores in the US
- To establish an in-house credit department to support our North American businesses
- To improve gross margin on inventory employed

OUR THANKS

2011-12 proved a more difficult year than the Group had anticipated due to the fall-off in consumer confidence in our largest market, Australia, during the period. However, the pleasing aspect of the year was the performance of the other three markets which all lifted their same store sales and improved their bottom lines.

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

Mike Parsell
Chief Executive Officer

FINANCIAL REVIEW
DISCUSSIONS & ANALYSIS

FINANCIAL PERFORMANCE

The Group's surplus after tax was $36.511m, up 5.8% on last year's surplus after tax of $34.499m. Total operating revenue increased from $489.330m to $511.497m, a 4.5% increase.

The Australian retail segment achieved a same store sales decrease of 2.1% in Australian dollars and a segment result of NZ$47.509m, down from NZ$50.454m the previous year.

The New Zealand retail segment achieved a same store sales increase of 7.3% and a segment result of NZ$21.550m, up from NZ$18.484m the previous year.

The Canadian retail segment had a same store sales increase of 5.8% for the year in Canadian dollars, which returned the segment to an operating profit of NZ$0.713m, up from a loss of NZ$0.299m the previous year.

The US retail segment completed its third full year of trade and produced an improved segment loss of NZ$3.296m compared to a loss of NZ$4.500m the previous year.

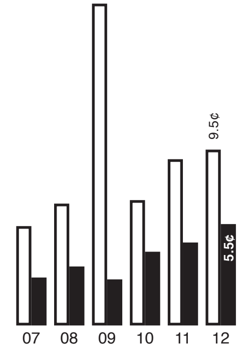
The Directors are pleased with the result for the Group which was achieved in a difficult retail environment.

CASH FLOW

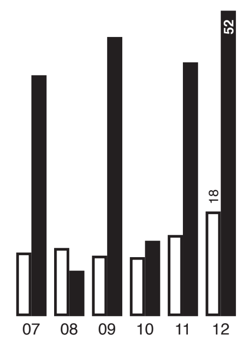
The Group has reported net operating cash inflows of $52.131m for the twelve months, compared to $43.319m for the previous year. The increased surplus from operations, compared to last year, is a result of improved revenue from all markets and also due to the first full year of cash flow created from the Group introducing a Professional Care Plan for customers to purchase for the ongoing maintenance and care of their jewellery. Revenue from the Professional Care Plan is treated as deferred revenue and brought to revenue over the life of the plan purchased by the customer.

Net cash outflow relating to investing activities was $17.897m.

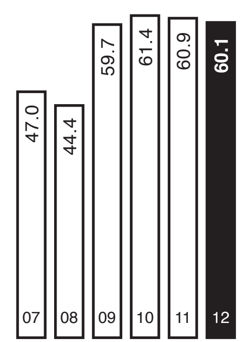
Net cash outflow from financing activities was $30.587m, compared to a net outflow of $27.150m last year.



Earnings and ordinary dividends
Cents per share / year ended 30 June
☐ EARNINGS ■ DIVIDENDS



Capital expenditure and net operating cash flow
NZ$ millions / year ended 30 June
☐ CAPEX ■ CASH FLOW



Equity ratio 60%
% / year ended 30 June

BALANCE SHEET

Net assets increased from $178.376m at the end of the previous year to $194.359m. Net debt now stands at NZ$20.994m while total borrowings from the bank decreased to $33.058m from $45.413m last year. The equity ratio at year end was 60.1%, down from 60.9% last year. Total assets increased from $293.108m to $323.648m. The current ratio decreased from 3.3:1 last year to 3.1:1 at 30 June 2012.

EVENTS AFTER BALANCE DATE

There were no events after balance sheet date requiring disclosure.

SHAREHOLDERS RETURN

- Declared dividends total 5.5 cents per share up from 4.5 cents in 2010-11.
- Shares traded between a high of $1.11 and a low of $0.75, ending the year at $0.98.
- Return on average equity was 19.6% compared to 20.5% last year.
- Return on average total assets was 11.8% compared to 12.5% last year.

TREND STATEMENT

FINANCIAL PERFORMANCE	2012	2011	2010	2009	2008	2007
	$000	$000	$000	$000	$000	$000
Group revenue	**511,497**	489,330	443,710	411,999	376,664	348,757
Profit before depreciation, amortisation and interest (EBITDA)	**58,220**	57,091	46,320	36,026	50,851	42,351
Depreciation and amortisation	**12,328**	11,453	10,786	9,833	8,574	7,264
Earnings before interest and tax (EBIT)	**45,892**	45,638	35,534	26,193	42,277	35,087
Net interest paid	**3,856**	5,653	5,326	6,044	4,789	3,943
Profit before taxation	**42,036**	39,985	30,208	20,149	37,488	31,144
Income tax	**5,525**	5,486	4,193	(46,639)	12,256	10,127
Operating profit after tax attributable to shareholders	**36,511**	34,499	26,015	66,788	25,232	21,017
Net operating cash flow	**52,131**	43,319	12,872	47,643	7,763	41,114
Ordinary dividends per share paid out	**19,139**	15,307	11,474	11,490	10,668	9,427

FINANCIAL POSITION	2012	2011	2010	2009	2008	2007
	$000	$000	$000	$000	$000	$000
Cash	**12,064**	8,540	6,270	23,529	10,013	8,426
Other current assets	**198,864**	181,606	154,264	127,930	151,025	108,023
Total current assets	**210,928**	190,146	160,534	151,459	161,038	116,449
Other non-current assets	**48,565**	42,211	39,054	35,280	35,291	28,748
Deferred tax assets	**64,085**	60,599	58,349	58,591	7,822	7,938
Total tangible assets	**323,578**	292,956	257,937	245,330	204,151	153,135
Intangible assets	**70**	152	280	471	884	1,205
Total assets	**323,648**	293,108	258,217	245,801	205,035	154,340
Current borrowings	**-**	-	-	-	23,320	31,119
Other liabilities	**68,786**	57,192	46,226	37,300	38,900	31,374
Total current liabilities	**68,786**	57,192	46,226	37,300	62,220	62,493
Non-current borrowings	**33,058**	45,413	51,707	60,487	50,927	18,396
Other long term liabilities	**27,445**	12,127	1,740	1,275	887	947
Total liabilities	**129,289**	114,732	99,673	99,062	114,034	81,836
Net assets	**194,359**	178,376	158,544	146,739	91,001	72,504
Reserves and retained profits	**190,276**	174,393	154,694	142,889	87,151	67,752
Paid up capital	**4,221**	4,177	4,141	4,141	4,141	5,129
Treasury stock	**(138)**	(194)	(291)	(291)	(291)	(377)
Total shareholder equity	**194,359**	178,376	158,544	146,739	91,001	72,504

	2012 $000	2011 $000	2010 $000	2009 $000	2008 $000	2007 $000
Per ordinary share						
Basic earnings per share	**9.54¢**	9.02¢	6.80¢	17.46¢	6.61¢	5.39¢
Diluted earnings per share	**9.50¢**	8.99¢	6.79¢	17.44¢	6.60¢	5.35¢
Dividends declared per share - interim	**2.0¢**	1.5¢	1.5¢	1.0¢	1.2¢	1.0¢
- final	**3.5¢**	3.0¢	2.5¢	1.5¢	2.0¢	1.6¢
Net Tangible asset backing	**$0.51**	$0.47	$0.41	$0.38	$0.24	$0.19

Note that the company performed a share split of 10:1 on 17 November 2007 and per share information is based on the revised share numbers.

ANALYTICAL INFORMATION	2012	2011	2010	2009	2008	2007
EBITDA to sales	**11.4%**	11.7%	10.4%	8.7%	13.5%	12.1%
EBIT to sales	**9.0%**	9.3%	8.0%	6.4%	11.2%	10.1%
Profit after tax to sales	**7.1%**	7.1%	5.9%	16.2%	6.7%	6.0%
EBIT to total assets	**14.2%**	15.6%	13.8%	10.7%	20.6%	22.7%
Return on average shareholders' funds	**19.6%**	20.5%	17.0%	56.2%	30.9%	28.5%
Return on average total assets	**11.8%**	12.5%	10.3%	29.6%	14.0%	12.8%
Current ratio	**3.1**	3.3	3.5	4.1	2.6	1.9
EBIT interest expense cover	**11.3**	7.8	6.4	4.1	8.4	7.6
Effective tax rate	**13.1%**	13.7%	13.9%	-231.5%	32.7%	32.5%
Gearing						
Net borrowings to equity	**10.8%**	20.7%	28.7%	25.2%	70.6%	56.7%
Equity ratio	**60.1%**	60.9%	61.4%	59.7%	44.4%	47.0%
Other						
Shares issued at year end excl Treasury	**382,775,586**	382,664,473	382,468,900	382,468,900	382,468,900	382,760,070
Treasury and buy back stock at year end	**277,604**	388,717	584,290	584,290	584,290	756,540
Exchange rate for translating Australian results	**0.78**	0.77	0.81	0.82	0.85	0.87
Exchange rate for translating Canadian results	**0.80**	0.76	0.76	0.70	0.77	0.78
Exchange rate for translating United States results	**0.80**	0.76	0.72	0.58	-	-
Number of stores - New Zealand	**53**	52	53	53	52	50
- Australia	**153**	146	141	143	136	126
- Canada	**37**	33	29	26	22	16
- USA	**9**	9	9	17	-	-
Total number of stores	**252**	240	232	239	210	192

COMMUNITY SPIRIT

Every year, Michael Hill prides itself on giving back to the community by supporting the communities around our 252 stores globally. This year our sponsorship and donations of products, gift vouchers and cash amounted to $245,000.

THE NZPGA CHAMPIONSHIP IN 2012

Michael Hill proudly sponsors the NZPGA Golf Championship held at *The Hills* private golf course in Arrowtown, New Zealand. The first tournament was held in March 2012, with further support for this prestigious event to be ongoing. As a major sponsor, Michael Hill's motivation for the 2012 Championship sought to leverage what could be achieved in the available time, with a view towards staging a much bigger event in 2013. An 'on course' store marquee was the major focus for Michael Hill, enabling the Group to feature the entire watch range and showcase the new charm category to a captured audience. Other opportunities included 'on course' signage featuring a Hole In One Prize for the 15th hole - a 3.2 carat diamond solitaire valued at NZ$42,999.

In 2012 the professional playing field attracted in excess of 200 entries, with the final field of 132 players comprising 88 Australians, 36 New Zealanders, 4 Koreans, 2 South Africans, and one each from China and Sweden. The amateur player field for the Pro-Am Championship was a good mix of well known golfers, political and business personalities and celebrities from New Zealand and Australia.

With the New Zealand Prime Minister confirmed as an amateur player in 2013, the event is well positioned to attract key business people to participate in the Pro-Am or to attend the event as part of corporate golf activities. It will also expose our brand to an attractive demographic audience.

MICHAEL HILL INTERNATIONAL VIOLIN COMPETITION

This prestigious competition has achieved worldwide recognition and has an enormous musical following. The Competition recognises and encourages young violinists between 18 and 28 years of age, and in 2011 attracted over 130 entries from 28 countries. The next competition will be held in June 2013, and is already attracting worldwide interest.

HARRIS THEATRE, CHICAGO

This year sees Michael Hill proudly sponsoring the Harris Theatre in Chicago, with naming rights to the Chamber Music Society of Lincoln Centre series. In order to assist to build public awareness for both organisations, the Harris Theatre proposes to create a chamber music series anchored with internationally renowned musicians that will also feature past winners of the Michael Hill International Violin Competition - Sergey Malov, 2011 winner, and Bella Hristova, 2007 winner.

OUR VALUES & GUIDING PRINCIPLES

CUSTOMER SATISFACTION IS OUR PASSION, OUR LOVE & OUR LIFE

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

OUR PEOPLE MAKE OUR COMPANY

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

ENCOURAGE INNOVATION AND USE COMMON SENSE

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

TAKE OWNERSHIP OF YOUR BUSINESS

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

BE HONEST AND ETHICAL

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

OUR SENIOR
EXECUTIVE TEAM

Mike Parsell	Chief Executive Officer
Phil Taylor	Chief Financial Officer
Ross McKinnon	Chief Information Officer
Lindsay Corfield	Group Strategy and Distribution Executive
Tony Van Der Ark	Group Property Executive
Galina Hirtzel	Group Merchandising and Manufacturing Executive
Stewart Silk	Group Human Resources Executive
Sue Szylvester	Group Marketing Executive
Kevin Stock	Retail General Manager, Australia
Greg Smith	Retail General Manager, New Zealand
Brett Halliday	Retail General Manager, Canada
Darcy Harkins	Retail General Manager, United States

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 (MHI).

The Board endorses the overall principles embodied in the New Zealand Institute of Directors' "Code of Proper Practice for Directors".

The Board believes that its corporate governance policies and procedures do not materially differ from those detailed in the NZX Best Practice Code. During the last year, there have been no changes to the Group's governance practices.

THE BOARD IS ACCOUNTABLE FOR THE PERFORMANCE OF THE GROUP

The Board is responsible to shareholders for charting the direction of the Group by participation in the setting of objectives, strategy and key policy areas. It is then responsible for monitoring management's running of the business to ensure implementation is in accordance with the agreed framework. The Board delegates the conduct of the day-to-day affairs of the Group to the Chief Executive Officer within this framework.

The workings of the Board and its code of conduct are governed by the Company's constitution and a board operations manual, committed to by all Directors. This manual sets out all the functions and operating procedures of the Board, including charters for each sub-committee. The board operations manual also clearly sets out those matters that only the Board can make decisions on. These include dividend payments, solvency certificates, raising new capital, major borrowings, approval of the annual accounts, provision of information to shareholders, major capital expenditure, and acquisitions.

Each year, the Group produces a five year plan and an operating budget which are both reviewed and approved by the Board. Financial statements are prepared monthly and reviewed by the Board progressively through the year to monitor management's performance against the budget and strategic business plan.

BOARD MEMBERSHIP

The Constitution sets the size of the Board at a minimum of three and at least two Directors must be resident in New Zealand. The Board currently comprises eight Directors, comprising an Executive Chairman, a Chief Executive Officer, and six non-executive Directors. The Board convened on five occasions in the financial year ended 30 June 2012. Profiles of the current Directors appear on page 41 of this report. Under the Company's constitution, and the NZX Listing rules, one third of all Directors must retire every year, but can be re-elected at an annual meeting if eligible.

Newly appointed Directors must seek re-election at the first annual meeting of shareholders following their appointment.

The Company has no requirement for Directors to hold shares in the Company but actively encourages them to do so and all current Directors have holdings in the Company, which are detailed on page 85 of this report. Directors adhere to the Company's insider trading policy at all times.

INDEPENDENT DIRECTORS

Under the NZX Listing rules, the Company is obliged to have at least three independent Directors, if there are eight or more Directors. An independent Director has been defined in the NZX Listing rules as a "Director who is not an executive of the Issuer and who has no Disqualifying Relationship."

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

The Company has determined that Gary Gwynne, Murray Doyle and Deeta McGeoch (Colvin) are independent Directors under the NZX Listing rules.

DIRECTORS' MEETINGS

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

The agenda for meetings is prepared by the Company Secretary in conjunction with the Chairman. Any member of the Board may request the addition of an item to the agenda. Board papers are circulated to Directors a week in advance of meetings.

The table below sets out the Board and sub-committee meetings attended by Directors during the course of the Financial Year.

	Board of Directors		Audit Committee		Remuneration Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
Sir Michael Hill	5	5	2	2	2	2
M.R. Parsell	5	5	2	2	2	1
L.W. Peters	5	4	2	2	2	2
G.J. Gwynne	5	5	2	2	2	2
M.R. Doyle	5	4	2	2	2	2
A.C. Hill	5	5	2	2	2	2
E.J. Hill	5	5	2	2	2	2
D.W. McGeoch (Colvin)	5	4	2	2	2	2

THE WORK OF DIRECTORS

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

BOARD REVIEW

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

CHIEF EXECUTIVE OFFICER PERFORMANCE REVIEW

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

BOARD SUB-COMMITTEES

The Board has established a number of sub-committees to guide and assist the Board with overseeing certain aspects of corporate governance – the audit process, determination of compensation issues and the structure of the Board itself. Each sub-committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice. The provision of such advice, if required, would be arranged in consultation with the Chairman. In circumstances where a Director was to obtain separate advice from that obtained on behalf of the Group, that advice would normally be provided to all Directors.

AUDIT SUB-COMMITTEE

The Audit sub-committee, which is chaired by Murray Doyle and consists of Messrs Doyle, Peters and Gwynne, met twice during the year. The function of the Audit sub-committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993, regarding management's accountancy practices, policies and controls relative to the Group's financial position and to review and make appropriate inquiry into the audits of the

Group's financial statements by both internal and external auditors. This responsibility includes advising on the appointment of the external auditor and reviewing the scope and quality of the audit. The Audit sub-committee has the responsibility of monitoring the Group's risk management practices and procedures to ensure that policies and processes exist to effectively identify, manage and monitor principle business risks. The Group's auditors, both internal and external, along with other relevant executive management, attend all meetings and may discuss any matters in connection to audits, the Group's risk and control environment or any other matters relating to the Group's financial and non-financial affairs. This committee also approves any non audit work carried out by the Group's auditors, and ensures that the lead partner in the audit firm is rotated every five years. The committee will also approve all major accounting policy changes. At least once a year, the Chairperson of the committee meets with the external auditor without the presence of executive management to discuss any matters that either the committee or the external auditor believes should be discussed privately.

REMUNERATION SUB-COMMITTEE

This sub-committee, chaired by Wayne Peters, comprises all Directors except Mike Parsell, who attends in an advisory capacity. The function of the Remuneration sub-committee is to determine the executive management's remuneration. This role also includes responsibility for share option schemes, incentive performance packages, and fringe benefit policies. The sub-committee also advises on proposals for significant Group wide remuneration policies and programs. In carrying out this role, the sub-committee operates independently of executive management of the Group, and obtains independent advice on the appropriateness of the remuneration packages. The committee met twice during the year.

This sub-committee also has the responsibility to review the performance of the Chief Executive Officer on an annual basis.

The committee has continued to structure executive management bonuses around a return on capital employed basis, to emphasise efficient use of capital.

NOMINATIONS SUB-COMMITTEE

This sub-committee comprises Sir Michael Hill as Chairman, and all other members of the Board. The function of the sub-committee is to periodically review the most appropriate Board structure and to consider the appointment of additional Directors. Board membership is reviewed periodically to ensure the Board has an appropriate mix of qualifications, skills and experience. External advisors may be used to assist this process.

Any person who is to be considered as a Director of the Company must attend between one and three Board meetings in the capacity of a consultant before being eligible for appointment as a Director.

SHARE TRADING BY DIRECTORS

Under Section 148 of the Companies Act 1993, Directors must disclose particulars of any acquisitions or dispositions of relevant interests in the ordinary shares of the Company during the year. The relevant interest acquired or disposed of includes beneficial ownership.

The Directors named below have disclosed to the Board under Section 148 of the Companies Act 1993, particulars of the following acquisitions of relevant interests in the ordinary shares of the Company during the year. The relevant interest acquired includes beneficial ownership.

	No. of shares acquired/(sold)	Consideration paid/(received)	Date acquired/(sold)
Sir Michael Hill & E.J. Hill	10,199,859	$10,911,336	7/3–8/3/12
M.R. Doyle	100,000	$104,071	16/4/12
L.W. Peters	(10,000,000)	($10,700,000)	7/3–8/3/12
	(3,200,000)	($3,264,036)	27/3/12
G.J.Gwynne	500,000	$407,349	12/10/11
M.R Parsell	590,000	$487,064	17/10–25/10/11
	9,234	$7,473	31/10/11

L.W.Peters also terminated management of client accounts as follows: control and voting rights over 635,000 shares was relinquished on 13/10/2011 and over 310,000 shares on 19/4/2012.

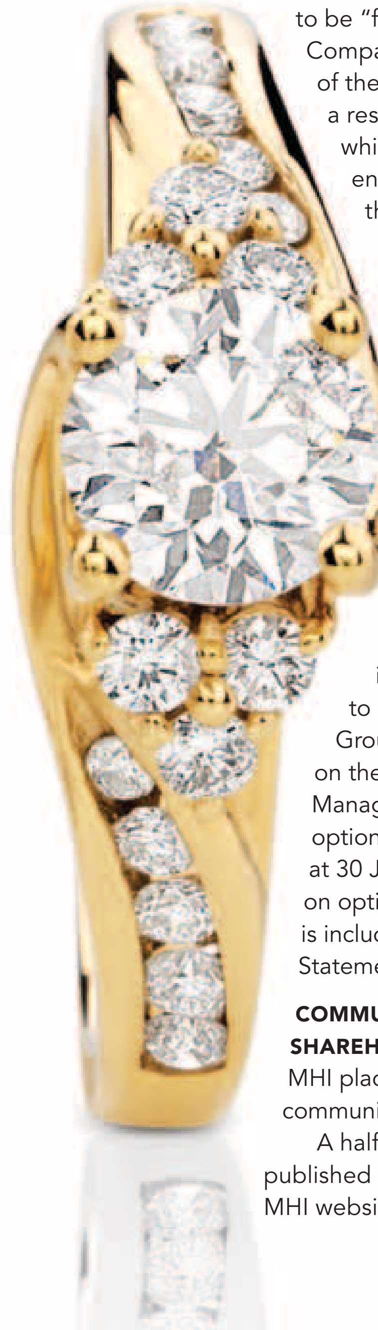
NON-EXECUTIVE DIRECTORS' FEES

Fees for non-executive Directors are based on the nature of their work and their responsibilities. The Group is now truly global with 79% of the Group's stores in Australia, Canada and the USA. Shareholders at the Annual Meeting in November 2011 approved a maximum amount of $570,000 to be paid to Directors.

Each NZ resident Director is currently paid $85,000 per annum and our Australian resident Directors A$85,000 per annum. No equity incentives are offered to non-executive Directors. Under the Company's constitution, shareholders are required to approve all retirement benefits for Directors other than for Directors who were in office on or before 1 May 2004 and who have continued to hold office. It is not the intention to pay any such retirement allowances.

SHARE PURCHASE SCHEME

The Company has a Share Purchase Scheme for management in operation. The scheme was designed to encourage Store Managers, Regional Managers and other senior employees of the Group to purchase shares in the Company. In order to provide a pool of shares for eligible employees to purchase, the Company from time to time will buy MHI shares on the New Zealand Stock Exchange. The rules of the scheme provide for the Company to on sell shares to purchasing Group employees at a 10% discount to the weighted average price for the ordinary shares during the 10 working day period ending 2 working days immediately prior to the date on which the Company offers shares to the Group's employees. The discount is deemed to be "financial assistance" under the Companies Act 1993. The Trustees of the scheme hold the shares for a restrictive period of one year, which is to promote the concept of encouraging long-term investing in the Company. In the year ended 30 June 2012, 111,113 shares were issued to staff at a price of $0.81 in September 2011. The Company holds a further 277,604 shares which are held as "Treasury Stock" and will be used for the next issue of shares under the scheme in September 2012.



SHARE OPTIONS

During the year, a total of 900,000 options to purchase fully paid shares in the Company were issued to Executive Management of the Group and 150,000 were cancelled on the resignation of one Executive Manager. There are currently 6,500,000 options outstanding to employees as at 30 June 2012. Further information on options outstanding to employees is included in note 30 to the Financial Statements on page 78.

COMMUNICATION WITH SHAREHOLDERS

MHI places high importance on communication with shareholders.

A half year and annual report is published each year and posted on the MHI website.

Announcements to the New Zealand Stock Exchange and the media are also posted on the website, as are copies of presentations for analysts which are done once a year in conjunction with the release of the annual results for the year.

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

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

CONTINUOUS DISCLOSURE POLICY

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

1. At each Board meeting, a standard agenda item is now considered – "Does the Group have anything to disclose?" The Board considers the information in its possession and decides appropriately whether any information needs to be disclosed to the market.
2. Between Board meetings, management will bring to the attention of the Directors any information they believe should be disclosed to the market for their consideration.
3. The Company normally releases a Trading update for each quarter within 10 working days of the end of the quarter. This update gives a breakdown of year to date sales by country and an update on the trading conditions experienced in the last quarter and any other relevant information. For the second and fourth quarters, this update will be given in advance of the full earnings announcement made to NZX.
4. In the 12 months ended June 2012, the Company has made the following disclosures (excluding Directors and Officers ongoing disclosures re share trading) to NZX under the continuous disclosure rules:

8 July 2011	Notice re issue of 150,000 options to executive manager.
19 August 2011	Full year results for year ended 30 June 2011 released to NZX.
22 August 2011	Notice of closing date for Director nominations.
19 September 2011	Notice of issue of 750,000 options to executive managers.
22 September 2011	Release of Annual report for year ended 30 June 2011.
22 September 2011	Notice of Annual Meeting released.
26 September 2011	Notice of issue of 111,113 shares to staff under the Company's share purchase scheme.
4 October 2011	Staff share scheme. Notice of financial assistance given.
11 October 2011	3 months trading update to 30 September 2011.
7 November 2011	Notice re Independent Directors.
7 November 2011	Notice of Annual Meeting resolutions passed.
21 November 2011	Annual Meeting Presentation.
11 January 2012	6 months trading update to 31 December 2011.
16 February 2012	Preliminary results for 6 months ended 31 December 2011 released to NZX.
7 March 2012	Half year report to 31 December 2011 released.
12 April 2012	9 months trading update to 31 March 2012 released.
13 April 2012	Notice of cancellation of 150,000 options to executive manager on his resignation.

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

EXTERNAL AUDIT INDEPENDENCE POLICY

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

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

PROVISION OF NON AUDIT SERVICES BY THE EXTERNAL AUDITING FIRM

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

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

Valuations
Prohibited.

Tax Services
Permitted but limited, as not seen to threaten independence.

Provision of IT Systems
Design and implementation of financial IT systems prohibited.

Staff secondment from Auditors
These are permitted with safeguards. Any persons seconded have no management authority within MHI and are not permitted to sign any agreements or to commit MHI in any way.

Litigation Support Services
Permitted with safeguards.

Legal Services
Permitted where immaterial to the financial statements.

Executive Search and Selection
Permitted with safeguards. Making selection for MHI prohibited.

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

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

FEES AND BILLINGS

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

For the 2011/12 financial year audit fees amounting to $332,000 (2010/11 - $276,000) and fees for other professional services amounting to $98,000 (2010/11 - $33,000) were paid to Ernst & Young.

HIRING OF STAFF FROM THE EXTERNAL AUDITING FIRM

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

RISK MANAGEMENT REPORT

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

RISK MANAGEMENT PROCESS

The Board of Directors is responsible for risk management. The risk management process involves the annual review and approval of plans incorporating assessment of opportunities and risks associated with these opportunities.

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

A formal risk management workshop is conducted annually by our risk consultants in conjunction with the Group's Executive Managers to review and update the risk register which is included in the Audit sub-committee agenda.

INSURANCE PROGRAM

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

INTERNAL AUDIT

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

CODE OF ETHICS

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

CORPORATE CODE OF ETHICS

Michael Hill International (MHI) believes that outstanding business performance must be supported by the highest standards of corporate behaviour towards our employees, customers and other stakeholders. This code of ethics is a guide to help our Directors and employees live up to our high ethical standards.

Our corporate code of ethics is supported by written policies and procedures on each of these standards, by providing training to employees on the details and importance of these standards, and by formal communication systems to ensure these standards are observed, discussed and reinforced. Our Directors and management team will lead by example, demonstrating their commitment to this code of ethics at all times through their personal behaviour and through the guidance they provide to our staff.

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

OUR EMPLOYEES

- Respect, fairness, honesty, courtesy, and good faith will guide all relations with employees.
- Opportunity without bias will be afforded each employee in relation to demonstrated ability, initiative, and potential.
- We will strive to create and maintain a work environment that fosters honesty, personal growth, teamwork, open communications, and dedication to our vision and values.
- We will strive to provide a safe workplace that at a minimum meets all health and safety laws and regulations.
- The privacy of an individual's records will be respected and will not be disclosed without proper authority unless their there is a legal obligation to do so.

OUR CUSTOMERS

- We support and uphold at all times the tradition and integrity of the jewellery industry, and conduct our business in such a manner that will reflect credit on our industry and us.
- All our marketing and advertising will be accurate and truthful.
- We are committed to providing the highest quality, service, and value to our customers. We provide a lifetime diamond warranty on selected diamond products, a 12-month guarantee for all other jewellery items and a 3 year guarantee and lifetime battery replacement on every Michael Hill watch. We provide a 30-day change of mind policy that is a money back guarantee on all purchases if for any reason the customer is not completely satisfied.
- We will protect customer information that is sensitive, private, or confidential just as carefully as our own.

OUR BUSINESS PARTNERS

- Suppliers win our business based on product or service suitability, price, delivery, and quality. We also expect suppliers to have high ethical standards in their business practices.

OUR SHAREHOLDERS

- We require honest and accurate recording and reporting of any and all information in order to make responsible business decisions.
- All financial records and accounts will accurately reflect transactions and events, and conform both to required accounting principles and to our Company's system of internal controls. No false or artificial information will be tolerated.
- We will safeguard all sensitive information. We will not disclose inside information that has not been reported publicly.

OUR COMMUNITIES

- We wish to be good corporate citizens and wish to build positive relationships with communities where we have a presence. Our efforts focus on the arts, local schools and charities, through periodic donations, including jewellery, to good causes.

COMPANY PROPERTY AND ASSETS

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

GOVERNMENTS

- In conducting business with due skill, care, and diligence, we seek always to comply with both the letter and spirit of relevant laws, rules, regulations, codes, and standards of good market practice in the countries we do business in.
- Our Company does not make political contributions and has no political affiliations.

SHARE TRADING BY DIRECTORS AND OFFICERS IN MHI SHARES

- The Company does not condone any form of insider trading by Directors or officers.
- The board operations manual sets out a procedure which must be followed by Directors when trading in Michael Hill International shares. If Directors or officers possess "material information" (refer to definition below) at any time, then they must not trade in MHI securities, advise or encourage others to trade or hold or pass on material information to others.

- Material information is information that:
  - Is not generally available to the market; and
  - If it were generally available to the market, would have a material effect on the price of Michael Hill International's listed securities. Information is generally available to the market if it has been released as an NZX announcement.
- There are additional restrictions for Directors and all other senior executives who report to the CEO. These individuals are subject to "black-out" periods during which they may not trade in MHI securities unless the board of MHI provides a specific exemption.
- These "black-out" periods are
  - 1 December, until the half year results are released to NZX.
  - 1 June until after the full year results are released to NZX.
- Before trading in MHI shares, Directors and officers must, in writing
  i) Notify MHI's Company Secretary of their intention to trade in securities and seek consent to do so.
  ii) Confirm that they do not hold material information.
  iii) Confirm that there is no known reason to prohibit trading in MHI securities.
- From 3 May 2004, all officers of the Company (as defined by the Securities Amendment Act 2003) must also disclose to the Company and to the NZX within 5 days, any dealings in MHI shares.

The full Insider Trading policy of the Company is posted on the Company's website.

CONFLICTS OF INTERESTS

- Employees will not accept anything of value from a customer, vendor, or business associate which would impair or be presumed to impair their judgment in business matters.
- The acceptance of gifts and gratuities is discouraged and any over $50 must be entered in the Gifts Register held by the CFO. We may accept meals/hospitality that are not lavish and are reasonable in the context of doing business. Guidelines to use for the acceptance of any gift are: Will this influence my decision making? Does it place me in obligation? Could it be seen as an inducement? How would this look if reported by the media?
- Our employees will avoid any conflict of interest professionally and personally which might prevail or appear to prevail over the interests of the Company.
- Directors' conflicts of interests are dealt with in the Board operations manual. At all times, a Director must be able to act in the interests of the organization as a whole. The interests of associates, individual shareholders and the personal interests of the Director and his family must not be allowed to prevail over those of the Company and its shareholders generally.

SPEAKING UP

- Employees who know, or have genuine suspicions of any breaches of our code of conduct, policies & procedures, or any legal violation in relation to work related issues should report such matters promptly to their manager. If the employee does not feel comfortable discussing the issue with their manager, they should talk to another member of management, the Internal Auditors, or Human Resources.
- Employees will not be blamed for speaking up. The Group will make proper efforts to protect the confidentiality of employees who do raise concerns. Any attempt to deter employees raising proper concerns will be treated as a serious disciplinary action.

Failure to abide by the code of ethics and the law will lead to disciplinary measures appropriate to the violation.

DIRECTOR PROFILES

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

EMMA HILL
Non-executive Director/Deputy Chairman. Emma has been associated with the company since 1987. Emma has a Bachelor of Commerce degree and an MBA degree from Bond University in Queensland. She has held a number of management positions in Australia, and in 2002 led the expansion of the Group into Canada as Retail General Manager. She returned to live in New Zealand in February 2007 and was appointed a Director in February 2007. Member of the Remuneration and Nominations sub-committee.

MIKE PARSELL
Chief Executive Officer of the Group. Mike spearheaded the Company's move into Australia in 1987. He has had extensive experience in the jewellery industry since 1976. Mike joined the Company in 1981 and was appointed to the Board in 1989, made joint Managing Director in 1995 and CEO in 2000. Member of the Nominations committee.

GARY GWYNNE
Non-executive and Independent Director. Gary has an extensive background in marketing, retailing and property development. He is currently a Director of Oyster Property Group, the operators of Dress Smart Factory Shopping Centres and a Director of Overland Footwear Company and Sheppard Industries. He was appointed to the Board in February 1998. Member of the Audit, Remuneration and Nominations sub-committees.

WAYNE PETERS
Non-executive Director. Wayne, who is based in Australia, has 30 years of retailing and investment management experience. He is Chairman and Chief Investment Officer of Peters MacGregor Capital Management Pty Ltd and Chairman of ASX listed Peters MacGregor Investments Ltd.
Member of the Audit and Nominations sub-committees and Chairman of the Remuneration sub-committee, Wayne joined the board in February 1999.

MURRAY DOYLE
Non-executive and Independent Director. Murray is a Director of Aspiring Asset Management Limited. His previous experience was in the finance industry until 1998, when his stock broking firm was purchased by Bankers Trust now Deutsche Bank. He is a member of the Remuneration sub-committee , the Nominations sub-committee and Chairman of the Audit sub-committee. He joined the board in February 2000.

ANN CHRISTINE LADY HILL
Non-executive Director
Christine has been associated with the Company since its original formation in 1979 and has been closely involved with the artistic direction of the Group's store design and interior layouts over the years. Christine is a member of the Remuneration sub-committee and Nominations sub-committee, and joined the Board in 2001.

DEETA MCGEOCH (COLVIN)
Non-executive Director and Independent Director.
Based in Sydney, Deeta has wide communications and retail skills founded in fashion, perfumes and cosmetics, travel and the media.
She is a former owner of high profile marketing and PR consultancy Colvin Communications which specialised in lifestyle, consumer products and corporate issues and management. She has been a director of corporate relations for PBL Media and has consulted to some of the world's biggest fashion and cosmetic brands including Louis Vuitton, Dior, Fendi and Versace.
Deeta is a board member of UNICEF Australia. Deeta was appointed a Director by the Board in February 2011. She is a member of the Remuneration and Nominations sub-committee.

STATUTORY REPORT OF THE DIRECTORS

The Directors have pleasure in submitting to shareholders the 25th Annual Report and audited accounts of the Company for the year ended 30 June 2012.

BUSINESS ACTIVITIES

The Group's sole business activities during the 2011/12 financial year continued to be jewellery retailing and manufacturing.

CONSOLIDATED FINANCIAL RESULTS

The Group has recorded a tax paid surplus of $36.511m for the year ended 30 June 2012 (2011 - $34.499m). This surplus was achieved on total operating revenue of $511.497m (2011 - $489.330m).

The accounts for the year ended 30 June 2012 have been presented in accordance with the accounting principles and policies detailed on pages 52 to 57 of this report.

	2012 $000	**2011** $000
Total operating revenue	511,497	489,330
Surplus before tax	42,036	39,985
Taxation	(5,525)	(5,486)
Surplus after tax	36,511	34,499
Dividends paid	(19,139)	(15,307)
Net surplus retained	17,372	19,192

SHAREHOLDERS' FUNDS/RESERVES

Total shareholders' funds of the Group now stand at $194.359m. Contributed equity increased to $4.083m due to shares issued under the employee share scheme.

The Group's reserves at 30 June 2012 totalled $190.276m.

	$000
The Group's reserves at 30 June 2011 were	**174,393**
To which was added:	
Operating surplus after tax for the year	36,511
Exchange differences on translation of foreign operations	(1,843)
Option reserve movement	354
From which was deducted:	
Ordinary dividends paid	(19,139)
Leaving reserves at 30 June 2012 at	**190,276**
These comprise:	
Retained profits	188,483
Other reserves	1,793
	190,276

ACCOUNTING POLICIES

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

DIVIDENDS

Your Directors paid an interim dividend of 2.0 cents per share, with nil imputation credits and full franking credits attached on 2 April 2012. On 16 August 2012, your Directors declared a final dividend of 3.5 cents per share payable on 5 October 2012. The share register will close at 5:00pm on 28 September 2012 for the purpose of determining entitlement to the final dividend.

The total ordinary dividend for the year was 5.5 cents (not imputed), (2011 – 4.5 cents not imputed). The payout represents 57.7% (2011 – 49.9%) of the tax paid profit of the Group.

DIRECTORS

Murray Doyle is retiring as a Director at the Annual Meeting in November after twelve and a half years on the board. Mike Parsell and Ann Christine Lady Hill retire by rotation and being eligible offer themselves for re-election at the annual meeting on 2 November.

DIRECTORS' REMUNERATION

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

	2012 $000	2011 $000
Parent Company		
Sir Michael Hill*	$150	$150
M.R. Parsell*	A$1,409	A$1,332
G.J. Gwynne	$85	$75
L.W. Peters	A$85	A$75
M.R. Doyle	$85	$75
Ann Christine Lady Hill	$85	$75
E.J. Hill	$85	$75
D.W. McGeoch (Colvin)	A$85	A$37.5

* Executive Directors do not receive Director's fees. Executive remuneration includes salary, superannuation, bonus payments, retirement allowances and provision of a vehicle received in their capacity as employees.

Mike Parsell's annual bonus for the year is based on a percentage of the Group's net profit after tax, in excess of a hurdle rate of return on capital employed in the Group.

Mike Parsell has the following share options outstanding as at 30 June 2012:

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

REMUNERATION OF EMPLOYEES

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

$000	2012	2011
100-110	36	23
110-120	15	19
120-130	15	21
130-140	17	15
140-150	11	9
150-160	7	7
160-170	6	4
170-180	7	3
180-190	2	6
190-200	5	4
200-210	3	2
210-220	2	3
220-230	1	0
230-240	1	1
240-250	0	1
280-290	1	1
300-310	2	1
310-320	0	1
360-370	1	0
370-380	1	0
380-390	1	1
420-430	1	1
440-450	0	1
470-480	1	0
500-510	1	0
510-520	0	1
580-590	0	1
710-720	0	1
750-760	1	0

Australian remuneration has been converted into New Zealand dollars at the exchange rate used for translating the Australian results into New Zealand dollars, 0.78 (2011 – 0.77). Canadian remuneration on the same basis at 0.80 (2011 – 0.76) and USA remuneration on the same basis at 0.80 (2011 - 0.76).

INFORMATION ON DIRECTORS

The qualifications and experience of the Directors are shown on page 41.

The Directors are responsible for the preparation of the financial statements and other information included in this Annual Report. The financial statements have been prepared in conformity with generally accepted accounting principles to give a true and fair view of the financial position of the Company and Group and the results of their operations and cash flows.

The Company appoints independent chartered accountants to audit the Financial Statements prepared by the Directors and to express an opinion on these Financial Statements. The independent auditor's report, which sets out their opinion and the basis of that opinion, is set out on page 46 of this report.

DONATIONS

The total of donations made during the year amounted to $23,000.

INTERESTS REGISTER

Gary Gwynne declared his interests as a Director in Oyster Property Group Limited and Sheppard Industries Limited.

On behalf of the Directors,

Sir Michael Hill		Mike Parsell

ERNST & YOUNG

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Michael Hill International Limited and its subsidiaries on pages 48 to 83, which comprise the statement of financial position of Michael Hill International Limited and the Group as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Company and Group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Other than in our capacity as auditor we have no relationship with, or interest in Michael Hill International Limited or any of its subsidiaries.

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

OPINION

In our opinion, the financial statements on pages 48 to 83:

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Ernst + Young

Ernst & Young
16 August 2012
Brisbane

The Directors are please to present the Financial Statements of Michael Hill International Limited for the year ended 30 June 2012. The Board of Directors of Michael Hill International Limited authorised these Financial Statements for issue on 16 August 2012.

Sir Michael Hill
Chairman of Directors

Mike Parsell
Chief Executive Officer/Director

FINANCIAL STATEMENTS

STATEMENTS OF COMPREHENSIVE INCOME for the year ended 30 June 2012

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

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

STATEMENTS OF FINANCIAL POSITION as at 30 June 2012

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

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

STATEMENTS OF CHANGES IN EQUITY for the year ended 30 June 2012

Attributable to owners of Michael Hill International Limited	Notes	GROUP Contributed equity $000	GROUP Reserves $000	GROUP Retained profits $000	GROUP Total equity $000	PARENT Contributed equity $000	PARENT Reserves $000	PARENT Retained profits $000	PARENT Total equity $000
Balance at 1 July 2010		3,850	2,775	151,919	158,544	3,850	610	298,771	303,231
Total comprehensive income		-	86	34,499	34,585	-	-	33,831	33,831
		3,850	2,861	186,418	193,129	3,850	610	332,602	337,062
Transactions with owners in their capacity as owners:									
Dividend paid	26	-	-	(15,307)	(15,307)	-	-	(15,307)	(15,307)
Employee shares issued	30(b)	133	-	-	133	133	-	-	133
Option expense through share based payments reserve	30(c)	-	421	-	421	-	421	-	421
		133	421	(15,307)	(14,753)	133	421	(15,307)	(14,753)
Balance at 30 June 2011		3,983	3,282	171,111	178,376	3,983	1,031	317,295	322,309
Total comprehensive income		-	(1,843)	36,511	34,668	-	-	15,115	15,115
		3,983	1,439	207,622	213,044	3,983	1,031	332,410	337,424
Transactions with owners in their capacity as owners:									
Dividend paid	26	-	-	(19,139)	(19,139)	-	-	(19,139)	(19,139)
Employee shares issued	30(b)	100	-	-	100	100	-	-	100
Option expense through share based payments reserve	30(c)	-	354	-	354	-	354	-	354
		100	354	(19,139)	(18,685)	100	354	(19,139)	(18,685)
Balance at 30 June 2012		4,083	1,793	188,483	194,359	4,083	1,385	313,271	318,739

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

CASH FLOW STATEMENTS for the year ended 30 June 2012

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

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

NOTE 1 Summary of significant accounting policies

(a) BASIS OF PREPARATION

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

Compliance with IFRS

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

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

Entities reporting

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

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

Statutory base

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

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

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

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

Historical cost convention

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

(b) PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Michael Hill International Limited ('Company' or 'Parent Entity') as at 30 June 2012 and the results of all subsidiaries for the year then ended. Michael Hill International Limited and its subsidiaries together are referred to in these financial statements as the Group or the Consolidated Entity.

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

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

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

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

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

(c) SEGMENT REPORTING

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

(d) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

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

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

(e) REVENUE RECOGNITION

(i) Sales of goods - retail

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

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

(ii) Rendering of services - deferred service revenue

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

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

(iii) Rendering of services - repairs

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

(iv) Interest income

Interest income is recognised using the effective interest method.

(f) INCOME TAX

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

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

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

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

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

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

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

(g) LEASES

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

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

(h) IMPAIRMENT OF ASSETS

At each annual reporting date (or more frequently if events or changes in circumstances indicate that they might be impaired), the Group assesses whether there is any indication that an asset may be impaired. Where such an indication is identified, the Group estimates the recoverable amount of the asset and recognises an impairment loss where the recoverable amount is less than the carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use.

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

The discount rates used in determining the recoverable amount ranged between 10% and 11.5% (2011: 10.25% and 12.5%).

(i) CASH AND CASH EQUIVALENTS

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

(j) TRADE RECEIVABLES

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

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

(k) INVENTORIES

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

(l) INVESTMENTS AND OTHER FINANCIAL ASSETS

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

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

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

(ii) **Loans and receivables**

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

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

(m) DERIVATIVES

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

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

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

(i) **Fair value hedge**

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

(ii) **Cash flow hedge**

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

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

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

(n) FAIR VALUE ESTIMATION

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

The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(o) PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Plant and equipment 5 - 6 years
- Motor vehicles 3 - 5 years
- Fixtures and fittings 6 - 10 years
- Leasehold improvements 6 - 10 years
- Display material 6 - 10 years

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

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

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

(p) INTANGIBLE ASSETS

Computer software

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

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

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

(q) TRADE AND OTHER PAYABLES

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

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

(r) BORROWINGS

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

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

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

(s) PROVISIONS

Provisions for legal claims, sales returns, lifetime battery replacement and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to passage of time is recognised as interest expense.

(t) EMPLOYEE BENEFITS

(i) **Short-term obligations**

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

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

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) **Retirement benefit obligations**

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

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

(iv) **Share-based payments**

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

The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

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

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

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

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

(u) CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

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

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

(v) DIVIDENDS

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

(w) EARNINGS PER SHARE

(i) **Basic earnings per share**

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

(ii) **Diluted earnings per share**

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

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

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

NOTE 2 Financial risk management

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

There were no derivatives at balance sheet date.

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

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

(a) MARKET RISK

(i) **Foreign exchange risk**

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

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

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

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

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

Group sensitivity

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

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

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

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

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

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

The Group's main interest rate risk arises from long-term borrowings and cash. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain a minimum 50% in fixed rate instruments. All the Group's borrowings are denominated in Australian Dollars. The majority of the Group's sales are generated in Australian Dollars which reduces the overall net exposure.

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

Group sensitivity

At 30 June 2012, if interest rates had changed by -/+100 basis points from the year end rates with all other variables held constant, pre tax profit for the year would have been NZ$331,000 lower/higher (2011: NZ$454,000 lower/higher), mainly as a result of higher/lower interest expense on commercial bills. All other non-direct financial liabilities have a contractual maturity of less than 6 months.

(b) CREDIT RISK

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

(c) LIQUIDITY RISK

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

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

(d) CAPITAL RISK MANAGEMENT

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

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

NOTE 3 Critical accounting estimates and assumptions

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

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

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with the assistance of an external valuer using both the binomial model and the Black-Scholes formula. The related assumptions are detailed in note 30. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black- Scholes formula taking into account the terms and conditions upon which the instruments were granted (see note 30).

Make good provisions

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

Estimation of useful lives of assets

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

CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

Revenue recognition

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

Taxation and recovery of deferred tax assets

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

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

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

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

NOTE 4 Segment information

Identification and description of segments

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

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

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

Types of products and services

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

Major customers

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

Accounting policies and inter-segment transactions

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

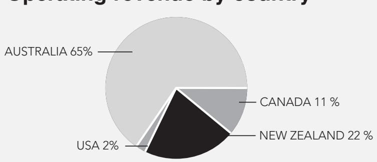
It is the Group's policy that if items of revenue and expense are not allocated to operating segments, then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments, which management believes will be inconsistent.

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

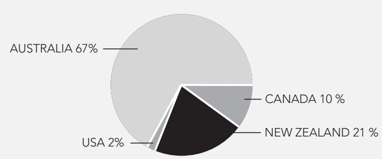
STATEMENT OF SEGMENTED RESULTS for the year ended 30 June 2012

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

Operating revenue by country



2012



2011

NOTE 5 Revenue

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

NOTE 6 Other income

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

NOTE 7 Expenses

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

Remuneration of auditors

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

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

NOTE 8 Income tax expense

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

All unused tax losses were incurred by the USA entity.

NOTE 9 Current assets - Cash and cash equivalents

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Cash at bank and in hand	**12,064**	8,540	36	80

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

NOTE 10 Current assets - Trade and other receivables

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

(a) Impaired receivables

Trade receivables are from sales made to customers mainly through third party credit providers, are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $581,000 (2011: $955,000) has been recognised by the Group. All trade receivables past 90 days have been impaired.

Movements in the provision for impairment loss were as follows:

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Opening balance	**819**	644	-	-
Amounts written off	**(581)**	(955)	-	-
Additional provisions recognised	**470**	1,080	-	-
Exchange differences	**(14)**	50	-	-
Closing balance	**694**	819	-	-
At 30 June 2012, the ageing analysis of trade receivables is as follows:				
0 - 30 days	**4,813**	3,111	-	-
31 - 60 days	**373**	299	-	-
61 - 90 days	**131**	100	-	-
91+ days	**619**	822	-	-
	5,936	4,332	-	-

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

(b) Other receivables

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

(c) Related party receivables

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

(d) Effective interest rates

All receivables are non-interest bearing.

NOTE 11 Current assets - Inventories

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

All inventories are held at cost.

NOTE 12 Current assets - Current tax receivables

	GROUP		PARENT	
	2012 $000	**2011** $000	**2012** $000	**2011** $000
Income tax	**-**	-	2	525

NOTE 13 Non-current assets - Property, plant and equipment

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

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

NOTE 14 Non-current assets - Deferred tax assets

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

NOTE 15 Non-current assets - Intangible assets

	Patents, trademarks and other rights $000	Computer software $000	Total $000
GROUP			
At 1 July 2010			
Cost	14	3,961	3,975
Accumulated amortisation	-	(3,695)	(3,695)
Net book amount	14	266	280
Year ended 30 June 2011			
Opening net book amount	14	266	280
Exchange differences	1	19	20
Amortisation charge*	-	(148)	(148)
Closing net book amount	15	137	152
At 30 June 2011			
Cost	15	4,244	4,259
Accumulated amortisation	-	(4,107)	(4,107)
Net book amount	15	137	152
Year ended 30 June 2012			
Opening net book amount	15	137	152
Exchange differences	-	(2)	(2)
Amortisation charge*	-	(80)	(80)
Closing net book amount	15	55	70
At 30 June 2012			
Cost	15	4,159	4,174
Accumulated amortisation	-	(4,104)	(4,104)
Net book amount	15	55	70

*Amortisation of $80,000 (2011: $148,000) is included in depreciation and amortisation expense in the comprehensive income statement.
The parent has no intangible assets.

NOTE 16 Non-current assets - Other non-current assets

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Deferred expenditure	**1,449**	-	-	-

NOTE 17 Non-current assets - Investments in subsidiaries

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Shares in subsidiaries	**-**	-	314,869	314,869

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

NOTE 18 Current liabilities - Trade and other payables

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

NOTE 19 Current liabilities - Current tax liabilities

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Income tax	**5,325**	893	-	-

NOTE 20 Current liabilities - Provisions

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

(a) Employee benefits - long service leave

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

(b) Returns provision

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

(c) Make good provision

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

(d) Movements in provisions

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

	Employee benefits $000	Returns provision $000	Make good provision $000	Total $000
Carrying amount at start of year	1,505	1,139	53	2,697
Additional provisions recognised	393	2,148	-	2,541
Amounts incurred and charged	(182)	(1,123)	-	(1,305)
Exchange differences	(31)	(31)	-	(62)
Carrying amount at end of year	1,685	2,133	53	3,871

NOTE 21 Current liabilities - Deferred revenue

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

NOTE 22 Non-current liabilities - Borrowings

	GROUP		PARENT	
	2012 $000	**2011** $000	**2012** $000	**2011** $000
Secured				
Bank loans	**33,058**	45,413	-	-
Total non-current borrowings	**33,058**	45,413	-	-

(a) Assets pledged as security

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

(b) Financing arrangements

The Group's objectives when managing capital are to ensure sufficient liquidity to support its financial obligations and execute the Group's operational and strategic plans. The Group continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. Accordingly, the Group entered into an agreement with ANZ on 3 November 2011 that provides for a $96,631,000 multi option borrowing facility, the availability of which is adjusted throughout the year in line with business requirements. At balance date $50,858,000 was available, and of that, $33,058,000 was utilised.

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

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

(c) Interest rate risk exposures

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

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

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

NOTE 23 Non-current liabilities - Provisions

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

(a) Employee benefits - long service leave

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

(b) Make good provision

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

(c) Movements in provisions

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

	Employee benefits $000	**Make good provision** $000	**Total** $000
Carrying amount at start of year	1,215	228	1,443
Additional provisions recognised	263	387	650
Amounts incurred and charged	-	-	-
Exchange differences	(25)	(6)	(31)
Carrying amount at end of year	1,453	609	2,062

NOTE 24 Non-current liabilities - Deferred revenue

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

NOTE 25 Contributed equity

	PARENT 2012 Shares	PARENT 2011 Shares	PARENT 2012 $000	PARENT 2011 $000
(a) Share capital: Ordinary shares				
- Fully paid (b)	**383,053,190**	383,053,190	4,221	4,177
- Treasury stock held for Employee Share Scheme (c)	**(277,604)**	(388,717)	(138)	(194)
	382,775,586	382,664,473	4,083	3,983
(b) Fully paid ordinary share capital				
Opening balance of ordinary shares issued	**383,053,190**	383,053,190	4,177	4,141
Issues of ordinary shares during the year				
Employee Share Scheme issue	**111,113**	195,573	100	133
Transfer from treasury stock	**(111,113)**	(195,573)	(56)	(97)
Closing balance of ordinary shares issued	**383,053,190**	383,053,190	4,221	4,177

(c) Treasury stock

Treasury shares are shares in Michael Hill International Limited that are held by Michael Hill Trustee Company Limited for the purpose of issuing shares under the Michael Hill International Employee Share Scheme (see note 30).

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

(d) Ordinary shares

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

(e) Employee Share Scheme

Information relating to the Michael Hill International Limited Employee Share Scheme, including details of shares issued under the scheme, is set out in note 30.

(f) Options

Information relating to the Michael Hill International Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 30.

NOTE 26 Dividends

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

(c) Imputed dividends

The dividends paid during the current financial period and corresponding previous financial period are not imputed.
Imputation credits available for subsequent financial years based on a 28% tax rate for the Group are $1,303k (2011: $217k).
Imputation credits available for subsequent financial years based on a 28% tax rate for the Parent are $633k (2011: $0).

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

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

The Group amounts include imputation credits that would be available to the Parent Entity if distributable profits of subsidiaries were paid as dividends.
There will be no impact on the imputation account of the dividend recommended by the Directors since year end.

NOTE 27 Earnings per share

	GROUP	
	2012 Cents	**2011** Cents
(a) Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company	**9.54**	9.02
(b) Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company	**9.50**	8.99

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

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

(e) Information concerning the classification of securities

(i) **Options**

Options granted to employees under the Michael Hill International Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 30.

(ii) **Treasury Stock**

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

NOTE 28 Related party transactions

(a) Directors

The names of persons who were Directors of the Company at any time during the financial year are as follows: Sir Michael Hill, M.R. Parsell, L.W. Peters, G.J. Gwynne, M.R. Doyle, A.C. Hill, E. J. Hill, D. W. McGeoch (Colvin).

(b) Key management personnel compensation

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

	SHORT-TERM BENEFITS $000	POST-EMPLOYMENT BENEFITS $000	SHARE-BASED PAYMENTS $000	TOTAL $000
2012	**4,079**	**322**	**254**	**4,655**
2011	3,960	292	344	4,596

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

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

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Unsecured loans to key management personnel	**59**	59	-	-

Employee Share Scheme

Key management personnel can subscribe in cash for ordinary shares via the Michael Hill International Limited Employee Share Scheme on the same terms and conditions that apply to other employees.

(d) Subsidiaries

The ultimate parent and controlling entity of the Group is Michael Hill International Limited. Interests in subsidiaries are set out in note 29.

	GROUP		PARENT	
(e) Transactions with related parties	2012 $000	2011 $000	2012 $000	2011 $000
The following transactions occurred with related parties:				
Sales of goods and services				
Sale of property, plant and equipment to a related party of board members	**-**	45	-	45
Purchases of goods and services				
Services rendered for typing and editing the annual and half year reports by a related party of board members	**13**	9	13	9
Other transactions				
Annual sponsorship for Michael Hill Violin Charitable Trust	**63**	58	63	58

NOTE 29 Investments in subsidiaries

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

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING 2012 %	2011 %
Michael Hill Jeweller Limited	New Zealand	Ordinary	100	100
Michael Hill Trustee Company Limited	New Zealand	Ordinary	100	100
Michael Hill Finance (NZ) Limited	New Zealand	Ordinary	100	100
Michael Hill Franchise Holdings Limited	New Zealand	Ordinary	100	100
MHJ (US) Limited	New Zealand	Ordinary	100	100
Michael Hill Jeweller (Australia) Pty Limited	Australia	Ordinary	100	100
Michael Hill Wholesale Pty Limited	Australia	Ordinary	100	100
Michael Hill Manufacturing Pty Limited	Australia	Ordinary	100	100
Michael Hill Franchise Pty Limited	Australia	Ordinary	100	100
Michael Hill Franchise Services Pty Limited	Australia	Ordinary	100	100
Michael Hill Finance (Limited Partnership)	Australia	-	100	100
Michael Hill Group Services Pty Limited	Australia	Ordinary	100	100
Michael Hill Jeweller (Canada) Limited	Canada	Ordinary	100	100
Michael Hill LLC	United States	Ordinary	100	100

NOTE 30 Share-based payments

(a) Employee Option Plan

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

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

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

The ten year options are exercisable at any time during the final five years.

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

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

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

Share options outstanding at the end of the year have the following expiry date and exercise prices:	**Exercise price per share**	**2012 Number of options**	2011 Number of options
30 September 2017	**$1.25**	**4,250,000**	4,250,000
30 September 2019	**$0.94**	**200,000**	200,000
30 September 2019	**$0.94**	**150,000**	150,000
30 September 2019	**$0.94**	**400,000**	400,000
30 September 2020	**$0.88**	**350,000**	350,000
30 September 2020	**$0.88**	**400,000**	400,000
30 September 2021	**$1.16**	**750,000**	-
		6,500,000	5,750,000

The weighted average remaining contractual life of share options outstanding at the end of the period was 6.3 years (2011: 6.9 years).
The range of exercise prices for options outstanding at the end of the year was $0.88 - $1.25. Refer to the table above for detailed information on each issue.

Option pricing model

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

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

The following table lists the inputs to the models used for the options issued during the years ended 30 June 2012 and 30 June 2011:

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

(b) Employee Share Scheme

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

(b) Employee Share Scheme (continued)

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

During the year, 111,113 (2011: 195,573) shares were issued to the Michael Hill Employee Share Scheme at an average price of $0.90 (2011 - $0.68). Michael Hill International Limited acquired no shares through on-market purchases on the New Zealand Stock Exchange during the year that related to the employee share scheme.

(c) Expenses arising from share-based payment transactions

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

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

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

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

NOTE 32 Commitments

Operating leases

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

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

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

NOTE 33 Contingencies

(a) Contingent liabilities

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

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

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

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

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

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

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

(b) Contingent assets

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

NOTE 34 Events occurring after the reporting period

There were no significant events occurring after 30 June 2012.

NOTE 35 Deed of cross guarantee

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

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

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

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

Statements of comprehensive income

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

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

Statements of changes in equity

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

Statements of financial position

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

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

ANALYSIS OF SHAREHOLDING

TWENTY LARGEST SHAREHOLDERS AS AT 31 JULY 2012

	ORDINARY SHARES	% OF SHARES
Durante Holdings Pty Limited	202,644,452	52.90
Accident Compensation Corporation - NZCSD	21,396,914	5.59
Citibank Nominees (New Zealand) Limited	15,414,475	4.02
Tea Custodians Limited	14,839,545	3.87
Bond Street Custodians Limited	10,896,000	2.84
Peters MacGregor Pty Limited	7,000,000	1.83
M.R. Parsell	6,459,114	1.69
HSBC Nominees (New Zealand) Limited - NZCSD	3,861,483	1.01
R.L. Parsell	3,560,250	0.93
National Nominees New Zealand Limited	2,890,666	0.75
Double Dragon Superannuation Pty Limited	2,370,000	0.62
P.R.Taylor	2,000,000	0.52
New Zealand Permanent Trustees Limited	1,983,599	0.52
G.J Gwynne, P.A Gwynne & D.H. Rishworth	1,922,000	0.50
W.K Butler, C.A. Butler & R.M.J.Urlich	1,823,640	0.48
NZPT Custodians (Grosvenor) Limited	1,604,055	0.42
E.J. Hill	1,524,750	0.40
H.C. Wilson	1,500,000	0.39
NZ Superannuation Fund Nominees Limited	1,456,378	0.38
J P Morgan Chase Bank NA- NZCSD	1,433,503	0.37
Total	306,580,824	80.03

SHAREHOLDING BY RANGE OF SHARES AS AT 31 JULY 2012

	NO. OF HOLDERS	% OF HOLDERS	NO. OF SHARES
1 - 9,999	1,744	51.3	6,718,267
10,000 - 49,999	1,337	39.3	26,170,801
50,000 - 99,999	198	5.9	12,533,691
100,000 & over	119	3.5	337,630,431
Total	3,398	100	383,053,190

SUBSTANTIAL SECURITY HOLDERS

The following shareholders hold 5% or more of the issued capital of the Company and have filed notices with the Company under the Securities Amendment Act 1988 that they are substantial security holders in the Company.

	NO. OF ORDINARY SHARES
Durante Holdings Pty Limited	202,644,452
Leslie Wayne Peters, Peters MacGregor Capital Management Pty Ltd	26,321,000
Accident Compensation Corporation	21,519,905

Total number of issued voting securities of the Company as at 31 July 2012 is 382,775,586.

An additional 277,604 shares are held as treasury stock for the Company's staff share purchase scheme.

DIRECTORS' & ASSOCIATED INTERESTS' SHAREHOLDING

The table below sets out the relevant interests in equity securities of Directors and Associated Persons of Directors at 30 June 2012, in terms of Listing Rule 10.5.5 (c) of the New Zealand Exchange Listing Rules.

	RELEVANT INTEREST OF DIRECTOR	RELEVANT INTEREST OF ASSOCIATED PERSON
Sir Michael Hill and Ann Christine Lady Hill	202,644,452	
M.R. Parsell	6,459,114	3,700,400
G.J. Gwynne	1,972,000	
L.W. Peters	26,321,000	
M.R. Doyle	2,983,599	
E.J. Hill	1,524,750	
D.W. McGeoch (Colvin)	20,000	

SHARE PRICE PERFORMANCE

	HIGH	LOW	as at 30/6/12
PRICES FOR SHARES TRADED DURING THE YEAR	$1.11	$0.75	$0.98

	2012	2011	2010	2009	2008	2007	2006
SEVEN YEAR COMPARATIVE REVIEW OF SHARE PRICES AS AT 30 JUNE	$0.98	$0.90	$0.69	$0.60	$0.72	$1.01	$0.76

Note: a 10 for 1 share split occurred on 19 November 2007. The previous years have been adjusted for comparative purposes.

SHAREHOLDER INFORMATION

Information specifically for investors and shareholders is featured on the **Investor Centre** of our website, **www.michaelhill.com**

It includes our latest share and historical share prices over the last six years. It also includes any announcements and powerpoint presentations made to Analysts and the Press at the time of the release of our half year and annual financial results to the New Zealand Stock Exchange each year. A copy of the Company's Constitution, minutes of the last Annual Meeting and the Company's Insider Trading Policy are also available on the website. Any shareholders with queries relating to their shareholding or dividend payments etc., should direct their enquiries to

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

FINANCIAL CALENDAR

ANNUAL MEETING

Friday 2nd November 2012 at 10.30 am
Stamford Plaza Hotel
Albert St, Auckland

DIVIDENDS PAYABLE

Interim - April   Final - October

FINANCIAL RESULTS ANNOUNCED

Half year - February   Annual - August

CORPORATE DIRECTORY

DIRECTORS
Sir Richard Michael Hill, K.N.Z.M. (Chairman)
E.J. Hill B.Com., M.B.A. (Deputy Chairman)
M.R. Parsell (Chief Executive Officer)
G.J. Gwynne
L.W. Peters M.B.A.,FFin.
M.R. Doyle
Ann Christine Lady Hill Dip F.A.
D.W. McGeoch (Colvin) B.A.

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

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Australia and New Zealand Banking Group Limited
Bank of America N.A.
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INTERNATIONAL LIMITED

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