

ANNUAL REPORT 2002



Michael Hill
INTERNATIONAL LTD

The Directors are pleased to present the Annual Report of Michael Hill International for the year ended 30 June 2002. This year we have adopted "triple bottom line" reporting. Accordingly, our report highlights our progress in

■ Increasing economic value to our shareholders

■ Embracing socially responsible policies for our staff and stakeholders

■ Adopting environmentally sustainable practices



R.M. Hill
Chairman of Directors



M.R. Parsell
Chief Executive Officer/Director

Dated 22 August 2002

CHIEF EXECUTIVE OFFICER'S REPORT

'Our philosophy of controlled, profitable growth has enabled us to once again unlock strong growth from our existing businesses, while only pursuing new store opportunities with the potential to deliver superior returns.'

Mike Parsell's report on the company's performance in 2002 and outlook for 2003.

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COMPANY PROFILE

Michael Hill International operates Michael Hill Jeweller - an Australasian retail jewellery chain catering principally for the middle section of the jewellery market, with 120 stores between Australia and New Zealand as at 30 June 2002. The Company also specialises in higher priced diamond jewellery. The Company had its origins in 1979 when Michael Hill opened the 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 almost saturation levels of high impact advertising elevated the Company to national prominence and record sales.

The Company grew rapidly, expanding to 10 stores by 1987 - the same year it was listed on the New Zealand stock exchange. 1987 also saw expansion into Australia, opening the first store in August, in the Brisbane suburb of Indooroopilly.

Today the group employs over 1,500 full and part time staff in retailing, manufacturing and administration. It has approximately 2,800 shareholders and remains the most profitable publicly listed retail jeweller in Australia/New Zealand.

OUR OVERALL STRATEGIC GOAL

To grow shareholder wealth over time through our philosophy of controlled profitable growth.

OUR MISSION

Our mission is to be the most people focused jeweller in the world.



Customer satisfaction
is our passion, our love
and our life...

OUR VALUES / GUIDING PRINCIPLES

Customer satisfaction is our passion, our love and 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 company'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 company.

Be honest and ethical.

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

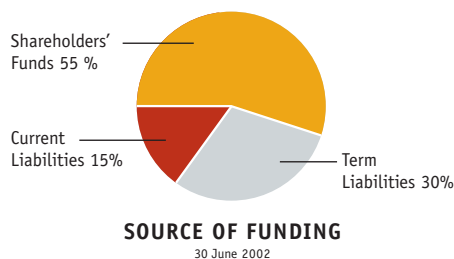
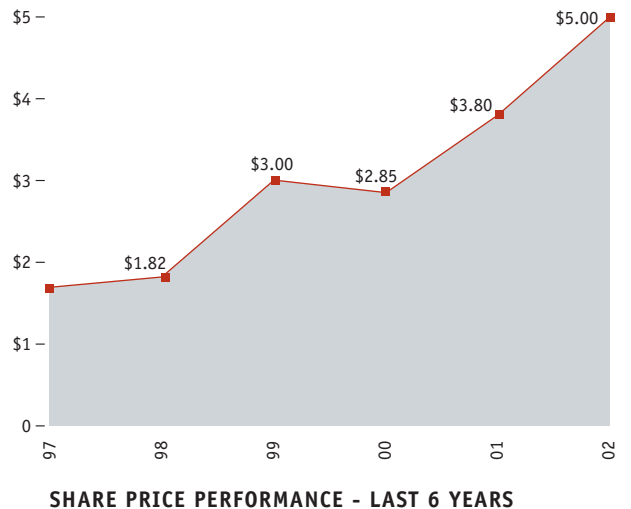
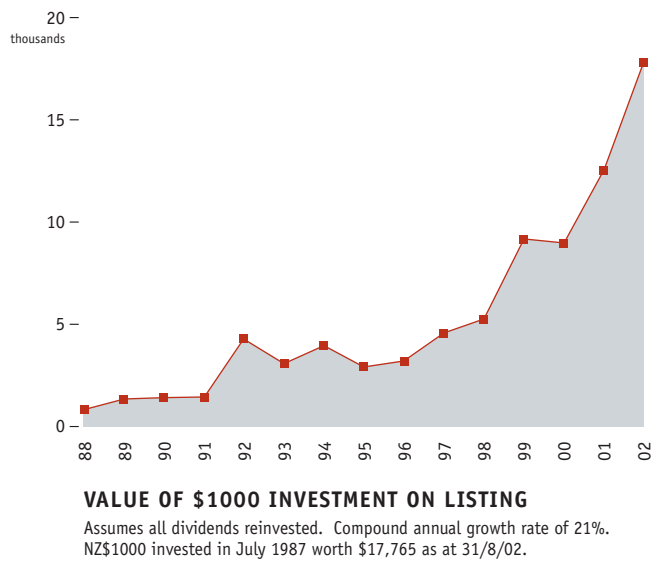
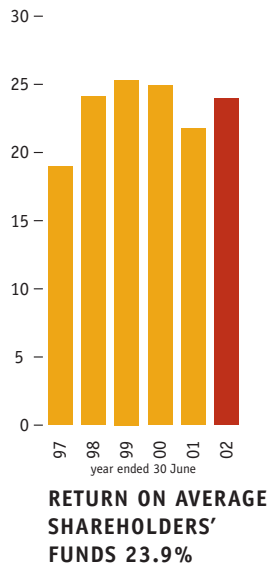
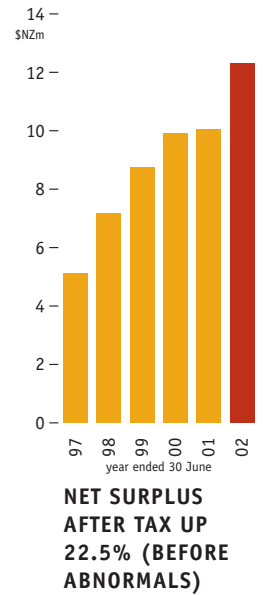
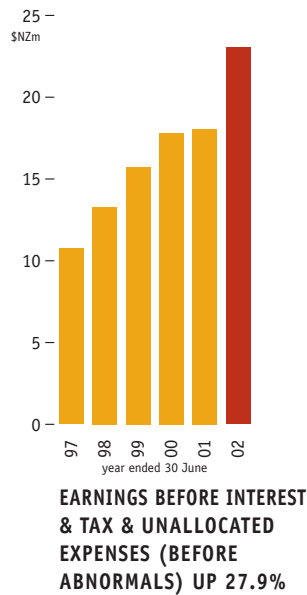
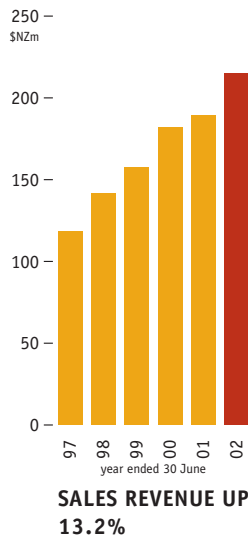


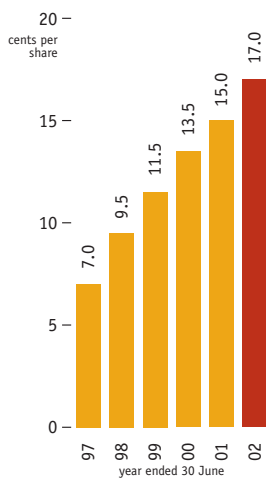
PERFORMANCE HIGHLIGHTS

Revenue exceeded \$200 million for first time.

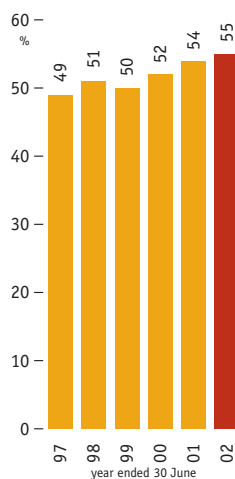
Earnings before interest, tax & unallocated expenses were up 27.9%.

Net surplus after tax and before abnormals rose 22.5%.

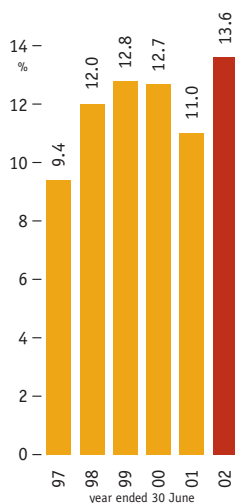




**ORDINARY
DIVIDEND UP
13.3%**



EQUITY RATIO 55%



**RETURN ON
AVERAGE ASSETS
13.6%**

KEY FACTS

Year ended 30 June
NZ\$000's unless stated

	2002	2001	% change
TRADING RESULTS			
• Group revenue	214,105	189,168	+13.2%
• Earnings before interest and tax and unallocated expenses (before abnormals)	23,013	17,997	+27.9%
• Group surplus after tax (before abnormals)	12,298	10,039	+22.5%
- First half	8,712	7,745	+12.5%
- Second half	3,586	2,294	+56.3%
• Group surplus after tax (after abnormals)	12,706	10,039	+26.6%
• Net cash from operating activities	8,871	7,887	+12.5%

FINANCIAL POSITION AT YEAR END

• Issued and paid up capital, 38,558,600 ordinary shares	7,712	7,712	
• Total shareholders' funds	53,328	49,568	+7.6%
• Total assets	96,413	91,331	+5.5%
• Net debt	27,454	27,113	+1.2%
• Capital expenditure - cash	6,256	8,028	-22.0%

NUMBER OF STORES 30 JUNE

• New Zealand	43	41	
• Australia	77	74	
Total	120	115	

DISTRIBUTION TO SHAREHOLDERS

• Dividends - including final dividend			
- Per ordinary share	17.0¢	15.0¢	+13.3%
- Times covered by surplus after tax	1.9	1.7	
• Special Dividend - payable 14 October 2002	20.0¢	-	

SHARE PRICE

30 June	\$5.00	\$3.80	+31.5%
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KEY DATA PER SHARE

• Earnings before abnormal items	31.9¢	26.03¢	
• Earnings after abnormal items	32.95¢	26.03¢	

KEY MEASURES

• Same store sales up			
- Australia	6.4%	3.5%	
- New Zealand	13.0%	2.9%	
• Return on average shareholders' funds	23.9%	21.8%	
• Interest cover (times)	10.3	8.1	
• Equity Ratio	55%	54%	
• Current ratio	5.6:1	5.1:1	



It has been a very exciting year for the Company. Profits up 22.5% (before abnormals), a 23.9% return on shareholders funds, ordinary dividend up 13.3%, a special dividend of 20 cents for shareholders and our decision to open up in Canada...

CHAIRMAN'S REVIEW

Dear Fellow Shareholders,

Michael Hill International has achieved a fifth consecutive record profit for the year ended 30 June 2002 (before abnormals) of \$12.298 million which has substantially increased value for our shareholders. This profit was achieved on a 13.2% increase in revenue of \$214.105 million.

Our main goals at the beginning of the year were to achieve group revenue of \$210 million, and an after tax operating profit of \$11.8 million. It was gratifying to exceed these goals and I thank our dedicated team for delivering an outstanding 23.9% return on shareholders funds. Over the past five years our return on shareholders funds has averaged 24%, a return we can justifiably be very proud of.

The value of the company has again been reflected in the change in the share price which has increased 31.5% to \$5.00 in the 12 months ended 30 June 2002. Our ordinary dividend payout of 17 cents per share for the year was up 13.3%, and a special dividend of 20 cents per share was declared on September 10th, 2002, following the sale and lease back of our Head Office building in Australia. Our decision to distribute a special dividend following the sale of the Australian building was taken after a careful review of the capital structure of our balance sheet and the cash requirements of the company going forward. It is also consistent with our strategy of increasing shareholder value, while pursuing controlled profitable growth for the group. The Australian building is being sold in two stages, with stage one realising A\$4.5 million. A further A\$400,000 of profit will be realised on the development of stage two of the building in the next two to three years.

I would like to thank my fellow Board members for their contribution over the last year. We work very well as a team and everyone has concentrated on the big picture for the future of the company. Our focus over the past 12 months has been on ensuring that we have a solid group structure in place to enable us to expand globally. It is a credit to Mike Parsell, our Group CEO, that the restructuring has been accomplished in rapid time.

In our half year report, we signalled that a full feasibility study was to be undertaken into the possibility of expansion into Canada. I am pleased to report that a full study and business plan has been completed and the Board has decided to proceed. We intend to open four new stores and set up a Head Office in or around Vancouver in the next financial year. Three of these stores will be operational by November 2002 and leases for these stores have been finalised. An experienced team of managers from Australia and New Zealand will lead this venture into Canada, and I am very proud to report that Emma Hill has been appointed General Manager for Canada reporting to Mike Parsell.

Our plan is to open four new stores each year for the next four years, with an initial funding of NZ\$3.3 million for the first year and a total of \$NZ 6.63 million over the first four years. The growth potential for stores in Canada is enormous with 120 stores being a possibility over the next ten to fifteen years.

We see the Canadian expansion as the commencement of our expansion to other countries in coming years and this global expansion will create great opportunities to increase shareholder value over time.

Underlying all our growth strategies however will be our fundamental philosophy of controlled profitable growth.


The Group's balance sheet is in fine shape with an equity ratio of 55% as at 30 June 2002, providing a solid platform from which to launch our global expansion.

Needless to say, we also have substantial growth opportunities available to us in both Australia and New Zealand with a further 50 new stores possible in Australia over the next six to eight years and still further possible locations in NZ.

In summary, it has been a very exciting year for the company. Profits up 22.5% (before abnormals), a 23.9% return on shareholders funds, ordinary dividend up 13.3%, a special dividend of 20 cents for shareholders and our decision to open up in Canada.

All this progress could not have happened without our Number one asset – our people. In this years report we have listed all 1500 people who work for our company on the back cover. We have a magnificent team of dedicated and passionate individuals at all levels, a great many of whom have been with us for many years, and their expertise and enthusiasm is a major reason for our continuing success. They foster and preserve a company culture that is unique. I personally thank everyone of them for their magnificent contribution to our results. This year we introduced a share incentive scheme for executives and managers thereby giving our top performers a share in the business and an even greater commitment to the future of our company.

Our annual meeting will be held this year at the Hilton Hotel on Princes Wharf in Auckland on the 28th of November. I look forward to seeing you there.



Michael Hill
Chairman

CEO'S REVIEW OF OPERATIONS

This has been a very successful year for the group. In financial terms, the company posted a record profit, up 22.5% on revenue growth of 13.2%. Our philosophy of controlled, profitable growth has enabled us to once again unlock strong growth from our existing businesses, while only pursuing new store opportunities with the potential to deliver superior returns. Further to this we have also made substantial progress behind the scenes to strengthen the company for the future, and to support our decision to enter a new international market.

The following strategies, implemented over the past 18 months have all contributed to this year's result.



Over the past year we conducted a research study through numerous focus groups in New Zealand, Australia and Canada. These were carried out to check on the progress of the group's marketing strategy and objectives. This research has shown we have made strong progress towards these objectives. The new advertising campaigns have rapidly raised our market perception and improved our brand equity. This improved brand perception has greatly assisted us in delivering same store sales growth and improved margins during the year. The study groups in Canada have also indicated our strategy can be executed consistently across all countries. More importantly, the Canadian groups reacted very favourably

to our advertising and communication material, which will have a strong point of difference to the local competitors.

Our new store design is a critical part of our brand strategy. This year it has been further refined to include more innovative lifestyle features, which have proved so popular in our large format stores. These include comfortable sofas, table and chairs, the inclusion of a more compact diamond laboratory for our customers' education, and cappuccino machines. The number of these features used depends on the demographics and size of each store. Our aim is to create the ultimate jewellery shopping experience and to further set our stores apart from our competition.

This year, 19 stores were upgraded to the new image, including five in New Zealand and fourteen in Australia. The capital expenditure invested to 30 June totalled NZ\$2,318,476. The refurbished stores contributed positively to the sales growth of the existing stores.

We restructured for the future

During the year a Group Executive team was established around the company's core competencies of Retailing, Human Resources, Merchandise, Finance, Information Technology and Marketing. This new team is responsible for the development and implementation of the Group's key strategies and will ensure this is executed consistently across all countries. The existing management structures have also been realigned into functional and cross-functional support teams to improve communication, speed of decision-making and provide support for the retail activities of the group.

During the year we appointed the following Group Executives. Ross McKinnon was appointed as Group I.T. Manager, Paul Williams as Group Merchandise and Supply Chain Manager, Kevin Stock as Retail General Manager (Australia), Tina Radford as Group Human Resources Manager, and Emma Hill as Retail General Manager (Canada). At this time the only position still to be appointed is a Group Marketing Manager.

This strategy has been an exciting one due to the opportunities that have been created for our people to take on new responsibilities within the business and for the expertise we have been able to bring into the organisation to complement existing skills.

This new structure will allow us to unlock numerous benefits in the coming years, including the sharing of knowledge, development of our people, rapid application of best practices, access to major international manufacturers, improved product development, lower costs for products, availability of timely group data and the consistent development of our brand platform. These appointments and the new structure have already provided a positive benefit and will further strengthen the company's competitive advantage as we develop into a truly global retailer.

We have taken the Michael Hill Brand to a new level

In December 2000, we began the process of elevating Michael Hill Jeweller's brand position. The strategy involved a complete review of our traditional advertising methods, store design, packaging and display, to align us more closely with our target market. Our objectives were to improve sales by attracting new customers to the brand, and to improve the perception of the brand, particularly in the areas of product quality. We also wanted to position the brand for international expansion.

We began to buy better as well

In December with the appointment of the Group Merchandise and Supply Chain Manager, the company commenced a co-ordinated approach to the planning and buying of stock for the first time. The key objective of this decision is to commence leveraging the groups buying functions to deliver increased margins. This will be achieved through consolidated ranging and buying as an international group, rather than on a local basis. This will take three years to fully implement and maximise the benefits. The first six months has already had a positive impact, particularly in Australia where margins had fallen in the first half due to the implementation problems of the groups new computer system which prevented us from reacting quickly enough to the strengthening US dollar. To a large extent this was recovered in the second half through improved pricing management and renegotiation of supplier contracts.

Our manufacturing operations continues to provide us with substantial cost savings, the ability to respond to new design trends and control quality. Last year the Australian division invested in new casting technology. At the time we predicted a payback on the investment through additional cost savings within two years. I am pleased to report this occurred within the first 12 months.

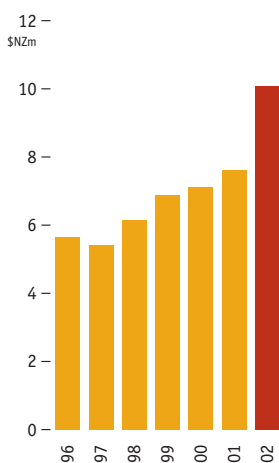
We invested for future growth

Seven new stores opened during the year. This was short of our objective however as mentioned in previous years, we observe a strict set of criteria when selecting new locations. If the locations are not available at the appropriate commercial terms and in the right positions, we continue to look for locations that are. Therefore the number of stores opened each year may vary to our plan, but this averages out over time. Two stores were closed in Australia during the year due to lease issues. The total number of stores in the group increased from 115 to 120 at June 30.

DIVISIONAL REVIEW New Zealand has exceptional year

OPERATING RESULTS - NEW ZEALAND (NZ \$000's)

	1996	1997	1998	1999	2000	2001	2002
Revenue	44,877	47,894	50,845	56,600	63,105	68,314	80,643
Earnings before interest & tax	5,692	5,525	6,117	7,002	7,120	7,643	10,134
As a % of revenue	12.7%	11.5%	12.0%	12.4%	11.3%	11.2%	12.6%
Average assets employed	22,459	23,214	23,520	25,615	30,569	29,818	28,935
Return on assets	25.3%	23.8%	26.0%	27.3%	24.5%	25.6%	35.0%
Number of stores	35	36	36	38	40	41	43



EBIT NEW ZEALAND

Our New Zealand business performed magnificently this year. Total revenue improved 18%, while same store sales increased 13%. EBIT improved by 32.6%. This is a terrific result for a mature business and a credit to the entire team.

The focus in New Zealand has centred on growing the performance of the existing store base. This was achieved through a concentrated effort to support our brand strategy and by encouraging and further developing the in-store teams to make every customer's experience more memorable than ever before.

The company also joined the Fly Buys Program in October 2001 to further support our objective of growing revenue by attracting new customers to our brand. This initiative has proven successful with a high frequency of usage by Fly Buy members.

Two new stores opened during the year. Bayfair at Mt Maunganui opened in September 2001 and Taupo opened in December 2001. Both stores are trading well. These openings took the number of stores to 43 at June 30. Given the strong performance of Taupo, we have now identified further opportunities to increase the total number of stores in New Zealand to fifty over the next five years.

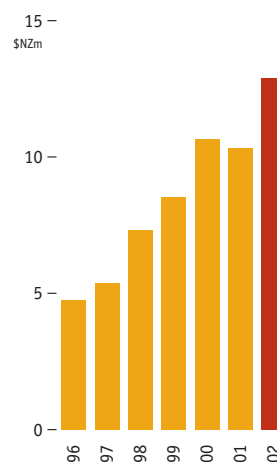
Our objective in New Zealand is to continue to build on our solid same store performance over the next 12 months, through increased revenue and margins. We also plan to open up to three new stores.

Australia had a solid year

OPERATING RESULTS - AUSTRALIA (NZ \$000's)

	1996	1997	1998	1999	2000	2001	2002
Revenue	65,183	70,409	90,409	100,340	118,878	120,854	133,462
Earnings before interest & tax	4,790	5,299	7,158	8,663	10,678	10,354	12,879
As a % of revenue	7.3%	7.5%	7.9%	8.6%	9.0%	8.6%	9.6%
Average assets employed	28,149	31,755	35,820	42,516	48,704	56,589	64,064
Return on assets	17.0%	16.7%	20.0%	20.4%	21.9%	18.3%	20.1%
Number of stores	47	52	58	64	66	74	77
Exchange rate for profit translation	0.87	0.91	0.83	0.84	0.80	0.79	0.82

The Australian business finished the year up 10.4% in total revenue and 24.4% in EBIT. Same store sales rose 6.4% on the previous year. Performance in the first six months was disappointing due to the impact on sales from the September 11 attacks, and a loss of margin from the strengthening US dollar. During August the company implemented a new Inventory management system, which prevented an immediate pricing response to the weakening Australian dollar. However, the division managed to recover well in the second six months with margins back at normal levels from January. During the last 18 months the



EBIT AUSTRALIA

Australian business has also borne a number of costs associated with building the new group structure. This was reviewed at balance date with some group costs being moved to unallocated expenses to better reflect the true Australian trading position.

Five new stores opened during the year. These included Carousel, Perth which opened in July 2001, Tamworth, N.S.W in September 2001, Booragoon, Perth in November 2001, Townsville, North Queensland in November 2001, and Cairns, North Queensland in May 2002. The two new stores in Perth bring the total number of stores in Western Australia to three. Our West Australian operation has not yet reached the scales of economy necessary to provide a return as yet. This will occur by June 2004. Two stores were closed during the year due to property issues. The first was Bondi Plaza in Sydney due to a complete redevelopment of the mall, and Cavill Avenue Surfers Paradise due to the centre being partly destroyed by fire. There were 77 stores open as at June 30.

Our market research confirmed the design and styling of our merchandise, our store layouts and our advertising strategy would be well accepted. There is potential to open well over 100 stores...



Our objectives in Australia are to continue our store expansion, particularly in Western Australia, and Victoria where the company has many opportunities. We plan to open six stores in the coming year, depending on site availability. With a larger store base and less experienced store teams there is also enormous potential to improve the performance of existing stores, which is the primary focus for the Australian management team.

Large format stores

The large format stores have performed to expectation in New Zealand. The total return on assets employed reached 32.2% for the last financial year. At this stage the potential for further openings in New Zealand is limited. However, any new opportunities that arise will be investigated.

In Australia the concept has proved more difficult to realise the 30% return on assets that we require (before corporate overheads). Having said that, the two initial businesses have improved significantly over the past year. Our aim is to continue experimenting with and developing these businesses as potentially they provide us with a more diverse growth strategy for the future.

Canada – the New Frontier

During the year a feasibility study was completed on the Canadian Market. Our objective was to identify a new market with low barriers to entry, relatively low risk, with strong potential to grow a substantial business over time. Our early investigations identified Canada as the best fit to these objectives. The detailed investigation revealed the population of Canada is 31.1 million people. The size of the jewellery industry was \$1.58 billion in 2000, which is similar in size to the Australian Jewellery industry. Australia, however has a population of only 19.6 million people, meaning the comparative spend on jewellery per head is much lower in Canada. The retail environment is primarily shopping centre based due to the climate, which also fits well with our current operations. Our market research confirmed the design and styling of our merchandise, our store layouts and our advertising strategy would be well accepted. There is potential to open well over 100 stores over the next 15 years, even with Quebec (which is French speaking) left out of the plan.

A team led by Emma Hill moved to Vancouver in August to establish a small support centre and open the first stores. This team consists of Sarah Barnes, as Financial controller, and a highly experienced retail team from both countries. They include Adam Bierman, a Regional Manager from Sydney, Teresse Bierman, manager of our most profitable Australian store, Leah James manager of our New Plymouth store in New Zealand, and Jodi Warner, manager of our store in Tweed City, Australia. This highly capable team has also been further strengthened by a number of management trainees.

Our objective is to open four stores by June 30 2003. Three of these stores are due to open in November and negotiations are advanced on a fourth store due to open in May. These stores are located in Vancouver with one on Vancouver Island. This year will no doubt involve a steep learning curve in a new international market. Our objective is to break even by the second full year of trading. Depending on the achievement of our investment hurdles, we plan to open a further four stores per year in line with our philosophy of controlled profitable growth.

With the new company structure a great deal of support will be undertaken from Australia by the Group Executive team, and support staff. This will enable us to grow without the cost of a full management team in Canada from day one.

Our priorities for the future

Our priorities for the future and for the next 12 months are as follows:

- To successfully launch the Canadian operation, reaching key operational performance indicators as soon as possible. These indicators will be the earliest indicators of success. They include a range of sales and staff productivity statistics, gross margin percentages, wage to sales ratios, inventory statistics and expense ratios. Our goal is to establish a support centre and four new stores by the end of this financial year.
- Completing the reorganisation of the group to maximise the international growth prospects in Canada and beyond.
- To roll out a consistent group IT platform that will allow for consolidated business reporting and management. This has occurred in Australia and Canada, with New Zealand coming on-line this year.
- To continue the expansion of our current store base in New Zealand by opening three new stores. In Australia we plan to open six new stores. Achieving this objective will depend on the availability of suitable locations.
- Leveraging the groups buying and manufacturing functions to provide improved product ranges and increased margins.
- Improving the performance of our existing store base particularly in Australia. The company has significant opportunities to increase shareholder wealth by maximising the performance of these stores over time.

Michael Hill made a Companion of the NZ Order of Merit

We congratulate Michael who was recognised in the New Years Honours List, becoming a Companion of the NZ Order of Merit for his services to the Arts and business. Michael, as most people know, is a very proficient violinist and took his love of music to a new level by instigating and funding a biennial world violin competition. The competition attracts top artists to New Zealand and gives homegrown talent the opportunity to shine on the world stage.

My thanks to the entire team

We have included a special section in this report to introduce you to the people who have made this company so successful over the last twelve months. Without their dedication, enthusiasm and passion for both the company and our customers, we would not have achieved these outstanding results.

I would like to sincerely thank each and every one of the 1500 people in our team, who are all listed on the back cover of this report for their magnificent contribution to making Michael Hill Jeweller a truly great company.



Mike Parsell
Chief Executive Officer

FINANCIAL REVIEW - DISCUSSION AND ANALYSIS

Surplus After Tax

Michael Hill's surplus after tax, before abnormal items for 2002 was a record \$12.298 million, up 22.5% on the previous year. The surplus after abnormal items was \$12.706 million, up 26.6%.

The main drivers behind the profit increase were:

- An increase in sales in New Zealand of 18%, resulting in a 32.6% increase in EBIT contribution and a 10.4% increase in sales in Australia resulting in a 24.4% increase in EBIT in Australia.
- Same store sales increased by 13% in New Zealand and 6.4% in Australia.

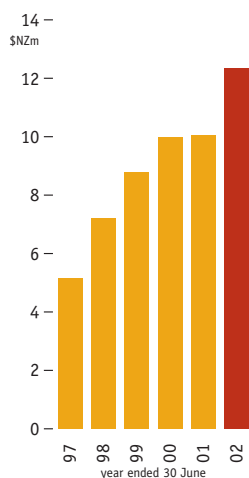
It should be noted that the increase in unallocated expenses shown in the segment statement has resulted from the establishment of a number of group functions now undertaken in Australia on behalf of the whole group; in particular strategic direction, marketing, supply chain management, human resource management and IT. Some of these group activities were commenced in 2000/01 and were reflected in the Australian segment results shown that year. These 'group costs' amounted to \$1,930,000 in 2001/02.

Depreciation and amortisation charged to profit was \$4.85 million compared to \$4.27 million in 2002.

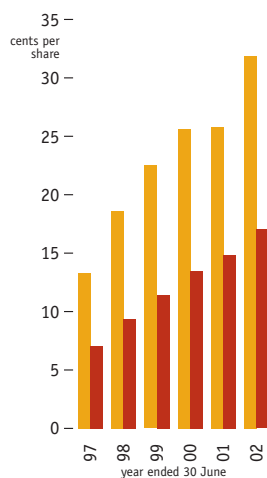
Our interest costs for the year were \$2.014 million compared to \$2.142 million for the previous year and were covered 10.3 times by earnings compared with 8.1 times the previous year.

Our rental and operating lease costs increased from \$11.931 million (6.3% of revenue) to \$13.274 million (6.2% of revenue).

The surplus after tax included a gain of \$408,000 on the sale of the New Zealand Head Office building in August 2001. The taxation charge increased from \$5.091 million to \$5.992 million due to the increased profit. The effective tax rate for the year was 32.1%.

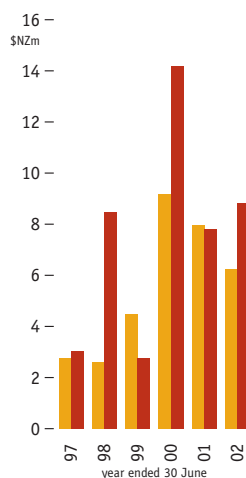


SURPLUS BEFORE ABNORMALS AFTER TAX



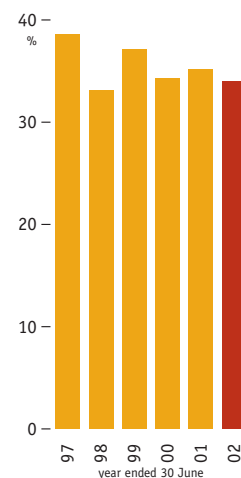
EARNINGS AND ORDINARY DIVIDENDS

■ Earnings ■ Dividends



CAPITAL EXPENDITURE AND NET OPERATING CASH FLOW

■ Capex ■ Cash Flow



NET DEBT TO NET DEBT PLUS EQUITY

Cash Flow

Net cash flow from operating activities for 2001 was \$8.871 million, up 12.5% on the previous year.

Key drivers of this were:

- Receipts from customers increased by 23.3% to \$231.783 million, reflecting increased sales in both countries. However, a change in our credit provider in Australia for our customers did have a one-off negative effect of around \$6 million on our operating cash flow for the year.
- Payments to suppliers and employees increased from \$170.1 million to \$214.3 million reflecting the increased number of stores operating, and also this reflects higher performance bonuses paid to staff during the year.
- Income taxes paid out reduced from \$7.91 million to \$6.75 million reflecting the reduction in corporate tax rates in Australia from 34 cents to 30 cents.

Cash outflow relating to investing activities was \$4.448 million compared to \$7.850 million the previous year.

Key drivers were:

- Sale of the New Zealand Head Office building which realised \$1.5 million in cash.
- Cash paid for new store fitouts and refurbishments was down from \$8.028 million in 2000/01 to \$6.256 million.

Cash flow relating to financing activities changed to an outflow of funds of \$4.087 million from an inflow of \$840,000 in 2000/01.

Key drivers were:

- Net outflow of \$435,000 relating to the management share purchase scheme.
- Dividends paid increased to \$5.978 million from \$5.410 million.
- Net borrowings of \$2.326 million versus net borrowings of \$6.250 million in 2000/01.

Balance Sheet

Net assets increased from \$49.572 million to \$53.328 million reflecting an increase in total assets to \$96.413 million from \$91.331 million, and offset by an increase in total liabilities from \$41.759 million to \$43.085 million.

Long term borrowings remained nearly static at \$27.965 million versus \$27.525 million, and our net debt to debt plus equity ratio reduced from 35.3% in 2001/02 to 34% in 2002/02.

Key factors in the increase in total assets of \$3.76 million were:

- Debtors increasing by \$6.271 million, reflecting a change in our customer credit provider in Australia. The payments are guaranteed but are spread over a longer period than previously.
- Total property plant and equipment including properties intended for sale down from \$22.793 million to \$20.673 million, reflecting the sale of the New Zealand Head Office building, and increased depreciation charges and amortisation charges exceeding capital expenditure.

The working capital ratio increased from 5.1:1 to 5.6:1.

EVENTS AFTER BALANCE DATE

The Company signed a contract for the sale of its Australian Head Office building in August 2002. The sale price was A\$4.5 million and full settlement was made on the 13th September 2002. An after tax profit of A\$1,069,000 will be booked in the 2002/03 financial year.

SHAREHOLDERS' RETURNS

- Declared dividends total 17 cents per share compared to 15 cents for 2000/01. (This includes the final dividend declared on 22nd August).
- Shares traded between \$3.80 and \$5.30 ending at \$5.00 at 30 June 2002.
- Average return on equity for year 23.9%, - 2000/01 21.8%.

TREND STATEMENT

	2002 \$000	2001 \$000	2000 \$000	1999 \$000	1998 \$000	1997 \$000	1996 \$000
Group Sales	\$ 214,105	\$ 189,168	\$ 181,983	\$ 156,940	\$ 141,254	\$ 118,303	\$ 110,060
Earnings							
Surplus before taxation, before abnormals	18,290	15,130	15,517	13,549	11,059	8,037	8,181
Surplus before taxation, after abnormals	18,648	15,130	15,517	13,549	11,059	8,037	8,181
Tax provision	5,942	5,091	5,578	4,755	3,867	2,883	2,865
Surplus after tax, before abnormals	12,298	10,039	9,939	8,774	7,192	5,154	5,316
Surplus after tax, after abnormals	12,706	10,039	9,939	8,774	7,192	5,154	5,316
Dividend Distributions	5,978	2,518*	5,216	4,444	3,669	2,695	2,513
Retained surplus for year	6,728	7,521	4,723	4,330	3,523	2,459	2,803
Funds Employed							
Paid-up ordinary capital	7,712	7,712	7,712	7,712	7,712	7,712	7,712
Reserves and retained earnings	45,616	41,860	34,875	29,339	24,605	20,310	18,396
Shareholders' funds	53,328	49,572	42,587	37,051	32,317	28,022	26,108
Long term debt/deferred tax	28,994	28,503	22,670	21,849	18,302	18,904	18,001
	82,322	78,075	65,257	58,900	50,619	46,926	44,109
Utilisation of funds							
Non current assets	17,510	22,652	19,635	14,583	13,169	13,106	13,621
Expenditure carried forward/goodwill	393	505	625	756	892	974	1,146
Net working capital	64,419	54,918	44,997	43,561	36,558	32,846	29,342
	\$ 82,322	\$ 78,075	\$ 65,257	\$ 58,900	\$ 50,619	\$ 46,926	\$ 44,109

*There was a change in accounting policy in 2001 regarding providing for dividends.

CASH FLOW STATEMENT	2002 \$000	2001 \$000	2000 \$000	1999 \$000	1998 \$000	1997 \$000	1996 \$000
Net profit before tax	18,698	15,130	15,517	13,549	11,059	8,037	8,181
Depreciation	4,855	4,280	4,264	2,903	2,783	2,398	2,003
Other non-cash adjustments	(350)	147	1,545	1,002	1,901	(183)	1,372
Tax paid	(6,753)	(7,911)	(5,718)	(4,567)	(3,786)	(3,179)	(2,303)
Dividends	(5,978)	(5,410)	(4,638)	(4,059)	(3,091)	(2,695)	(2,012)
Working capital increase	(7,579)	(3,759)	(1,394)	(10,106)	(3,455)	(4,088)	(2,175)
Capital expenditure	(6,256)	(8,028)	(9,161)	(4,502)	(2,652)	(2,751)	(3,750)
Other	0	0	0	(30)	(82)	(20)	(21)
Surplus cash pre external funds	(3,363)	(5,551)	415	(5,810)	2,677	(2,421)	1,295
External source of funds							
Net borrowings/(repayments)	1,891	6,250	0	3,455	(1,750)	1,152	(1,631)
Asset sales	1,808	178	146	222	238	101	241
Surplus cashflow	\$ 336	\$ 877	\$ 561	(\$ 2,133)	\$ 1,165	(\$ 1,168)	(\$ 95)

STATISTICS	2002	2001	2000	1999	1998	1997	1996
Earning per share	32.95c	26.03c	25.8c	22.8c	18.7c	13.4c	13.8c
Net tangible asset backing	\$1.37	\$1.27	\$1.09	94.6c	82.1c	71c	66c
Interest cover (times)	10.3	8.1	10.6	9.9	8	6.1	6
Net debt \$000's	\$27,454	\$27,113	\$22,051	\$21,234	\$16,023	\$17,710	\$15,890
Dividend per ordinary share	17.0c	15.0c	13.5c	11.5c	9.5c	7.0c	6.5c
% of tax paid profit as dividend	45.6%*	25.0%*	52.3%	50.5%	51.0%	52.3%	47.1%
Working capital ratio	5.6:1	5.1:1	3.6:1	3.8:1	3.9:1	4.3:1	3.8:1
EBIT/Sales % before abnormals	9.5%	9.1%	9.4%	9.6%	8.9%	8.1%	8.9%
Return on average capital funds	23.90%	21.8%	24.9%	25.3%	24.0%	19.0%	22.0%
Jewellery stores at year end	120	115	106	102	94	88	82
Exchange rate for translating Australian results	0.82	0.79	0.8	0.84	0.83	0.91	0.87

*From 1/7/01, the current year final dividend is not included in these calculations.

Our people and the Community

THE GROUP EXECUTIVE TEAM



Mike Parsell
CHIEF EXECUTIVE OFFICER



Kevin Phillips
GENERAL MANAGER,
RETAIL - NZ



Kevin Stock
GENERAL MANAGER
RETAIL - AUSTRALIA



Emma Hill
GENERAL MANAGER
RETAIL - CANADA

OTHER SENIOR EXECUTIVES

AUSTRALIA

Brenda Watson	NSW Regional Manager
Carson Webb	NSW Regional Manager
Ronald Roma	NSW Regional Manager
Judy Robison	Queensland Regional Manager
Darcy Harkins	Victoria Regional Manager
Brett Halliday	W.A. Regional Manager
Joe De Aizpurua	Divisional Manufacturing Manager
Paul Little	Financial Accountant
Jacqui Higgins	Human Resources Manager
Susan Morrison	Human Resources Development Manager
Tanya Raymond	Internal Audit Manager
Cliff Mason	Warehouse Manager
Ray Tester	Merchandising Manager
Sue Szylvester	Advertising Manager

NEW ZEALAND

Graeme MacDonald	Northern Regional Manager
Brigid Rivers	Central Regional Manager
Mark Johnston	Southern Regional Manager
Laurie Mayo	Manufacturing Manager
Andrea Wagstaff	Human Resources Manager
Jackie Stapp	Distribution Manager
Jan Philpott	Advertising Manager
Bruce Brennan	Financial Accountant
Galina Hirtzel	Product Manager
Tony Springford	IT Support Manager
Laura Raduenz	Internal Audit Manager
Julie Grantham	Retail Services Manager

CANADA

Sarah Barnes	Financial Controller
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Global Human Resources Team

This year the New Zealand and Australian Human Resources teams merged under the direction of newly appointed Group Human Resources Manager, Tina Radford. Tina brings with her a wealth of experience in managing Human Resources within the Retail sector.

The combined HR team will now work together to provide people development services to the retail business across all markets. This exciting move will reduce duplication and ensure 'best practice' HR and Training initiatives are in place.

People Achievements

Major achievements in Human Resources during the last year in both countries have been in development of Store Managers for future expansion. Two very successful programmes were run during the year.

In New Zealand a 5 day Management Assessment Programme assessed the Management Trainee's readiness for store management. An outstanding 19 Trainee managers attended over the past 12 months with nine new Store Managers being recruited from the NZ Trainee Management Program.

Australian Management Trainees participated in an intensive 5 day Development Programme providing both educational information and experiential learning exercises to develop skills in Business Management, Sales Coaching, Performance Management and Recruitment. The programme was held at Head Office in Brisbane and provides trainees from all over Australia with an opportunity to learn new skills, tour Head Office operations - including Manufacturing - and network with fellow trainee managers and executives. Two programmes were conducted this last financial year with a total of 34 trainees/selected Store Managers attending. The results were outstanding with 17 people promoted to management from the two workshops.

Feedback on the programmes has been very generous and with such strong support these workshops will continue to be redeveloped and delivered in future years.



Wayne Butler
GROUP/NZ FINANCIAL CONTROLLER
COMPANY SECRETARY



Phil Taylor
FINANCIAL CONTROLLER/
COMPANY SECRETARY, AUSTRALIA



Paul Williams
GROUP MERCHANDISING
AND SUPPLY CHAIN MANAGER



Tina Radford
GROUP HUMAN RESOURCES
MANAGER

"I have worked in a variety of international companies over the years. I believe the training I have received at Michael Hill Jeweller to be the best I have experienced. From the beginning everything was organised and in logical steps. I always felt positive about the support and mentoring I was given which enabled me to see clearly my future direction."

Carrie James,
Store Manager, Nelson, New Zealand

"Michael Hill Jeweller is a company where individuals can feel like they belong to something special. We are a company that cares about our people, their growth and encourages internal career advancement. Our Management programme is all about developing professionalism and allowing you to be the best that you can be. It is the foundation of building your career within MHJ. Our efforts can only be rewarded with the growth of the company expanding overseas. The sky's now the limit !!!"

Kerry Camilleri
Store Manager, Brookside, Brisbane



Ross McKinnon
GROUP INFORMATION
TECHNOLOGY MANAGER

Another major highlight in the area of management development was the relaunching of the Michael Hill Jeweller Management Programme. This self paced programme is the major development tool used across both countries to train new Store Managers. The new updated programme now has 17 Retail Management modules and maintains a balance of theory and practical experience on the job. Trainees are selected to commence the 12 month programme based on a specific set of selection criteria.



New purpose built training room in Albany Super Store - set up as a mini store with fully stocked counters and POS enables new staff to practice skills and gain confidence before moving onto the sales floor.

Brilliant Careers

Michael Hill Jeweller prides itself on creating an environment that rewards its innovative, dynamic and energetic team members. We expect the best; therefore we only recruit the best!

Our focus for 2001-2002 was to streamline and also energise our recruitment process. We achieved this through the re-design of our print advertising material and the implementation of new recruitment tools to assist our Managers in their recruitment process. Our vision for 2002 is to have Michael Hill Jeweller become a 'Preferred Employer'. We have commenced with our branding focus on various aspects of the recruitment process. Our 'Preferred Employer' campaign will include the design of Michael Hill Jeweller's Recruitment Website with a global focus; implementation of an internal employee focussed referral/reward scheme; graduate recruitment campaign and various other programmes that will enable Michael Hill Jeweller to become a 'Preferred Employer'.

This year, in conjunction with our Advertising Agency, we developed a new format for our recruitment advertisements in a unique and very innovative style.

Development was in accordance with Michael Hill Jeweller's move towards our new branding image.

The year 2001 to 2002 has also seen the company-wide weekly bulletin become a regular vehicle for staff communication and all internal recruitment advertising. Internal advertising of positions available has encouraged Store Managers and Management Trainee to relocate throughout the Group in order to further their careers.

People Development

This year training and development activities were conducted for sales professionals, office administrators, management trainees and management at both Retail and Head Office levels.

WHAT WAS OUR INVESTMENT?

Our investment in training and development for our people was NZ\$744,000 over the two countries for the year.

Our people have been involved in a variety of developmental activities including workshops, training sessions, self-paced programmes, on-job activities and coaching, as well as external short courses and formal programmes.

Some of the in-house programmes selected by staff from the Training and Development Directory 2002 have been

- Recruiting Top Performers
- Training Your Team
- Leading from the Front
- Dealing with Conflict
- Jewellery Sketching
- Diamond Grading
- Office Administration
- Product Knowledge

Our business encourages people to join Michael Hill Jeweller and develop a career through intensive training and coaching

After Orientation, which includes a comprehensive sales professional training programme, employees can be selected to complete the Management Programme and will then move on to commence the Regional Management Programme. Few retailers offer such structured training through to Regional Management. This career path opportunity will continue to be marketed extensively in order to attract the best possible candidates into our business.





Left: Top Sales NZ,
Henny Lioe

Above: Top Sales
Australia, Sonje Smith

Many of our people also participate in external education and development. This year 26 employees have registered and commenced the New Zealand Certificate in Retail and Wholesale Level 2 which is a nationally recognised retail qualification.

Another major development focus has been to provide store managers with the tools and strategies to develop their teams in-store. Negotiation training aimed at educating staff to focus on gross profit achievement was delivered by Managers at store level across the group. This type of in-store training aimed at improved negotiation skills should have a positive impact on the profitability of our stores.

Golden Awards 2001

Each year Michael Hill Jeweller recognises the significant achievements of our top salespeople who achieve membership of the exclusive Gold Club for selling over AU\$300,000 and NZ\$320,000 worth of individual sales.

This year Michael Hill Jeweller congratulates and recognises a total of 82 employees from both countries. Leading from the top is Sonje Smith from Australia and Henny Lioe who topped New Zealand sales.

Best of the Best

In Australia Movieworld was the chosen venue for celebration as delegates arrived by limousine for a star studded night of celebrities, award presentations and dinner.

This year New Zealand Gold Club members celebrated their success and were thanked for their superb efforts with a two day celebration in beautiful sunny Nelson. Every year the top sales people attend Gold Club and the two-day gathering is held in a different venue in the best tourist locations New Zealand has to offer. It's an honor and a privilege to attend, but more than that it's a chance to catch up with some very special people.

So how do these top people do it? We spoke to our three top Sales Professionals and they all said the same thing – be yourself, have lots of fun, have a personality and focus on a goal – “the Gold Club”.

Top Australian seller Sonje Smith's tips for being successful include; staying with the customer from the moment they walk into the door until the very end, giving your job everything, and setting yourself a goal and aiming for the stars.

Rewards for our People

REWARD AND RECOGNITION SCHEMES

At Michael Hill Jeweller, our sales professionals are recognised and rewarded for achieving excellence on the sales floor. Our reward programs for this year were

- Sales Professional Bonus Scheme
- Club Levels
- Carat Club

Last year our sales professionals were rewarded with record bonus payments of just under NZ\$3 million

" I have made some amazing friends at Gold Club, friends I will have for life. This is our reward for the many hours of hard work every day all year. Each year the small group has grown and we have a wide range of people, but above all for me it's a chance to see friends again in a marvelous location to celebrate the year that's been and to look forward to the year ahead"

Robyn Lee – Napier



dollars over the two countries and some of our sales professionals received well over \$10,000 in individual bonus payments.

Club Levels for this year were :

- Gold Club Australia 61 members/ NZ 29 members
- Silver Club Australia 147 members/ NZ 59 members
- Bronze Club Australia 150 members/ NZ 155 members

An 18 ct gold MHJ badge is awarded to staff in recognition of top sales performance in specific sales over 1xcarat weight or the value of \$4,995. An outstanding 78 badges have been awarded this year in NZ and 14 in Australia. For each subsequent group of three sales a .02 diamond is added to the badge. The company is proud to have presented over 260 diamonds to sales professionals in NZ and Australia this year.

STORE MANAGERS' REWARDS

We empower our Store Managers to "take ownership of their stores" and treat the store as though it was their own. We then reward them for successfully running the store and each manager receives a percentage of the annual profits of the store. We also place no limits on how much Managers can earn under the bonus scheme with our best Store Managers earning in excess of NZ\$140,000 last year.



MANAGERS'S CONFERENCE

Over 170 managers have been rewarded in September by attending the 2002 annual Manager's conference held at the Noosa Convention Centre on the Sunshine Coast, Australia.

The 3 day conference included a gala Financial Awards Evening where managers were recognised for top performance across a number of categories, external motivational speakers, team building activities, extensive networking opportunities and an overview of the group strategic focus for the next 12 months.

Health and Well-being

At MHJ our staff are our no 1 priority and we have implemented a number of initiatives to ensure the retention and on-going well being of all staff.

Occupational Health Safety Policies and programmes are in place to ensure that the human and financial costs of injury and illness are reduced in the workplace. New initiatives included:

- Defensive driving course for at risk staff.
- Increased emphasis on staff comfort when designing new shop/department layouts.

There was a continued emphasis on:

- Employee participation in Health & Safety related matters.
- Raising Health & Safety awareness to Managers through briefings.
- Armed Hold-up Safety training.
- Promoting Michael Hill Jeweller Employee Assistant Programme to allow access to a fully paid confidential, professional counselling and critical incident service. All counsellors are trained to help employees recognise and overcome problems that may cause them difficulties in the work environment.

In New Zealand Michael Hill Jeweller has for the second year in a row met the criteria necessary to achieve primary level in the ACC Workplace Safety Management Practices Programme resulting in a significant saving to the company.

In Australia MHJ has successfully implemented an Accredited Rehabilitated Programme company-wide. This programme has successfully enabled injured employees to return to full duties reducing duration of injury time and cost of injury to MHJ.

People supporting the Community

As a company we are committed to supporting the community in which we operate. This year our support has contributed to a number of very worthy causes.

MICHAEL HILL WORLD VIOLIN COMPETITION

Our company is a major sponsor of the Michael Hill World Violin competition, which will be held for the second time this year. The competition is now a major event on the cultural calendar in New Zealand and the company is proud to be associated with this event that brings together the most talented young violinists from around the world.

"PEARLS OF HOPE"

Michael Hill Jeweller is participating this October in Breast Cancer Awareness Week here in Australia and aims to raise \$50,000 for Cancer from project " Pearls of Hope" from the sale of pearl necklaces throughout our stores.

MOTOR NEURONE DISEASE RESEARCH

Michael Hill Jeweller has been associated with this charity for five years. The inception of fundraising began after a valued employee, Rochelle Bachman lost her battle with this disease.

Our company donated an electronic aid to assist talking to the charity and for the aid of Rochelle and other sufferers of Motor Neurone Disease. We are also major sponsors for a yearly charity golf day which has raised in excess of \$60,000. Our staff also continue to donate their time to help organise and fundraise for this yearly event.

Pacific Fair Store on the Gold Coast in Australia successfully ran a VIP charity night in May. A representative of the Motor Neurone disease association, who has the disease, was a special guest for the evening and the proceeds of the evening's raffles was donated to the cause.

This year New Zealand donated a 1.04 ct diamond solitaire set in 18ct gold valued at \$12,999 to the Childflight National Appeal as well as a 1ct princess cut diamond solitaire set in 18ct gold valued at \$10,999 as part of the Press Big Charity Auction held in Christchurch, for the Ronald McDonald child cancer project.

In addition, MHJ supports the "Business in the Community – mentoring program" in NZ and makes numerous small donations to various schools and sports clubs throughout N.Z. and Australia for prizes and raffles.

Future Directions

With the combined resources of the Australian and New Zealand human resources teams the following directions/objectives and plans are all scheduled for completion over the next 12 months.

- **Establishing MHJ as a 'preferred employer' in all markets in which we operate.** The group will engage in an aggressive employer branding campaign aligned with our brand footprint. All recruitment advertising will be managed by a specialist global recruitment advertising company under the guidance of McCann Erickson.



- 'My brilliant career' our tailored recruitment website will be operational across all 3 countries enabling potential employees to apply for career opportunities on-line quickly and cost effectively. This ability to manage our own website advertising will control advertising expenditure and reduce recruitment time.
- Performance management and rewards and recognition are a driving force in our culture. The next 12 months will see a new streamlined employee evaluation system introduced to both the retail, manufacturing and Head Office operations. Long service awards will also become part of our rewards and recognition program.
- Redeveloping our sales professional 'orientation and professional selling system' training program for new staff will be completed by December 2002. Our new global program will offer consistency across Canada, Australia and NZ. The new improved version of the Michael Hill professional selling system will provide practical on-the-job training, in sales, product knowledge, operations and consumer behaviour. Sales professionals and Managers in both NZ and Australia have participated in the redevelopment of the new program.
- Our company Policies and Procedures manual is going global this year merging into one simplified document and going live on the MHJ Intranet which will allow the group to modify and communicate changes efficiently and effectively.
- Improving career opportunities for sales professionals through the introduction of an 'Advanced Sales Professional' training program. The specialist product knowledge and high level sales training will allow our most experienced sales professionals to shine and achieve their goals.
- HR Planning will ensure we have the people in place to successfully take on higher level responsibilities as the group expands. A new self-paced training program aimed at preparing existing store managers for Regional management or multi-store management will be launched in Canada, NZ and Australia in late 2002. Discussions with Monash University Retail Management faculty will also take place over the next year. The plan to offer a MHJ tailored tertiary level management program will be under consideration.

This next year promises to be ground breaking as we continue to develop our people to achieve as the company goes global and our people are on the move.

Environmental Report

Our company believes we have a role to play in the adoption of sustainable environmental business practices. We believe sustainable retailing can help our company reduce costs, increase profits, and successfully meet the needs of our communities. Sustainable retailing is defined as the role retailers can play in the adoption and promotion of sustainable environmental and social business practices.

ENVIRONMENTAL AUDIT

We conducted an internal audit in our New Zealand operation in April 2002 to determine the strengths and weaknesses of our waste management practices and identify areas for improvement. We found that we have some excellent waste management practices in place. However, our good practices are not consistent across the company or across departments. As a result, it was recommended that we draft and implement a Sustainable Retailing Policy. We also found that our Manufacturing operation is properly handling and disposing of hazardous chemicals in compliance with health and safety laws.

SUSTAINABLE RETAILING POLICY & COORDINATOR

The Sustainable Retailing Policy was developed and approved in June 2002. Our policy provides all employees guidance on the company's philosophy about sustainable retailing. It establishes a clear vision for all staff to follow. In addition, it identifies a coordinator to champion the company's efforts to reduce, reuse, and recycle waste.

SUSTAINABLE RETAILING STRATEGY FOR 2002-2003

We have developed a Sustainable Retailing Strategy for the 2002-2003 financial year.

Its goals are to

- reduce the amount of waste produced at our Head Offices
- reuse items as many times as possible at our Head Offices and Stores
- recycle what we can at our Head Offices and Stores
- reduce electricity usage at our Head Offices
- begin keeping statistics of our efforts

Its objectives are to

- introduce the Sustainable Retailing policy to all staff
- introduce a Sustainable Retailing page in our monthly newsletter
- make everyone welcome to participate at whatever level they can
- find and encourage the "champions" of Sustainable Retailing to take the initiative at their locations
- share success stories, ideas, and suggestions
- recognise and reward individuals, stores, and departments for participation, initiative and innovation

We, at Michael Hill Jeweller, want to do our part to work for a sustainable future.

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.

Michael Hill International has earned a reputation as a leader and an innovator in the area of corporate governance reporting. For two consecutive years, the Company has won the “Corporate Governance” reporting award in the Annual Report Awards competition conducted by the Institute of Chartered Accountants of New Zealand in competition with all New Zealand companies.

The Board endorses the overall principles embodied in the New Zealand Institute of Directors’ “Code of Proper Practice for Directors”. It has a majority of non-executive Directors on the Board, to provide balance and a cross section of skills and experience.

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 Company 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, acquisitions, and approval of store leases.

Each year, the company 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 five year plan.

BOARD MEMBERSHIP

The Constitution currently sets the size of the Board at a minimum of three and a maximum of eight and at least two Directors must be resident in New Zealand. The Board currently comprises six Directors, comprising an Executive Chairman, a Chief Executive Officer, and four non-executive Directors. The Board met on five occasions in the financial year ended 30 June 2002. Profiles of the current Directors appear on page 27 of this Report. Under the Company’s constitution, one half 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.

DIRECTORS’ SHAREHOLDINGS - SEE PAGE 45

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 and the Chief Executive Officer. Any member of the Board may request the addition of an item to the agenda. Board papers are circulated to Directors a week in advance of meetings.

The 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
R.M. Hill	5	5			2	2
M.R. Parsell	5	5				
L.W. Peters	5	5	3	3	2	2
G.J. Gwynne	5	5			2	2
M.R. Doyle	5	5	3	3	2	2
A.C. Hill	5	5			2	2

THE WORK OF DIRECTORS

Non-executive directors normally spend around 22 days per year on board and sub-committee meetings. The duration of meetings has now been extended from one to two days. Board meetings are held in different locations in Australia and New Zealand, and the Board endeavours to visit as many Michael Hill Jeweller stores as possible during the course of a meeting in a particular city. This enables the Directors to keep in touch with the staff at the coalface and to keep abreast of the latest store designs and shopping mall developments.

BOARD REVIEW

During the course of the last financial year, the Board conducted a self assessment of its performance over the previous 12 months. There were no substantial changes made to any of the Board’s processes as a result of this review.

BOARD 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 and Peters, met three times 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

Corporate Governance cont.

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. The Group's auditors, both internal and external, along with other relevant senior executives, 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.

At least once a year, the Chairman and non-executive Directors on this Committee meet with the external auditors privately without the presence of Company executives.

REMUNERATION SUB-COMMITTEE

This sub-committee, chaired by Wayne Peters, comprises all Directors except Mike Parsell. The function of the Remuneration sub-committee is to determine the Chief Executive's and Senior 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 company wide remuneration policies and programs. In carrying out this role, the sub-committee operates independently of Senior Management of the Company, and obtains independent advice on the appropriateness of the remuneration packages. The committee met on two occasions 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 Senior Management bonuses around a return on capital employed basis, to emphasise efficient use of capital.

NOMINATIONS SUB-COMMITTEE

This sub-committee, chaired by Michael Hill, consists of the non-executive Directors and Michael Hill. The function of the sub-committee is to make recommendations to the Board regarding the most appropriate Board structure. It also advises on 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 three Board meetings in the capacity of a Consultant before being eligible for appointment as a Director.

SHARE TRADING BY DIRECTORS

The Board Operations Manual sets out a procedure which must be followed by Directors when trading in Michael Hill International shares. Directors must notify and obtain the approval of the Company before trading in MHI shares and are only permitted to trade in two window periods. The window periods commence at the time the half yearly or yearly results are announced and expire five months after the end of the financial year or four months after the end of the half yearly accounting period of the company, as the case may be.

The Directors named below have disclosed to the Board under Section 148 of the Companies Act 1993, particulars of the following acquisitions or

dispositions of relevant interests in the ordinary shares of the company during the year. The relevant interest acquired or disposed of includes beneficial ownership.

	No. of shares acquired or (disposed of)	Consideration paid or (received)	Date of acquisition or (disposal)
L.W. Peters	(250,000)	(\$1,258,262)	24/04/02
G.J. Gwynne	(50,000)	(\$211,000)	17/09/01
	50,000	\$247,976	11/03/02

CONFLICTS OF INTERESTS

The Board Operations Manual sets out a procedure to be followed where Directors are faced with a conflict of interest. At all times a Director must be able to act in the interests of the organisation as a whole. The interests of associates, individual shareholders and the personal interests of the Director and his family must not be allowed to prevail over those of the Company and its shareholders generally.

NON-EXECUTIVE DIRECTORS' FEES

Fees for non-executive directors are based on the nature of their work and their responsibilities. Over the past five years the company has become a truly Australasian company with 65% of the Group's stores in Australia. Accordingly, the fees for non-executive Directors have been set at approximately the average of the mean level of base directors fees for New Zealand and Australian Directors of publicly listed companies. Research last year carried out by Korn Ferry and available to the Board, indicated these averages were approximately NZ\$34,000 and A\$53,000, before taking into account any extra fees for participation on Board sub-committees. Shareholders at the Annual Meeting in November 2001 approved a maximum amount of \$215,000 to be paid to Directors. Each NZ resident Director is currently paid \$50,000 per annum and our Australian resident Director A\$50,000 per annum.

No equity incentives are offered to non-executive Directors.

Under the Company's Constitution, the Company may pay a retirement sum of up to three years director's fees to any non-executive director.

SHARE PURCHASE SCHEME

The share purchase scheme for Management staff foreshadowed in last year's Annual Report is now in operation.

The scheme was designed to encourage Store Managers, Regional Managers and other senior employees of the Company 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 Michael Hill International shares on the New Zealand Stock Exchange. In the year ended 30 June 2002, the Company purchased 155,000 shares on market at an average acquisition price of \$4.75 per share. These shares were purchased during the window periods available for Directors to deal in shares of Michael Hill International.



On the 3rd of April 2002, the Company sold 67,752 shares to 31 employees of the company. The rules of the scheme provide for the Company to sell shares to purchasing 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 employees. The discount is deemed to be “financial assistance” under the Companies Act 1993. The total discount relating to the first issue of shares was \$33,198. After taking the discount into account, the purchasing employees paid \$301,528 for the shares which was equivalent to an average acquisition price of \$4.45 per share.

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. The balance of shares purchased amounting to 87,248 shares are held as “Treasury Stock” and will be used for the next issue of shares under the scheme in February 2003.

SHARE OPTIONS

On the 22nd August 2002, the Directors issued a further 200,000 options to two senior management personnel in the Company, including 100,000 to Emma Hill in her capacity of General Manager, Canada. The issue of options for Emma Hill is subject to the approval of shareholders at the annual meeting on the 28th November, as she is deemed a “related party” in terms of the New Zealand Stock Exchange listing rules.

Further information on options outstanding to employees are included in note 6 to the Financial Statements on page 38.

COMMUNICATION WITH SHAREHOLDERS

Michael Hill International 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 to 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.

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 Michael Hill International’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 Michael Hill International will allow its external auditing firm to perform.

Bookkeeping

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

Valuations

Prohibited.

Tax Services

Permitted, 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. No management decision making. Signing agreements or discretionary authority to commit MHI is not allowed.

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 to be reported to the Audit committee annually. Non audit fees greater than \$25,000 should be reviewed by the Group Company Secretary and reported to the Audit committee for approval.

(For the 2002/03 financial year audit fees amounting to \$138,000 and fees for other financial services amounting to \$74,000 were paid to PricewaterhouseCoopers)

HIRING OF STAFF FROM THE EXTERNAL AUDITING FIRM

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

Risk Management Report

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

RISK MANAGEMENT PROCESS

The Board of Directors are responsible for Risk Management which starts each year as part of the annual strategic planning process. Risks and opportunities are reviewed and business projects formalised. The status of business projects, and associated risk, are discussed as part of the Board's regular meeting schedule throughout the year. At management level, the status of business projects, and associated risk, are discussed as part of the Group Managers' regular meeting schedule throughout the year.

BUSINESS CONTINUITY PLANNING

The Group has a comprehensive Business Continuity Plan in effect for all operations. The plan is flexible and can be used to handle a wide range of crisis situations that could arise in the course of business conducted by our company.

INSURANCE PROGRAMME

The Group has a comprehensive insurance programme which supports the Risk Management process. Insurance needs and coverage are scrutinised

annually to ensure the Company's risk profile and exposure is at an appropriate level.

INTERNAL AUDIT

The Group has an Internal Audit function that regularly reviews and evaluates the safeguarding of assets, compliance with company policies, reliability and integrity of information, effectiveness of internal controls, and the economical and efficient use of resources. In addition, twice a year, the Internal Audit function conducts risk profiling of all business units. The internal auditors regularly report on their findings to the Audit Sub-Committee of the Board of Directors and have direct access to the Audit Sub-Committee members at all times.

CODE OF CONDUCT

Our Board of Directors believes that good risk management is supported by the highest standards of corporate behaviour towards our employees, customers, and other stakeholders. The Code of Conduct is a guide to help our Directors and employees live up to our high ethical standards. The Code is comprehensive and covers our roles with employees, customers, business partners, shareholders, communities, and governments.

REVIEW STATEMENT TO THE MEMBERS OF MICHAEL HILL INTERNATIONAL LIMITED

We have reviewed the information contained in the Corporate Governance and Risk Management Statements for the year ended 30 June 2002. Our review was made in accordance with the Review Engagement Statement Standards issued by the Institute of Chartered Accountants of New Zealand.

DIRECTORS' RESPONSIBILITIES

The Corporate Governance and Risk Management Statements are the responsibility of, and have been approved by the Directors.

REVIEWER'S RESPONSIBILITIES

We have been engaged to carry out a review engagement to verify the information contained in the Corporate Governance and Risk Management Statements for the year ended 30 June 2002.

BASIS OF REVIEW

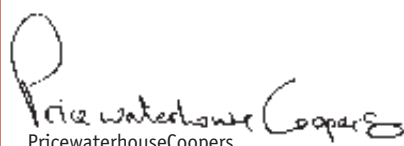
The review consisted of enquiry, analysis and discussion of information provided to us by Michael Hill International Limited. Our review included visits to Head Office where we:

- conducted interviews with management and staff
- obtained information regarding the basis of preparation of the information; and
- performed reviews of corporate records and other relevant source documentation.

A review does not constitute an audit and consequently we do not express an audit opinion.

REVIEW FINDINGS

Based on our review, nothing has come to our attention that causes us to believe that the information contained in the accompanying Corporate Governance and Risk Management Statements have not been properly compiled and fairly presented, in all material respects.



PricewaterhouseCoopers

Chartered Accountants

Auckland, New Zealand

20 September 2002

Corporate Code of Conduct

Michael Hill International 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 Conduct is a guide to help our Directors and employees live up to our high ethical standards.

Our Corporate Code of Conduct 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 management team will lead by example, demonstrating their commitment to this Code of Conduct at all times through their personal behaviour and through the guidance they provide to our staff.

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 appropriate authority unless there is a legal obligation to do so.

OUR CUSTOMERS

- We support and uphold at all times the tradition and integrity of the jewellery industry, and conduct our business in such a manner that will reflect credit on our industry and us.
- All our marketing and advertising will be accurate and truthful.
- We are committed to providing the highest quality, service, and value to our customers. We provide a five year Guarantee for all our jewellery which contains a diamond, and a 12-Month Guarantee for any jewellery item not containing a diamond. It is a Guarantee of quality of workmanship and materials. 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.

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.

Conflicts of Interest

- Employees will not accept anything of value from a customer, vendor, or business associate which would impair or be presumed to impair their judgement 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 Financial Controller. 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 interest of the Company.

SPEAKING UP

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

Failure to abide by the Code and the law will lead to disciplinary measures appropriate to the violation.



Solar Burst

Winner of the Australian Gemstone Design Awards 2002, from the expert designers at Michael Hill Jeweller, James Shuker and Aaron Duff.



from left:

- Mike Parsell
- Michael Hill
- Christine Hill
- Murray Doyle
- Gary Gwynne
- Wayne Butler
- Wayne Peters



Board Member Profiles

MICHAEL HILL

The founder of Michael Hill Jeweller Limited in 1979.

He is Chairman of the Board. He has more than 42 years of experience in the jewellery industry, including 10 years of management experience before establishing his own business. Aged 63 years, he was appointed to the Board in 1987. Member of Remuneration and Nominations sub-committees.

MIKE PARSELL

Chief Executive Officer of the Group, Mike spearheaded the Company's move into Australia in 1987. Aged 43, he has had extensive experience in the jewellery industry since 1976. Mike joined the Company in 1981 and was appointed to the Board in 1989, made joint Managing Director in 1995 and CEO in 2000.

GARY GWYNNE - NON EXECUTIVE DIRECTOR

Gary has an extensive background in marketing, retailing and property development. He is currently a founder shareholder and Director of Prime Retail Properties, the owners of Dress-Smart Factory Outlet Shopping Centres. Aged 56, he was appointed to the Board in February 1998. Member of the Remuneration and Nominations sub-committees.

WAYNE PETERS - NON EXECUTIVE DIRECTOR

Wayne, who is 42 and based in Australia, has 24 years of experience in retailing and investment management. He is currently CEO of Peters MacGregor Funds Management Ltd. Member of the Audit, Remuneration and Nominations sub-committees, Wayne joined the Board in February 1999.

MURRAY DOYLE - NON EXECUTIVE DIRECTOR

Murray is a Director and substantial shareholder in listed investment company Southern Capital Limited and Wellington department store Kirkcaldie and Stains Limited. He is also Chairman of the biotechnology company Blis Technology Limited. His previous experience was in the finance industry until 1998, when his stockbroking firm was purchased by Bankers Trust now Deutsche Bank. Aged 43, he is a member of the remuneration sub-committee and Chairman of the Audit sub-committee.

CHRISTINE HILL - NON EXECUTIVE DIRECTOR

Christine has been associated with the Company since its formation in 1979 and has been closely involved with the artistic direction of the Group's store design and interior layouts over the years. Aged 62, Christine is a member of the Remuneration sub-committee.

COMPANY SECRETARY - WAYNE BUTLER

He has a financial background and has worked for the Company for 16 years. Aged 55 years, he has been Secretary of the Board since 1987. Group Financial Controller.

Statutory Report of the Directors

The Directors have pleasure in submitting to shareholders the 15th Annual Report and audited accounts of the Company for the year ended 30 June 2002.

BUSINESS ACTIVITIES

The group's sole business activities during the 2001/02 financial year continued to be jewellery retailing and manufacturing.

CONSOLIDATED FINANCIAL RESULTS

The Group has recorded a tax paid surplus of \$12,706,000 for the year ended 30 June 2002 (2001 - \$10,039,000). This surplus was achieved on a turnover of \$214,105,000 (2001 - \$189,168,000).

The accounts for the year ended 30 June 2002 have been presented in accordance with the accounting principles and policies detailed on pages 36 and 37 of this report.

	2002 \$000	2001 \$000
Group Turnover	214,105	189,168
Surplus before tax	18,698	15,130
Taxation	(5,992)	(5,091)
Surplus after tax	12,706	10,039
Dividends paid and proposed	(5,978)*	(2,518)
Net surplus retained	6,728	7,521

*Note – the final dividend of 10 cents per share has not been included.

SHAREHOLDER'S FUNDS/RESERVES

Total Shareholders' Funds of the Group now stand at \$53,328,000 – an increase of \$3,756,000 over the previous year.

The Group's reserves at 30 June 2002 totalled \$45,616,000.

	\$000
The Group's reserves at 30 June 2001 were	41,860
To which was added:	
Operating surplus after tax for the year	12,706
From which was deducted:	
Foreign currency translation reserve movement	(1975)
Investment property reserve movement	(561)
Net Treasury stock movement	(436)
Ordinary Dividends paid	(5978)
Leaving Reserves at 30 June 2002 at	\$45,616
These comprise:	
Retained earnings	44,548
Other reserves	1,068
	\$45,616

ACCOUNTING POLICIES

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

DIVIDENDS

Your Directors paid an interim dividend of 7 cents per share, with full imputation credits attached on the 25th March 2002. Overseas shareholders were also paid a supplementary dividend. On the 22nd August 2002, your Directors declared a final dividend of 10 cents per share payable on the 14th October 2002. The share register will close at 5:00pm on the 4th October 2002 for the purpose of determining

entitlement to the final dividend. Overseas shareholders will also be entitled to a supplementary payment on the final dividend.

The total ordinary dividend for the year was 17 cents (fully imputed), a 13% increase over last year. The Company is also paying a special dividend of 20¢ per share (fully imputed) on the 14th October 2002, following the sale of our Australian Head Office building.

DIRECTORS

Messrs R.M. Hill, G.J. Gwynne and M.R. Doyle retire by rotation and being eligible offer themselves for re-election.

DIRECTORS REMUNERATION

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

	2002 \$000	2001 \$000
Parent Company		
R.M. Hill *	\$153	153
M.R. Parsell *	A\$483	A\$400
J.W.D. Ryder		13
G.J. Gwynne	\$50	35
L.W. Peters	A\$50	A\$35
M.R. Doyle	\$50	\$35
A.C. Hill	\$50	\$21

*Note – 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.

REMUNERATION OF EMPLOYEES

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

\$000	2002	2001
100-110	7	5
110-120	12	5
120-130	4	2
130-140	3	4
140-150	2	6
150-160	3	-
160-170	4	1
170-180		1
180-190	2	1
190-200		-
200-210		-
210-220	1	-
220-230	1	-
230-240		1
240-250		
250-260		1
270-280	1	
280-290	1	
320-330	1	-

Australian remuneration has been converted into New Zealand dollars at the exchange rate used for translating the Australian profits into New Zealand dollars, 0.82 (2001 – 0.79).

INFORMATION ON DIRECTORS

The qualifications and experience of the Directors are shown on page 27.

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 30 of this report.

DIRECTORS INTERESTS IN CONTRACTS

Since the date of the last report, the Directors have declared, pursuant to Section 140 (2) of the Companies Act 1993, that they are to be regarded as having an interest in any contract that may be made with the entities listed by virtue of their directorship or membership of those entities. Changes recorded in the interests register during the year were:

M.R. Doyle- Blis Technologies Ltd
Dublin Nominees Ltd
Adam Art Gallery
L.W. Peters - No longer associated with Freedom Group Ltd

DONATIONS

The total of donations made during the year amounted to \$10,800.

ANNUAL REPORT AWARDS

The Company was delighted to receive a number of awards for its 2001 Annual Report.

In the Annual Report Awards competition conducted by the Institute of Chartered Accountants of New Zealand, the Company was awarded a commendation in the "Other Companies" section, and for the second consecutive year, was awarded the special award for best "Corporate Governance Reporting" for all New Zealand companies.

In addition, the Company was also awarded a Bronze medal in the prestigious Australasian Reporting Awards, which covers all companies in both Australia and New Zealand.

The Board again extends its congratulations to the dedicated team who compiled and designed last year's report.



On behalf of the Directors,

R.M. Hill

M.R. Parsell

AUDITORS' REPORT TO THE SHAREHOLDERS OF MICHAEL HILL INTERNATIONAL LIMITED FOR THE YEAR ENDED 30 JUNE 2002

We have audited the financial statements on pages 32 to 44. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2002 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 36 to 37.

DIRECTORS' RESPONSIBILITIES

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2002 and their financial performance and cashflows for the year ended on that date.

AUDITORS' RESPONSIBILITIES

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

BASIS OF OPINION

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- The significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- Whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We have conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by error or fraud. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacities as auditors and providing taxation and other assurance services.

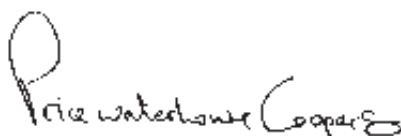
UNQUALIFIED OPINION

We have obtained all the information and explanations we have required.

In our opinion:

- Proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- The financial statements on pages 32 to 44:
 - Comply with generally accepted accounting practice in New Zealand; and
 - Give a true and fair view of the financial position of the Company and Group as at 30 June 2002 and their financial performance and cashflows for the year ended on that date.

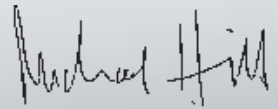
Our audit was completed on 22 August 2002 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Auckland, N.Z.

The Directors are pleased to present the Financial Statements of Michael Hill International Limited for the year ended 30 June 2002.

The Board of Directors of Michael Hill International Limited authorised these Financial Statements for issue on 22 August 2002.



Michael Hill
Chairman of Directors



Mike Parsell
Chief Executive Officer/Director

Dated 22 August 2002



Financial Statements

32	Statements of Financial Performance
32	Statements of Movements in Equity
33	Statements of Segmented Results
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Statements of Financial Performance

For the year ended 30 June 2002

	Notes	Group		Parent	
		2002 \$000	2001 \$000	2002 \$000	2001 \$000
Revenue	2	214,105	189,168	6,512	5,544
Expenses	3	(195,407)	(174,038)	(661)	(819)
Surplus before taxation		18,698	15,130	5,851	4,725
Income tax expense	4	(5,992)	(5,091)	40	(76)
Surplus for the year		\$ 12,706	\$ 10,039	\$ 5,891	\$ 4,649

Statements of Movements in Equity

For the year ended 30 June 2002

	Notes	Group		Parent	
		2002 \$000	2001 \$000	2002 \$000	2001 \$000
Equity - Balance at beginning of year		49,572	42,591	13,110	10,979
Surplus for the year	9	12,706	10,039	5,891	4,649
Foreign currency translation reserve movement	8	(1,975)	(540)	0	0
Investment property revaluation movement reserve	8	(561)	0	0	0
Treasury stock movement	6	(436)	0	(436)	0
Total recognised revenue and expenses for the year		9,734	9,499	5,455	4,649
Dividends paid to shareholders	10	(5,978)	(2,518)	(5,978)	(2,518)
Equity - Balance at end of year		\$ 53,328	\$ 49,572	\$ 12,587	\$ 13,110

These statements are to be read in conjunction with the Notes on pages 36 - 44 and the Audit Report on page 30.

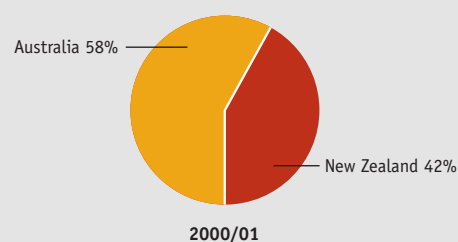
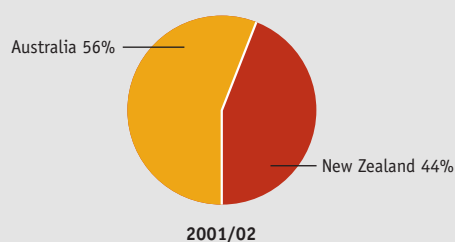
Statements of Segmented Results

For the year ended 30 June 2002

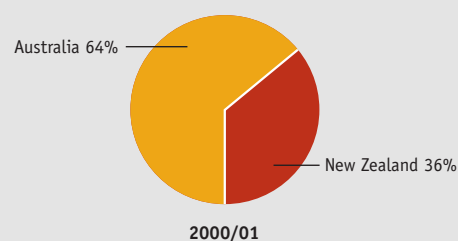
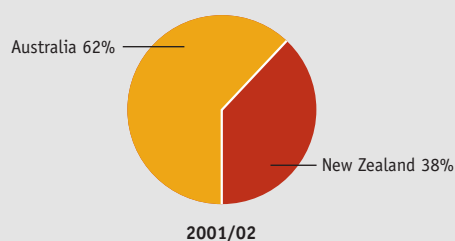
	MHJ New Zealand			MHJ Australia			Group		
	2002 \$000	2001 \$000	+/- %	2002 \$000	2001 \$000	+/- %	2002 \$000	2001 \$000	+/- %
Operating revenue									
Sales to customers	80,643	68,314	18.0%	133,462	120,854	10.4%	214,105	189,168	13.2%
Total revenue	80,643	68,314		133,462	120,854		214,105	189,168	
Segment results									
Operating	10,134	7,643	32.6%	12,879	10,354	24.4%	23,013	17,997	27.9%
As % of revenue	12.6%	11.2%		9.6%	8.6%		10.7%	9.5%	
Sale of NZ Head Office building	358						358	0	
	10,492	7,643		12,879	10,354		23,371	17,997	
As % of revenue	13.0%	11.2%		9.6%	8.6%				
Unallocated expenses							(10,665)	(7,958)	
Surplus for the year							\$ 12,706	\$ 10,039	26.6%
Segment assets	28,804	29,066		66,239	61,890		95,043	90,956	
Unallocated assets							1,370	375	
Total assets							\$ 96,413	\$ 91,331	5.6%
Segment liabilities	5,454	4,598		37,593	37,161		43,047	41,759	
Unallocated liabilities							38	4	
Total liabilities							\$ 43,085	\$ 41,763	-3.2%

- Notes:**
- The Company operates in two geographical segments - New Zealand and Australia.
 - The Company's business relates solely to jewellery retailing and manufacturing.
 - Unallocated expenses comprise interest, taxation and unallocated corporate costs. The increase in unallocated expenses results from the establishment of a number of group functions now undertaken in Australia on behalf of the whole group; in particular strategic direction, marketing, supply chain management, human resource management and IT. Some of these group activities were commenced in 2000/01 and were reflected in the Australian segment results shown that year.

SEGMENT RESULTS BY COUNTRY



OPERATING REVENUE BY COUNTRY



These statements are to be read in conjunction with the Notes on pages 36 - 44 and the Audit Report on page 30.

Statements of Financial Position

As at 30 June 2002

	Notes	Group		Parent	
		2002 \$000	2001 \$000	2002 \$000	2001 \$000
Equity					
Share capital	5	7,712	7,712	7,712	7,712
Treasury stock	6	(415)	0	(415)	0
Reserves	8	1,483	4,019	3,650	3,650
Retained earnings	9	44,548	37,841	1,640	1,748
Total equity		53,328	49,572	12,587	13,110
Non-current liabilities					
Deferred taxation	12	0	0	6	0
Term liabilities	13	27,965	27,525	0	0
Employee entitlements		1,029	978	0	0
Total non-current liabilities		28,994	28,503	6	0
Current liabilities					
Bank overdraft		0	0	31	16
Trade creditors		4,586	4,922	0	0
Accruals and provisions	14	9,331	7,910	38	35
Term liabilities repayable within twelve months	13	174	225	0	0
Taxation payable		0	199	0	0
Total current liabilities		14,091	13,256	69	51
Total equity and liabilities		\$ 96,413	\$ 91,331	\$ 12,662	\$ 13,161
Non-current assets					
Fixed assets	15	16,449	22,235	86	10
Investments	16	0	0	12,411	13,116
Future income tax benefit	12	1,061	417	0	4
Expenditure carried forward	17	36	76	0	0
Goodwill on consolidation		357	429	0	0
Total non-current assets		17,903	23,157	12,497	13,130
Current assets					
Cash on hand		685	637	0	0
Trade debtors	18	13,040	6,808	0	0
Other debtors and prepayments		1,443	1,404	0	0
Inventories	19	59,016	58,767	0	0
Property intended for sale		4,188	558	0	0
Taxation receivable		138	0	166	31
Total current assets		78,510	68,174	166	31
Total assets		\$ 96,413	\$ 91,331	\$ 12,663	\$ 13,161

These statements are to be read in conjunction with the Notes on pages 36 - 44 and the Audit Report on page 30.

Statements of Cash Flows

For the year ended 30 June 2002

Notes	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers	231,783	187,974	0	0
Dividends received	0	0	6,000	4,500
Interest received	53	87	512	694
Management fee received	0	0	0	350
Rent received	0	95	0	0
Cash was applied to:				
Payments to suppliers and employees	(214,303)	(170,117)	(677)	(627)
Interest paid - short term	(92)	(85)	(1)	0
- long term	(1,719)	(2,047)	0	0
Income tax paid	(6,753)	(7,911)	(85)	(76)
Management fee paid	0	0	0	(160)
Net goods and services tax paid	(98)	(109)	0	0
Net cash flow from operating activities	26	\$ 8,871	\$ 7,887	\$ 5,749
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sales of fixed assets	1,303	178	40	0
Proceeds from property intended for sale	505	0	0	0
Cash was applied to:				
Purchase of fixed assets	(6,256)	(8,028)	(96)	0
Net cash used in investing activities	(\$ 4,448)	(\$ 7,850)	\$ (56)	\$ 0
Cash flows from financing activities				
Cash was provided from:				
Proceeds of long term debt	0	5,000	0	0
Proceeds of short term debt	9,884	2,500	0	0
Proceeds of Treasury stock	302	0	302	0
Advance from MHJ NZ	0	0	1,005	716
Cash was applied to:				
Dividends paid	(5,978)	(5,410)	(5,978)	(5,410)
Repayment of long term debt	0	0	0	0
Repayment of short term debt	(7,558)	(1,250)	0	0
Purchase of Treasury stock	(737)	0	(737)	0
Advance to MH Trustee	0	0	(300)	0
Net cash flow used in financing activities	\$ (4,087)	\$ 840	(\$ 5,708)	(\$ 4,694)
Net (decrease) / increase in cash held	336	877	(15)	(13)
Effect of exchange rate changes on cash	(288)	(21)	0	0
Add cash at beginning of year	637	(219)	(16)	(3)
Cash at end of year	\$ 685	\$ 637	(\$ 31)	(\$ 16)

These statements are to be read in conjunction with the Notes on pages 36 - 44 and the Audit Report on page 30.

Notes to the Financial Statements

1 STATEMENT OF ACCOUNTING POLICIES

Michael Hill International Limited is a public company registered under the Companies Act 1993 and is listed on the New Zealand Stock Exchange.

The financial statements are those of Michael Hill International Limited and its subsidiaries and are prepared and presented in accordance with the Companies Act 1993 and the Financial Reporting Act 1993.

General Accounting Policies

The general accounting policies recognised as appropriate for the measurement and reporting of results, cashflows and the financial position under the historical cost method, as modified by the revaluation of certain assets, have been followed in the preparation of these financial statements.

Accounting Policies

The following accounting policies which significantly affect the measurement of financial performance, financial position and cash flows have been applied:

a) Sales

Sales shown in the Statements of Financial Performance comprises amounts received from retail sales and amounts receivable on layby sales in the ordinary course of business. Sales are stated exclusive of Goods and Services Tax collected from customers.

b) Principles of Consolidation

The consolidated financial statements are prepared from the audited accounts of the Parent Company and its Subsidiaries as at 30 June 2002 using the purchase method. All significant transactions between Group Companies are eliminated on consolidation.

c) Fixed Assets

The cost of purchased fixed assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

d) Depreciation

Depreciation is charged on a straight-line basis so as to write off the cost of the fixed assets, to their estimated residual value, over their expected useful lives.

The useful lives of the major classes of assets have been estimated as follows:

Buildings	40-50 years
Plant & Equipment	5-6 years
Motor Vehicles	5-6 years
Furniture & Fittings	6 years
Leasehold Improvements	6-10 years

e) Keymoney

Keymoney paid upon acquisition of shop leases is written off on a straight-line basis over the first term of the lease.

f) Goodwill

Goodwill represents the excess of the acquisition cost of businesses and subsidiary companies over the fair values of the identifiable net assets at the dates of acquisition. Goodwill is amortised to the Statement of Financial Performance on a straight-line basis over the shorter of its estimated useful life or twenty years.

g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is principally determined on a weighted average basis and in the case of manufactured goods includes direct materials, labour and production overheads appropriate to the stage of completion attained. Some inventories are subject to reservation of title.

h) Debtors

Debtors are stated at expected realisable value after providing for an estimate of income on layby sales which may not be realised due to cancellation of layby contracts in subsequent accounting periods.

i) Tax

The tax expense recognised for the year is based on the accounting surplus, adjusted for permanent differences between accounting and tax rules. The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method.

A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

j) Statement of Cash Flows

The following are the definition of the terms used in the Statement of Cash Flows:

i) Cash means coins and notes, demand deposits and other highly liquid investments in which the Group has invested as part of its day-to-day cash management. Cash includes liabilities which are the negative form of the above, such as the bank overdraft. Cash does not include accounts receivable or payable, or any borrowing subject to a term facility.

ii) Operating activities includes all transactions and other events that are not investing or financing activities.

iii) Investing activities are those activities relating to the acquisition holding and disposal of fixed assets and of investments. Investments can include securities not falling within the definition of cash.

Notes to the Financial Statements

Continued

- iv) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- k) Foreign Currency Transactions**
Transactions in foreign currencies are converted to New Zealand dollars at the rates of exchange ruling on the dates of the transactions. Amounts receivable and payable in foreign currencies are translated to New Zealand dollars at the rates of exchange ruling at balance date or, where forward exchange cover has been obtained, at the settlement rate. Realised and unrealised gains and losses arising from exchange rate fluctuations in foreign currencies are included in the Statements of Financial Performance. Revenues and expenses of independent foreign operations are translated to New Zealand dollars at the exchange rates in effect at the time of the transaction, or at rates approximating them. Assets and liabilities are converted to New Zealand dollars at the rates of exchange ruling at balance date. Exchange differences arising from the translation of independent foreign operations are recognised in the foreign currency translation reserve.
- l) Leased Assets**
Operating lease payments and revenue are representa-

tive of the pattern of benefits derived from leased assets and accordingly are recognised in the Statements of Financial Performance in the periods in which they are incurred.

m) Financial Instruments

Financial Instruments with off-balance sheet risk, have been entered into for the primary purpose of reducing exposure to fluctuation in interest rates. While financial instruments are subject to risk that market rates may change subsequent to acquisition, such changes would generally be offset by opposite effects on the items hedged.

n) Investments

Investment properties are stated at market value as determined by independent registered valuers as at each balance date. Unrealised movements in the value of investment properties are included in the investment property revaluation reserve. Investment properties are not consolidated.

The property intended for sale (Australian Head Office building) is recorded at carrying amount at date of change of intention.

Changes in Accounting Policies and Recently Issued Accounting Standards

Certain comparatives have been amended to conform with the current year's presentation.

There have been no other changes in accounting policies.

2 OPERATING REVENUE

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Trading revenue	214,105	189,168	0	0
Other income:				
Interest	54	88	512	694
Rental Income	0	95	0	0
Gain on sale of fixed assets	0	0	40	0
Gain on sale of investment property	508	0	0	0
Dividends received from subsidiaries	0	0	6,000	4,500
Management fee received from subsidiaries	0	0	0	350

Notes to the Financial Statements

Continued

3 OPERATING EXPENSES

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Fees paid to PricewaterhouseCoopers				
Audit fees	138	128	0	0
Other assurance fees	81	158	0	0
Other professional services	33	11	33	11
Depreciation	4,855	4,279	20	28
Buildings	157	81	0	0
Plant	329	315	1	1
Equipment	1,182	899	3	2
Furniture & fittings	923	858	0	0
Motor vehicles	261	284	16	25
Leasehold improvements	2,003	1,842	0	0
Directors' fees	214	152	214	152
Expenditure carried forward written off	39	56	0	0
Goodwill on consolidation written off	71	71	0	0
Interest - Fixed loans	1,890	2,056	0	0
- Other	124	86	1	0
Increase / (decrease) in laybys provision	(7)	93	0	0
Rental and operating lease costs	13,274	11,931	0	0
Net foreign exchange loss / (gain)	24	(81)	0	0
Loss on sale of fixed assets	169	105	0	0

4 INCOME TAX EXPENSE

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
The taxation provision has been calculated as follows				
Surplus for the year	\$ 18,698	\$ 15,130	\$ 5,851	\$ 4,725
Taxation on surplus for the year at 33%	6,170	4,993	1,931	1,560
Plus / (less)				
Non-assessable income	0	0	(1,980)	(1,485)
Non-deductible expenditure	(14)	99	9	1
Under / (over) provision in prior years	(2)	(14)	0	0
Effect of change in Australian tax rate (36% to 34%)	0	(71)	0	0
Effect of difference in Australian tax rate (33% to 30%)	(162)	84	0	0
	\$ 5,992	\$ 5,091	(\$ 40)	\$ 76
The taxation charge is represented by:				
Tax payable in respect of current year	6,651	5,508	(30)	82
Deferred taxation	(659)	(417)	(10)	(6)
	\$ 5,992	\$ 5,091	(\$ 40)	\$ 76

5 SHARE CAPITAL

	Parent	
	2002 \$000	2001 \$000
Issued and paid in capital - 38,558,600 ordinary shares	\$ 7,712	\$ 7,712

There were no shares issued during the year ended 30 June 2002.

All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

Share Options

On the 9th October 2000, the Directors authorised the issue of 750,000 options to subscribe for Ordinary shares in the Company to five senior management personnel in the Company, including 300,000 to Mike Parsell in his capacity of CEO of the Company. The issue of options for Mike Parsell was subject to the approval of shareholders at the Annual meeting on the 17th November 2000, in accordance with the Company's constitution. The motion to issue options to Mike Parsell was passed at the Annual meeting. The exercise price of \$3.66 for all 750,000 options was set at 15% above the average weighted price of the Company's ordinary shares over the calendar month following the announcement by the Company to the New Zealand Stock Exchange of its results for the year ended 30 June 2000.

The options may be exercised in the period from 1 July 2003 to 30 June 2006 on the following basis:

- 1) In the period 1 July 2003 to 30 June 2004, the option holder may not exercise more than 25% of the entitlement.
- 2) In the period 1 July 2004 to 30 June 2005, the option holder may exercise the aggregate of 25% of his entitlement and any part of his entitlement not exercised in the previous period, so that not more than 50% of the option holder's entitlement is exercised prior to 30 June 2005.

Notes to the Financial Statements

Continued

- 3) In the period 1 July 2005 to 30 June 2006, the option holder may exercise such of his entitlement as has not previously been exercised.

The value of the options was calculated using the Black-Scholes Option valuation model and the value of the options at the time of granting was NZ\$36,450 for the options available to Mike Parsell and NZ\$40,800 collectively for the other four option holders. On the 22nd August 2002, the Directors authorised the issue of a further 200,000 options to two senior management personnel in the company, including 100,000 to Emma Hill in her capacity of General Manager, Canada. The issue of options for Emma Hill is subject to the approval of shareholders at the Annual meeting on the 28th of November 2002, in accordance with the Company's constitution. The exercise price for these options has been set at \$6.15 which was 15% above the weighted average price of the Company's ordinary shares over the calendar month following the announcement by the Company to the New Zealand Stock Exchange of its results for the year ended 30 June 2002.

These options may be exercised in the period from 1 July 2005 to 30 June 2008 on the following basis:

- 1) In the period 1 July 2005 to 30 June 2006, the option holder may not exercise more than 25% of the entitlement.
- 2) In the period 1 July 2006 to 30 June 2007, the option holder may exercise the aggregate of 25% of his entitlement and any part of his entitlement not exercised in the previous period, so that not more than 50% of the option holders entitlement is exercised prior to 30 June 2005.
- 3) In the period 1 July 2007 to 30 June 2008, the option holder may exercise such of his entitlement as has not previously been exercised.

The value of these options was calculated using the Black Scholes Option valuation model and the value of the options at the time of granting was NZ\$42,000 collectively for the two option holders.

6 TREASURY STOCK

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Treasury stock at beginning of year	0	0	0	0
Treasury stock acquired through the year	737	0	737	0
Allocated to employee share ownership plan including discount	(322)	0	(301)	0
Treasury stock at end of year	\$ 415	\$ 0	\$ 436	\$ 0

Michael Hill International Limited acquired 155,000 shares through on-market purchases on the New Zealand Stock Exchange during the year. The total amount paid to acquire the shares was \$736,900, this being an average purchase price of \$4.75 per share. During the year 67,752 shares were issued to the Michael Hill Employee Share Ownership Plan at an average price of \$4.45.

7 EMPLOYEE SHARE OWNERSHIP PLAN

The Plan

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 MHI at a 10% discount to 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.

Control of the Scheme

The Trustees are appointed by the Company's Board of Directors. The Trustee for the Scheme is the Michael Hill Trustee Company Limited, the Directors of which are Mike Parsell and Murray Doyle, both Directors of Michael Hill International Limited.

8 RESERVES

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Balances				
Share premium reserve	3,650	3,650	3,650	3,650
Foreign currency translation reserve	(2,167)	(192)	0	0
Investment property revaluation reserve	0	561	0	0
	\$ 1,483	\$ 4,019	\$ 3,650	\$ 3,650
Movements in reserves during the year were as follows:				
Share premium reserve				
Opening and closing balance	\$ 3,650	\$ 3,650	\$ 3,650	\$ 3,650
Foreign Currency translation reserve				
Balance at beginning of year	(192)	348	0	0
Foreign exchange gain / (loss) on translation of net assets of Australian Subsidiaries	(1,975)	(540)	0	0
Balance at end of year	(\$ 2,167)	(\$ 192)	\$ 0	\$ 0
Investment property revaluation reserve				
Balance at beginning of year	561	561	0	0
Revaluation during the year	(561)	0	0	0
Balance at end of year	\$ 0	\$ 561	\$ 0	\$ 0

Notes to the Financial Statements

Continued

9 RETAINED EARNINGS

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Balance at beginning of year	37,841	30,320	1,748	(383)
Surplus for the year	12,706	10,039	5,891	4,649
Dividends	(5,978)	(2,518)	(5,978)	(2,518)
Discount on sale of Treasury Stock	(21)	0	(21)	0
Balance at end of year	\$ 44,548	\$ 37,841	\$ 1,640	\$ 1,748

10 DIVIDENDS PAID AND DECLARED

	Group & Parent Company	
	2002 \$000	2001 \$000
Interim: Cash paid on 26 March 2002	3,286	2,518
Final dividend 2001, paid in October 2001	2,692	0
	\$ 5,978	\$ 2,518

The Directors have declared a final dividend post year end of 10.0 cents per share to be paid for the year ended 30 June 2002 out of tax paid profits, on 14 October 2002. An interim dividend of 7.0 cents per share was paid on 26 March 2002. Full imputation credits attach to both dividends. Non-resident Shareholders also receive supplementary dividends. The Company receives a tax credit equal to the amount of these supplementary dividends.

11 IMPUTATION CREDIT ACCOUNT

	Group & Parent Company	
	2002 \$000	2001 \$000
Balance at beginning of year	1,046	1,403
Plus - Income tax paid	86	86
- Imputation credits attached to dividends received	2,955	2,216
Less - Imputation credits attached to dividends paid to shareholders	(2,883)	(2,659)
Balance at end of year	\$ 1,204	\$ 1,046
Imputation credits directly and indirectly available to members as at 30 June 2002		
Parent	1,204	1,046
Subsidiaries	3,861	3,854
	\$ 5,065	\$ 4,900

12 FUTURE INCOME TAX BENEFIT / (DEFERRED TAXATION)

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Opening Balance	417	(9)	4	(2)
Plus / (less) - Movement in current year	659	417	(10)	6
Plus / (less) - Effect of exchange rate change on Australian opening balance	(15)	9	0	0
	\$ 1,061	\$ 417	(\$ 6)	\$ 4

13 TERM LIABILITIES

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Non-current borrowings				
Secured bank loans	27,965	27,525	0	0
Borrowings due within 12 months				
Secured bank loans	174	225	0	0
	\$ 28,139	\$ 27,750	\$ 0	\$ 0

These advances, together with the bank overdraft, are secured by floating charges over all the Group's assets. The Group utilises bank bills for financing the operations of the business. The ANZ Bank regards this finance as long term, subject to satisfactory annual reviews of the Group's operations. Interest rates applying 2002 - 4.8% to 7.0% (2001 - 5.0% to 7.8%).

Notes to the Financial Statements

Continued

14 ACCRUALS AND PROVISIONS

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Employee entitlements	4,691	4,033	0	0
Other accruals	4,640	3,877	38	32
	\$ 9,331	\$ 7,910	\$ 38	\$ 32

15 FIXED ASSETS

	2002			2001		
	Cost \$000	Accum Deprec \$000	Book Value \$000	Cost \$000	Accum Deprec \$000	Book Value \$000
Group						
Land	0	0	0	1,247	0	1,247
Buildings	0	0	0	4,361	110	4,251
Plant	2,851	1,679	1,172	2,812	1,491	1,321
Equipment	10,215	6,908	3,307	9,676	6,101	3,575
Furniture and fittings	7,870	4,783	3,087	7,802	4,380	3,422
Motor vehicles	1,592	325	1,267	1,675	583	1,092
Leasehold improvements	15,725	8,109	7,616	15,074	7,747	7,327
	\$ 38,253	\$ 21,804	\$ 16,449	\$ 42,647	\$ 20,412	\$ 22,235
Parent Company						
Plant	5	3	2	3	2	1
Equipment	16	8	8	10	5	5
Motor vehicles	89	13	76	126	122	4
	\$ 110	\$ 24	\$ 86	\$ 139	\$ 129	\$ 10

The above assets provide a floating security for bank loans, as well as mortgage security over term loans. (Refer note 13)

The Australian land and buildings have been reclassified as a Property Intended for Sale in current assets.

16 INVESTMENTS IN SUBSIDIARIES

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Subsidiary companies				
Shares at cost	0	0	2,800	2,800
Plus advance to subsidiaries	0	0	9,611	10,316
	\$ 0	\$ 0	\$ 12,411	\$ 13,116

The subsidiary companies are:

	Activity	Country of Incorporation	Shareholding
Michael Hill Jeweller Limited	Jewellery Retailer and Manufacturer	NZ	100%
Michael & Company Limited (formerly Michael Hill Shoes Limited)	Dormant Company	NZ	100%
Michael Hill Jeweller (Australia) Pty Limited	Jewellery Retailer	Australia	100%
Michael Hill (Wholesale) Pty Limited	Jewellery Wholesaler	Australia	100%
Michael Hill Manufacturing Pty Limited	Jewellery Manufacturer	Australia	100%
Michael Hill Trustee Company Limited	Trustee for staff share purchase scheme	NZ	100%
Michael Hill Jeweller Limited	Jewellery Retailer	Canada	100%

There were no subsidiary companies purchased or sold during the year ended 30 June 2002.

All subsidiaries have a 30 June balance date.

Michael Hill Jeweller Ltd was incorporated in Canada on the 18th April 2002.

Notes to the Financial Statements

Continued

17 EXPENDITURE CARRIED FORWARD

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Key money	36	76	0	0
	\$ 36	\$ 76	\$ 0	\$ 0

18 TRADE DEBTORS

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Trade debtors	13,621	7,396	0	0
Less laybys provision	581	588	0	0
	\$ 13,040	\$ 6,808	\$ 0	\$ 0

19 INVENTORIES

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Raw materials	4,273	4,084	0	0
Work in progress	9	21	0	0
Finished goods	50,971	50,730	0	0
Consumables	3,763	3,932	0	0
	\$ 59,016	\$ 58,767	\$ 0	\$ 0

20 CAPITAL COMMITMENTS

The Group and the Parent Company have no capital commitments at 30 June 2002 (2001 - Nil).

21 CONTINGENT LIABILITIES

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Guarantees to bankers and other financial institutions of subsidiary companies overdraft facilities and fixed assets	\$ 95	\$ 38,676	\$ 75	\$ 75

The Group and Parent Company have no other material contingent liabilities as at 30 June 2002 (2001 - nil).

22 OPERATING LEASE OBLIGATIONS

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	11,471	9,860	0	0
One to two years	9,047	8,406	0	0
Two to five years	17,402	13,954	0	0
Over five years	3,322	2,634	0	0
	\$ 41,242	\$ 34,854	\$ 0	\$ 0

Notes to the Financial Statements

Continued

23 SUBSTANTIAL SECURITY SHAREHOLDERS

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
R.M. Hill, A.C. Hill, R.M.J. Urlich (as trustees)	11,116,260
D.W. Hewitt, R.M.J. Urlich (as trustees)	8,446,636
AMP Henderson Global Investors	2,518,422

Total number of ordinary shares on issue as at 31 August 2002 is 38,558,600.

24 RELATED PARTY TRANSACTIONS

Executive Directors are remunerated in their capacity as full-time employees of the Company. Directors' interests in the Company's shares are disclosed on page 45 of the Annual Report. Directors' received dividends on their holdings on the same terms as other shareholders. Emma Hill, daughter of Michael and Christine Hill, is remunerated as a full time manager of the company.

25 FINANCIAL INSTRUMENTS

(a) Currency and interest rate risk

Nature of activities and management policies with respect to financial instruments.

(i) Currency

The Group undertakes transactions denominated in foreign currencies from time to time and resulting from these activities exposures in foreign currency arise.

Foreign currency transactions are settled on the day they fall due at the exchange rate of the day. The Group uses forward exchange contracts to manage these exposures, from time to time.

Contracts outstanding at 30 June 2002 are \$ Nil (2001 - \$32,734).

(ii) Interest rate

The Group has a long term borrowing facility utilising three to six months bank bills. Forward rate agreements are utilised from time to time to hedge against interest rate fluctuations. The principal amount of Forward Rate Agreements outstanding at balance date was \$10,610,000 (2001 - \$10,875,000). The cash settlement requirements of Forward Rate Agreements have a market value of \$713 (2001 - \$55,736).

Settlement amounts on maturity of Forward Rate Agreements are amortised over the period of the underlying liability by the financial instrument.

(iii) Repricing analysis

Cash on hand, debtors, expenditure carried forward, creditors and proposed dividends have been excluded in the tables below as they are not interest rate sensitive.

Group repricing maturities - 2002

	Effective Interest Rates	\$000 Less than 6 Months	\$000 6 to 12 Months	\$000 1 to 2 Years	\$000 2 to 5 Years	\$000 Total
Liabilities						
Term liabilities	5.61%	8,721	17,907	1,511	0	28,139
Total liabilities		8,721	17,907	1,511	0	28,139
Off Balance Sheet forward rate agreements		(10,610)	0	0	0	(10,610)
Repricing gap		(1,889)	17,907	1,511	0	17,529

Group repricing maturities - 2001

	Effective Interest Rates	\$000 Less than 6 Months	\$000 6 to 12 Months	\$000 1 to 2 Years	\$000 2 to 5 Years	\$000 Total
Liabilities						
Term liabilities	5.96%	5,375	0	22,375	0	27,750
Total liabilities		5,375	0	22,375	0	27,750
Off Balance Sheet forward rate agreements		(10,875)	0	0	0	(10,875)
Repricing gap		(5,500)	0	22,375	0	16,875

Notes to the Financial Statements

Continued

Parent Company financial assets and liabilities comprise investments, creditors and dividends payable which are not interest rate sensitive. The bank overdraft at 30 June 2002 is \$31,057 (2001 - \$16,449). Commercial bill facilities are currently utilised by the Group on 90 day terms, but are regarded by the bank as long term arrangements.

(iv) Credit

In the normal course of its business the Group incurs credit risk from trade debtors and other institutions. There are no significant concentrations of credit risk. The Group has a credit policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures have been set and are monitored on a regular basis.

(b) Fair Values

The Group's financial assets and liabilities have estimated fair values equivalent to carrying value, with the exception of forward rate agreements with fair values disclosed in part (a) (ii) of this note.

26 RECONCILIATION OF SURPLUS AFTER TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES

	Group		Parent	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Reported surplus after taxation as per Statement of Financial Performance	12,706	10,039	5,891	4,649
Add / (less) items classified as investing or financial activities				
Loss / (gain) on sale of fixed assets	208	105	(40)	0
Gain on sale of property intended for sale	(508)	0	0	0
Add / (less) non cash items				
Depreciation	4,855	4,280	20	28
Foreign currency movement	(753)	(72)	0	0
Deferred taxation	(130)	(417)	10	6
Amortisation of goodwill	71	71	0	0
Amortisation of expenditure carried forward	39	48	0	0
Add / (less) movements in working capital items				
Taxation payable	(38)	(2,408)	(135)	(6)
Debtors and prepayments	(7,212)	(1,117)	0	0
Creditors and accruals	2,550	2,400	3	4
Inventories	(2,917)	(5,042)	0	0
Net cash flows from operating activities	\$ 8,871	\$ 7,887	\$ 5,749	\$ 4,681

27 STOCK EXCHANGE LISTING REQUIREMENTS - SUPPLY OF INFORMATION

Where matters noted in Listing requirements 10.4.2 are not applicable to the current reporting period, no reference is made to them.

28 EVENTS OCCURRING AFTER BALANCE DATE

On the 13th September 2002, the Australian head office building was sold with an agreement to lease back. As the agreement was entered into after balance date, the financial effect has not been recognised in the financial statements.

Analysis of shareholding

SHAREHOLDING BY RANGE OF SHARES AS AT 31 AUGUST 2002

	No. of Holders	% of Holders	No. of Shares
1 - 999	809	29	383,274
1,000 - 4,999	1,594	56	3,238,990
5,000 - 9,999	257	9	1,614,421
10,000 & over	170	6	33,321,915
Total	2,830	100%	38,558,600

GEOGRAPHICAL SPLIT OF SHAREHOLDERS AS AT 31 AUGUST 2002

	No. of Holders	% of Holders	No. of Shares
Northland	295	10	21,272,001
Auckland	665	24	2,204,700
Wellington	212	7	7,383,198
Rest of North Island	1,139	40	2,920,167
South Island	439	16	3,246,748
Overseas	80	3	1,531,786
Total	2,830	100%	38,558,600

TWENTY LARGEST SHAREHOLDERS AS AT 31 AUGUST 2002

	Ordinary Shares	% of Shares
R.M. Hill, A.C. Hill, R.M.J. Urlich (as trustees)	11,116,260	28.82
D.W. Hewitt, R.M.J. Urlich (as trustees)	8,446,636	21.90
The Trustees, Executors and Agency Co. of N.Z.	1,780,255	4.61
Accident Compensation Corporation	1,761,681	4.56
Forbar Custodians Ltd.	1,605,781	4.16
AMP Investments Strategic Equity	1,102,656	2.85
Peters MacGregor Pty. Ltd.	736,700	1.91
NZGT Nominees Ltd.	663,128	1.71
ANZ Nominees Ltd.	370,000	0.95
R.M. Hill, A.C. Hill, R.M.J. Urlich (as trustees)	356,630	0.92
R.L. Parsell	356,025	0.92
Cogent Nominees Ltd.	341,676	0.88
AMP Life Ltd.	339,512	0.88
Guardian Trust Investment Nominees Ltd	221,332	0.57
W.K. Butler, R.M.J. Urlich, R.J. Halliday	166,195	0.43
Hubbard Churcher Trust Management	135,000	0.35
Custodial Services Ltd	131,917	0.34
H.C. Wilson	120,000	0.31
Chartwell Investments Ltd	100,000	0.25
Dublin Nominees Ltd	100,000	0.25
Total	29,951,384	77.67

DIRECTORS' AND ASSOCIATED INTERESTS' SHARE HOLDINGS AS AT 30 JUNE

Ordinary Shares	Associated Interests		Own Name		Total	
	2002	2001	2002	2001	2002	2001
R.M. Hill & A.C. Hill	20,001,441	20,001,441	-	-	20,001,441	20,001,441
M.R. Parsell	370,040	375,040	26,089	26,089	396,129	401,129
G.J. Gwynne	100,000	100,000	5,000	5,000	105,000	105,000
L.W. Peters	850,000	1,100,000	-	-	850,000	1,100,000
M.R. Doyle	100,000	100,000	-	-	100,000	100,000



SHAREHOLDER INFORMATION

Information specifically for investors and shareholders is featured on our Website **Michaelhill.com**

It includes our latest shareprice and historical share prices over the last six years, together with charts of our share price in comparison to the NZSE40 over the last 12 months and 3 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.

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 1020

Phone 09 488 8777

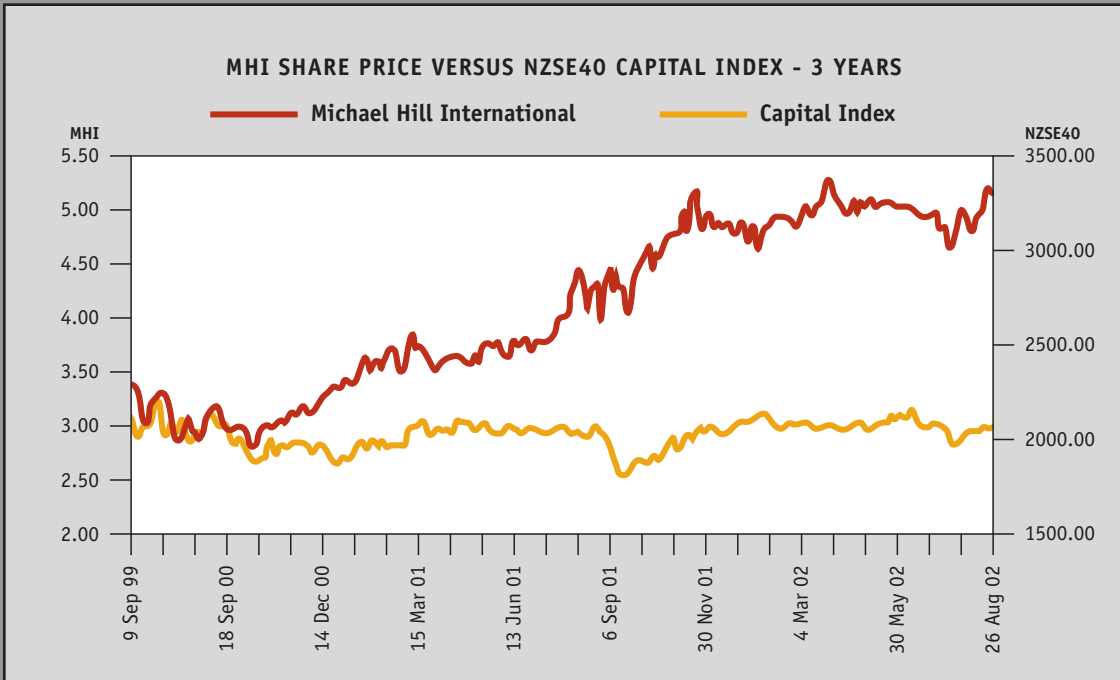
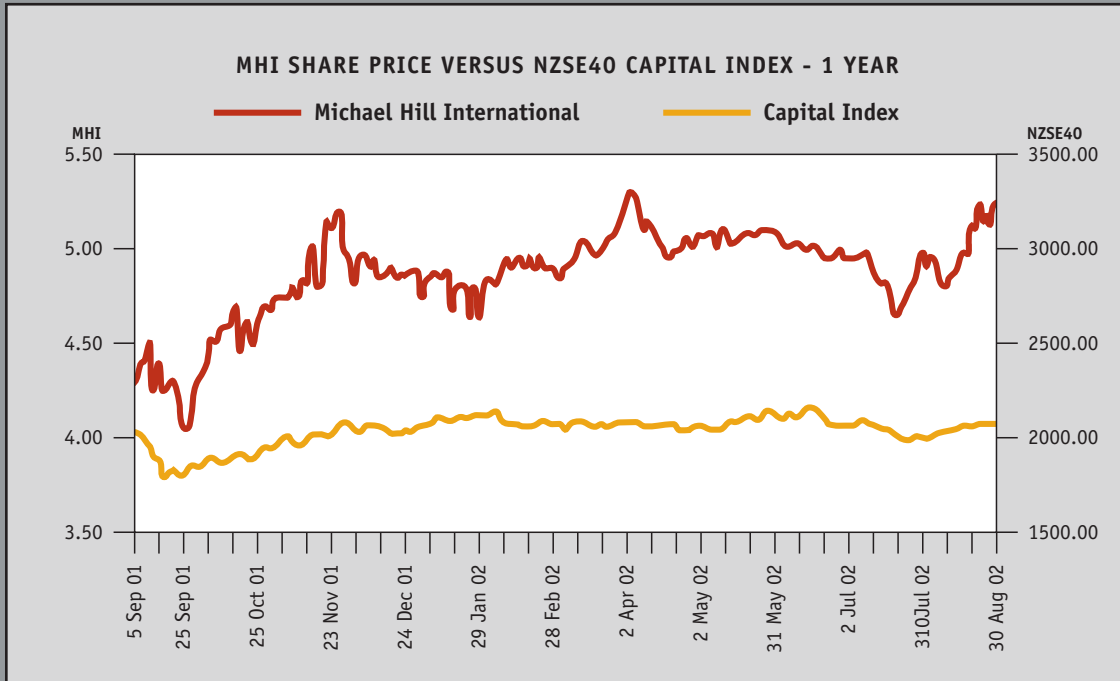
FINANCIAL CALENDAR

Annual Meeting: Thursday 28th November 2002 at 2pm. Hilton Hotel, Princess Wharf, Auckland

Dividends payable: Interim - March
Final - October

Financial Results announced: Half year - February
Annual - August

Share Price Performance



	High	Low	As at 30/6/02
Prices for Shares traded during the year	\$ 5.30	\$ 3.80	\$ 5.00

	2002	2001	2000	1999	1998	1997	1996
Six year comparative review of prices for shares as at 30 June.	\$ 5.00	\$ 3.80	\$ 2.85	\$ 3.00	\$ 1.82	\$ 1.63	\$ 1.23

Store Outlets - Australia

QUEENSLAND



Loganholme	Phil Dawson, Logan Hyperdome, Loganholme, Brisbane
Robina	Jan Ingham, Robina Town Centre, Robina, Gold Coast
Toowoomba	Jasmine Harrison, Clifford Gardens Shopping Centre, Toowoomba
Cairns	Julie Tsakissiris, Earlville Shopping Centre, Cairns
Mt Ommaney	Richard Price, Mt Ommaney Shopping Centre, Mt Ommaney, Brisbane
Myer Centre	Suean Buckley, Myer Centre, Queen Street Mall, Brisbane
Toombul	Clare Pell, Westfield Shoppingtown Toombul, Nundah, Brisbane
Chermside	Karen Pukulas, Westfield Shoppingtown, Chermside, Brisbane
Upper Mt Gravatt	Lynne Alexander, Garden City Shopping Centre, Upper Mt Gravatt, Brisbane
Ipswich	Rachael Wright, Ipswich City Square, Ipswich
Indooroopilly	Adam Johnson, Westfield Shoppingtown, Indooroopilly, Brisbane
Capalaba Park	Tracey Phillips, Capalaba Park Shopping Centre, Capalaba, Brisbane
Strathpine	Juanita Ashford, Westfield Shoppingtown, Strathpine, Brisbane
Southport	Mark Walshaw, Australia Fair Shopping Centre, Southport, Gold Coast
Broadbeach	Gerald Adam, Pacific Fair Shopping Centre, Broadbeach, Gold Coast
Mackay	Scott Murray, Canelands Shopping Centre, Mackay
Browns Plains	Kaylene Grey, Grand Plaza Shopping Centre, Browns Plains, Brisbane
Townsville	Greg Nel, The Willows Shopping Centre, Townsville
Maroochydore	Kathleen Kelly, Sunshine Plaza Shopping Centre, Maroochydore, Sunshine Coast
Rockhampton	Bronwyn Taylor, Rockhampton Shopping Fair, Rockhampton
Kawana Waters	Adrienne Brandon, Kawana Shopping World, Kawana, Sunshine Coast
Bundaberg	Sandi Wallace, Sugarland Shopping Centre, Bundaberg
Stones Corner	Stones Corner, Brisbane
Townsville	Warwick Nicholson, Stockland Shopping Centre, Aitkenvale, Townsville
Cairns Central	Sharnie Stewart, Cairns Central, Cairns
Morayfield	Paul Aruldoss, Morayfield Shopping Centre, Morayfield, Brisbane
Brookside	Kerry Camilleri, Brookside Shopping Centre, Mitchelton, Brisbane
Carindale	Tim Spreadborough, Westfield Shoppingtown, Carindale, Brisbane

AUSTRALIAN CAPITAL TERRITORY

Woden	Andrew Warwick, Woden Plaza, Woden
Canberra Centre	Jim Warren, City Walk, Canberra
Belconnen	Michael Van Egdome, Belconnen Mall, Belconnen

NEW SOUTH WALES

Parramatta	Jody Cremona, Westfield Shoppingtown, Parramatta, Sydney
Miranda	Reiny Biermann, Westfield Shoppingtown, Miranda, Sydney
Roselands	Josie Montalto, Roselands Shopping Centre, Roselands, Sydney
Liverpool	Peta McClure, Westfield Shoppingtown, Liverpool, Sydney
North Ryde	David Patterson, Macquarie Centre, North Ryde, Sydney
Penrith	Jenny Ryan, Penrith Plaza, Penrith, Sydney
Castle Hill	Raj Nair, Castle Towers Shopping Centre, Castle Hill, Sydney
Blacktown	Leonie Johnston, Westpoint Shopping Centre, Blacktown, Sydney
Warringah	Robert Lee, Warringah Mall Shopping Centre, Brookvale, Sydney
Campbelltown	Pauline Russell, The Mall Queen Street, Campbelltown, Sydney
Erina	Cindy Salmon, Erina Fair, Erina, Central Coast
Fairfield	Michael Bateman, Fairfield Forum Shopping Centre, Fairfield, Sydney
Port Macquarie	Penny Rebecchi, Settlement City Shopping Centre, Port Macquarie, Central Coast
Jesmond	Stockland Mall, Jesmond, Newcastle
Tuggerah	Melissa Stewart, Westfield Shoppingtown, Tuggerah, Central Coast
Mt Druitt	Romel Santos, Markettown, Mt Druitt, Sydney
Charlestown	Anthony Matthews, Charlestown Square, Charlestown, Newcastle
Coffs Harbour	Jim Colley, Park Beach Plaza, Coffs Harbour, Central Coast
Warrawong	Cheryle Delandre, Westfield Shoppingtown, Warrawong, Wo1longong
Tweed Heads	Mark Elford, Tweed City Shopping Centre, Tweed Heads
Bankstown	Rose Lee, Bankstown Square, Bankstown, Sydney
Shell Harbour	Samantha Darling, Shell Harbour Square, Shell Harbour, Wo1longong
Wagga Wagga	Chris Richardson, Sturt Mall, Wagga Wagga
Macarthur Square	Christina Blachnig, Macarthur Square Shopping Centre, Campbelltown, Sydney
Dubbo	Marilyn Buttsworth, Macquarie Street, Dubbo
Warriewood	Amanda Clemson, Warriewood Shopping Centre, Warriewood, Sydney
Burwood	Craig Flam, Westfield Shoppingtown, Burwood, Sydney
Chatswood	Scott Christie, Westfield Shoppingtown, Chatswood, Sydney
Wollongong	Jeanette Underwood, Crown Central, Wollongong, South Coast
Hornsby	Scott Covington, Westfield Shoppingtown Northgate, Hornsby, Sydney
Albury/Wodonga	Ian Henderson, West End Plaza, Albury
Tamworth	Kylie Davidson, Tamworth Shoppingworld, Tamworth
Hurstville	Nadine Kolinac, Westfield Shoppingtown, Hurstville, Sydney

VICTORIA

Eastlands	Simon Coutts-Bain, Eastlands Shopping Centre, Ringwood, Melbourne
Greensborough	Kylie Ayre, Greensborough Plaza, Greensborough, Melbourne
Maribyrnong	Dianne Peters, Highpoint Shopping Centre, Maribyrnong, Melbourne
Chirnside	Cherie Vears, Chirnside Park Shopping Centre, Chirnside, Melbourne

Airport West	Sue Daley, Westfield Shoppingtown Airport West, Airport West, Melbourne
Geelong	Zoran Blazeovski, Corio Village, Corio, Geelong
Fountain Gate	Cheryl Butler, Westfield Shoppingtown, Fountain Gate, Melbourne
The Glen	Nicole Beckerley, The Glen Shopping Centre, Glen Waverley, Melbourne
Dandenong	Jamie Martin, Dandenong Plaza, Dandenong, Melbourne
Forest Hill	Olivia Moore, Forest Hill Chase, Forest Hill, Melbourne

NORTHERN TERRITORY

Darwin	Julie Pickup, Casuarina Square Shopping Centre, Darwin
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WESTERN AUSTRALIA

Morley	Kristy Robinson, Westfield Shoppingtown Galleria, Morley, Perth
Cannington	Wendy Maben, Westfield Shoppingtown Carousel, Cannington, Perth
Booragoon	Patricia Jones, Garden City Shopping Centre, Booragoon, Perth

Store Outlets - New Zealand

NORTH ISLAND

Whangarei	Althena Flavell-Birch, 24 Cameron Street, Whangarei
Browns Bay	Olga Golenkova, 26 Clyde Road, Browns Bay, Auckland
Albany	Greg Smith, Albany Mega Centre, Auckland
Takapuna	Rowena McNamara, 3 Hurstmere Road, Auckland
Queen Street	Kirk Robinson, 44 Queen Street, Auckland
Newmarket	Vicki Cato, 218 Broadway, Auckland
St Lukes	Wayne Bullock, Westfield Shoppingtown St Lukes, Auckland
Lynnmall	Lynda Savage, Lynnmall Shopping Centre, Auckland
Pakuranga	Tony Ho, Westfield Shoppingtown Pakuranga, Auckland
Mt Wellington	Kathryn Scott, Harvey Norman Centre, Mt Wellington Highway, Auckland
Botany	Jillian Gubb, 24 Town Centre Drive, Botany Town Centre, Auckland
Manukau	Shane Dance, Westfield Shoppingtown Manukau, Auckland
Henderson	Coralie De Andrad, Westfield Shoppingtown West City, Auckland
Westgate	Ranee Bowden, Westgate Shopping Centre, Auckland



Chartwell	Lane Hannah, Westfield Shoppingtown Chartwell, Hamilton
Hamilton	Sally Every, Cnr Victoria & Ward Street, Hamilton
Tauranga	Chris Teague, 61 Devonport Road, Tauranga
Rotorua	Greg Lilley, Rotorua Central, Amohau Street, Rotorua
Bayfair	Bronwyn Butler, Shop 601, Bayfair Plaza, Mt Maunganui
Taupo	Claire Hale, 25 Horomatangi St, Taupo
Gisborne	Angela Mana, 118 Gladstone Rd, Gisborne
New Plymouth	Prue Webber, 32-36 Currie Street, New Plymouth
Hastings	Corey Potter, 225 West Heretaunga Street, Hastings
Napier	Gillian Russell, Ocean Boulevard Mall, Napier
Wanganui	Amber Eyre, 99 Victoria Avenue, Wanganui
Palmerston North	Aaron Waters, 102 The Square, Palmerston North
Coastlands	Karl Jenner, Coastlands Shopping Centre, Paraparaumu
Porirua	Toni Roberts, North City Shopping Centre, Porirua, Wellington
Lower Hutt	Lynda Singleton, Westfield Shoppingtown Queensgate, Lower Hutt
Johnsonville	Janet Greenwood, Johnsonville Shopping Centre, Wellington
Cuba Mall	Lois Law, 70 Cuba Mall, Manner Street, Wellington
Lambton Quay	Trish Longstaff, 342 Lambton Quay, Wellington

Specialist Antique and Estate Outlet

Newmarket	Peter Downey, 218 Broadway, Auckland
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SOUTH ISLAND

Nelson	Carrie James, 174 Trafalgar Street, Nelson
Cashel Street	Matthew Reeves, Cnr Shades Arcade & Cashel Street, Christchurch
Merivale	Nadine Cameron, Merivale Mall, 189 Papanui Road, Christchurch
Riccarton	Brent Hutchinson, Westfield Shoppingtown Riccarton, Christchurch
Eastgate	Joanne Cantrick, Eastgate Shopping Centre, Christchurch
Northlands	Donalda Barr, Northlands Shopping Centre, 55 Main North Rd, Christchurch
Hornby	Michelle Clark, Hornby Shopping Centre, Hornby
Timaru	Wendy Mackrell, 202 Stafford Street, Timaru
Dunedin	Sonya Chalmers, 250 George Street, Dunedin
Invercargill	Nicky Toshach, 66 Esk Street, Invercargill
Queenstown	Melanie Cole, 23 Rees Street, Queenstown

Notice of annual meeting

Notice is hereby given that the Annual Meeting of Shareholders of Michael Hill International Limited ("the Company") will be held at the Hilton Hotel, Princes Wharf, Auckland on Thursday 28 November 2002 at 2pm.

Business

The business of the meeting will be:

1 FINANCIAL STATEMENTS AND REPORTS

To receive and consider the Annual Report including the Financial Statements and the Auditor's Report for the period ended 30 June 2002.

2 RE-ELECTION OF RICHARD MICHAEL HILL, GARY JOHN GWYNNE AND MURRAY RICHARD DOYLE AS DIRECTORS

To consider, and if thought fit, to re-elect Richard Michael Hill, Gary John Gwynne and Murray Richard Doyle as Directors of the Company by passing the following Ordinary Resolutions:

- a. "That Richard Michael Hill be re-elected as a Director of the Company."
- b. "That Gary John Gwynne be re-elected as a Director of the Company."
- c. "That Murray Richard Doyle be re-elected as a Director of the Company."

See *Explanatory Note*.

3 AUDITORS

To record that the Company's Auditors PriceWaterhouseCoopers are automatically reappointed as auditors pursuant to Section 200 of the Companies Act 1993 and to consider, and if thought fit, to pass the following Ordinary Resolution:

"That the Directors be authorised to fix the remuneration of the auditors for the ensuing year."

4 ISSUE OF OPTIONS TO EMMA JANE HILL

To consider, and if thought fit, to pass the following Ordinary Resolution:

"That the Company approves the issue immediately upon the passing of this Resolution of 100,000 Options to subscribe for Ordinary Shares in the Company ("Options") to Emma Jane Hill, being the Company's Retail General Manager, Canada ("the Optionholder") in accordance with clause 3.2(d) of the Company's Constitution and Listing Rule 7.3.6 (the key terms of such Options being further described in the Explanatory Note to the Notice of Meeting).

Neither Emma Hill nor any interests associated with the Hill Family will vote on this Resolution.

See *Explanatory Note*.

5 OTHER BUSINESS

To consider any other ordinary business which may be properly brought before the meeting.

PROXIES

Any Shareholder entitled to attend and vote at the meeting may vote either by being present in person, or by proxy. A proxy must be appointed by a written notice signed by the Shareholder. An appropriate form is attached. A proxy need not be a Shareholder of the Company but is entitled to attend and be heard as if the proxy were a Shareholder. To be effective, the proxy must be deposited at the registered office of the Company, Third Floor, Michael Hill Building, 25 Rathbone Street, Whangarei, no later than 48 hours before the start of the meeting. Postal voting is not permitted.

CORPORATE REPRESENTATIVES

A corporation which is a Shareholder may appoint a person to attend the meeting on its behalf in the same manner as that in which it could appoint a proxy.

By order of the Board of Directors



WK Butler

Secretary

14th October 2002

EXPLANATORY NOTE

Resolution 2 – Re-election of Richard Michael Hill, Gary John Gwynne and Murray Richard Doyle as Directors

Richard Michael Hill, Gary John Gwynne and Murray Richard Doyle are currently Directors of the Company and retire by rotation in accordance with clause 33.5 of the Company's Constitution. Each, being eligible, offers themselves for re-election.

Resolution 4 – Issue of Options to Emma Jane Hill

PURPOSE OF THE PROPOSED ISSUE OF OPTIONS TO THE OPTIONHOLDERS

The granting of Options to Emma Jane Hill ("the Optionholder") pursuant to clause 3.2(d) of the Company's Constitution and Listing Rule 7.3.6 will



form part of the Optionholder's remuneration as Retail General Manager, Canada. The issue is consistent with other options issued to senior management, and the Board's belief that part of the Optionholder's remuneration should be linked to the value created for Shareholders. The granting of Options will help achieve this objective by giving the Optionholder an interest in the Company the value of which can be influenced by her performance. This will further promote a partnership environment as between senior management of the Company and Shareholders.

LISTING RULES REQUIRE SHAREHOLDER APPROVAL

Listing Rule 7.3.6 provides that an associated person of a director of a company must not participate in any issue of equity securities unless the scheme for such participation and the precise levels of entitlement for any such person has been previously approved by an Ordinary Resolution of the relevant issuer. The Options are equity securities for the purposes of the Rules, and as Emma Hill, the Optionholder, is the daughter of Michael and Christine Hill, she is an associated person of Directors of the Company.

APPRAISAL REPORT

The New Zealand Stock Exchange has advised that an Appraisal Report is not required for this issue of Options to the Optionholder.

KEY TERMS

The key terms and conditions of the issue are set out below:

The Company will issue, immediately, and conditional, upon obtaining shareholder approval at the Company's Annual Meeting of Shareholders, 100,000 Options to the Optionholder.

Each Option entitles the Optionholder to subscribe for one Ordinary Share during the period and in the manner described below at an exercise price of \$6.15 per Ordinary Share (which is 15% above the weighted average price of Ordinary Shares in the calendar month following the announcement on 23 August 2002 of the Company's results for the year to 30 June 2002 to the New Zealand Stock Exchange).

The Optionholder may exercise the Options by giving an exercise notice in the period from 1 July 2005 to 30 June 2008 on the following basis:

- a. in the period 1 July 2005 to 30 June 2006 the Optionholder may not exercise more than 25% of her entitlement;
- b. in the period 1 July 2006 to 30 June 2007 the Optionholder may exercise the aggregate of 25% of her entitlement and any entitlement not exercised in the previous period, so that not more than 50% of her entitlement is exercised prior to 30 June 2007;
- c. in the period 1 July 2007 to 30 June 2008 the Optionholder may exercise such of her entitlement as has not previously been exercised.

All Options issued will expire on 30 June 2008.

Each exercise notice shall be for a minimum of 5,000 Ordinary Shares.

The exercise price payable for an Ordinary Share may be amended if other Ordinary Shares or convertible securities are offered for subscription by way of a rights issue, such amendment to be calculated in a manner which is consistent with the Listing Rules.

The Options do not carry an entitlement to participate in dividends or vote until exercised.

Provided that all other terms of the proposed issue are complied with, settlement for the issue of the Ordinary Shares shall occur no later than 10 business days after the delivery of an exercise notice. The Optionholder must, on the relevant settlement date, pay by bank cheque or other cleared funds the exercise price applicable to the Ordinary Shares.

All Options may be exercised immediately in the event of an amalgamation, merger, acquisition of, or change in control of, the Company.

If a take-over offer or merger or amalgamation proposal is made in relation to the Company, the Board with the agreement of the Optionholder may vary any of the terms of issue, so as to enable the Optionholder to participate in the proposal.

The Options may not be quoted and cannot be freely traded, however, they may be transferred by the Optionholder with the Board's consent. These restrictions do not apply to the Ordinary Shares issued pursuant to the exercise of the Options. All Ordinary Shares issued pursuant to the exercise of the Options shall rank *pari passu* with all other Ordinary Shares of the Company on issue except for dividends which have been declared but were unpaid at the date of delivery of an exercise notice and in respect of which the record date for determining entitlements falls prior to the date on which the Optionholder must pay for the Ordinary Shares.

Where:

- a. the Optionholder's employment with the Company is terminated (which includes a resignation by the Optionholder) for any reason other than by reason of fraud, dishonesty or a proven material breach of duties owed by employees by the Optionholder (as determined by the Company in its absolute discretion); and
- b. at the date of termination the Optionholder has not exercised all of his entitlement,

the Optionholder may exercise those Options which at the date of termination have not been exercised, whether or not those Options are then able to be exercised under the issue terms for the Options. However, if those Options are not exercised within three months after the date of termination, they may be cancelled by the Company giving written notice to the Optionholder. If, however, the Optionholder's employment with the Company is terminated by reason of fraud, dishonesty or a proven material breach of duties owed by employees by the Optionholder (as determined by the Company at its absolute discretion) then those Options which at the date of termination have not been exercised may be cancelled immediately by the Company giving the Optionholder written notice.

Corporate Directory

DIRECTORS

R.M. Hill, C.N.Z.M (Chairman)
M.R. Parsell (Chief Executive Officer)
G.J. Gwynne
L.W. Peters A.D.Bus, M.B.A., A.S.I.A., M.A.I.C.D.
M.R. Doyle
A.C. Hill

COMPANY SECRETARY

W.K. Butler B.Com., C.A., A.C.I.S., A.C.I.M.

REGISTERED OFFICE

3rd Floor
Michael Hill Building
25 Rathbone St
PO Box 38
Whangarei
New Zealand
Telephone (09) 430 4810
Fax (09) 430 3578

AUSTRALIAN HEAD OFFICE

Metroplex on Gateway
7 Smallwood Place
Murarrie
Brisbane
Telephone (07) 3399 0200

SHARE REGISTRAR

Computershare Investor Services Limited
Level 2, 159 Hurstmere Rd
Takapuna
North Shore City
Investor Enquiries (09) 488 8777

SOLICITORS

KPMG Legal
PO Box 10246
Wellington
New Zealand

AUDITORS

Pricewaterhouse Coopers
188 Quay Street
Private Bag 92162
Auckland
New Zealand

PricewaterhouseCoopers
Waterfront Place
1 Eagle Street
Brisbane
Australia

BANKERS

ANZ Banking Group (New Zealand) Limited
ANZ Banking Group (Australia) Limited

WEBSITE

www.michaelhill.com





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