michael hill

INTERNATIONAL LIMITED

ANNUAL REPORT 2013

THE DIRECTORS ARE PLEASED TO PRESENT
THE **ANNUAL REPORT** OF
MICHAEL HILL INTERNATIONAL LIMITED
FOR THE YEAR ENDED 30 JUNE 2013

WHAT'S INSIDE

COMPANY PROFILE

Michael Hill International Limited owns the brand "Michael Hill" and operates 267 retail jewellery stores in Australia, New Zealand, Canada and the United States as at 30 June 2013.

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

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

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

As at 30 June 2013, the Group has 52 stores in New Zealand, 162 in Australia, 45 in Canada, and 8 stores in Chicago, USA. Around the world, the Group employs about 2,300 permanent employees across retail sales, manufacturing and administration roles. We have approximately 3,500 shareholders and we are proud of our consistently high returns to shareholders.

OUR OVERALL STRATEGIC GOAL IS TO GROW SHAREHOLDER WEALTH OVER TIME THROUGH OUR PHILOSOPHY OF **CONTROLLED PROFITABLE GROWTH**

PERFORMANCE HIGHLIGHTS

FOR THE 12 MONTHS

- Operating revenue of $549.521m up 7.4% on same period last year
- EBIT of $50.193m up 9.4% on same period last year
- Same store sales were 1.2% up on same period last year
- Net profit before tax of $47.040m up 11.9% on same period last year
- Net profit after tax of $40.032m up 9.6% on same period last year
- Revenue collected from Professional Care Plans of $33.072m up 22.7% on same period last year
- Net debt of $20.890m at 30 June 2013, in line with last year
- Operating cash flow of $52.345m, in line with last year
- 18 new stores opened and 3 closed during the period
- Total of 267 stores open at 30 June 2013
- Final dividend of 4.0 cents per share up 14.3%
- Total dividend for the year of 6.5 cents up 18.2% from 5.5 cents last year
- Equity ratio of 59.4% at 30 June 2013

(all values stated in $NZ unless stated otherwise)

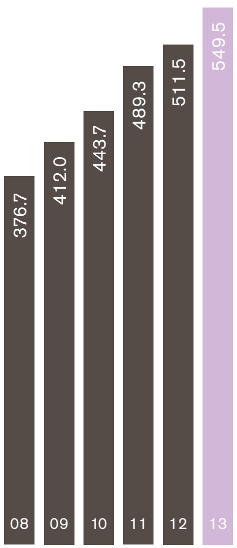
OUR MISSION IS
TO BE THE MOST
PEOPLE FOCUSED
JEWELLER IN THE
WORLD

KEY FACTS

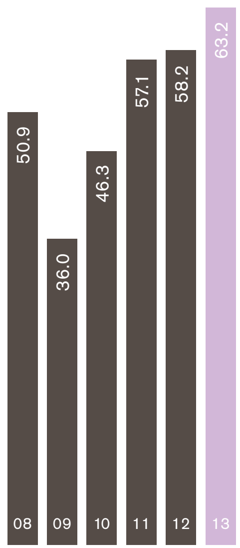
YEAR ENDED 30 JUNE / NZ$000 unless stated	2013	2012	% change
TRADING RESULTS			
Group revenue	**549,521**	511,497	7.4%
Gross profit	**349,941**	316,592	10.5%
Earnings before interest and tax	**50,193**	45,892	9.4%
Group surplus after tax	**40,032**	36,511	9.6%
- First half	**27,839**	26,297	5.9%
- Second half	**12,193**	10,214	19.4%
Net cash from operating activities	**52,345**	52,131	0.4%
FINANCIAL POSITION AT YEAR END			
Contributed equity			
382,849,544 ordinary shares	**4,162**	4,083	1.9%
Total equity	**206,865**	194,359	6.4%
Total assets	**348,182**	323,648	7.6%
Net debt	**20,890**	20,994	-0.5%
Capital expenditure - cash	**31,661**	18,127	74.7%
NUMBER OF STORES 30 JUNE			
New Zealand	**52**	53	
Australia	**162**	153	
Canada	**45**	37	
United States	**8**	9	
Total	**267**	252	

YEAR ENDED 30 JUNE	2013	2012
DISTRIBUTION TO SHAREHOLDERS		
Dividends - including final dividend		
- Per ordinary share	**6.5¢**	5.5¢
- Times covered by surplus after tax	**1.61**	1.73
SHARE PRICE		
30 June	**$1.31**	$0.98
KEY DATA PER SHARE		
Basic earnings per share	**10.46¢**	9.54¢
Diluted earnings per share	**10.28¢**	9.50¢
KEY MEASURES		
Same store sales up (in local currency)		
- New Zealand	**1.9%**	7.3%
- Australia	**4.3%**	-2.1%
- Canada	**1.7%**	5.8%
- United States	**6.4%**	17.2%
Return on average shareholders' funds	**20.0%**	19.6%
Gross profit	**63.7%**	61.9%
Interest expense cover (times)	**15.5**	11.3
Equity ratio	**59.4%**	60.1%
Current ratio	**3.0:1**	3.1:1

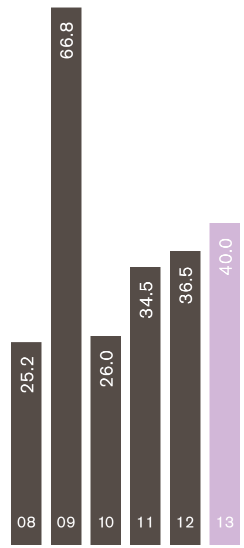
KEY FACTS



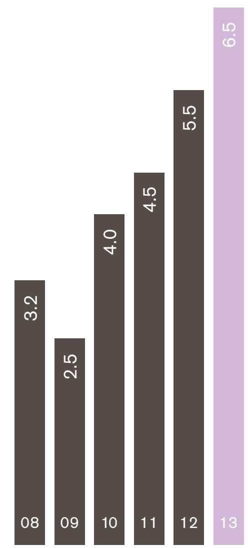
GROUP REVENUE UP 7.4%
NZ$ millions / year ended 30 June



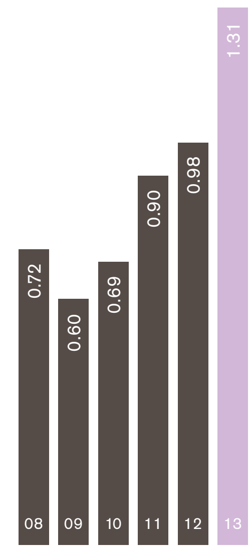
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION (EBITDA) UP 8.6%
NZ$ millions / year ended 30 June



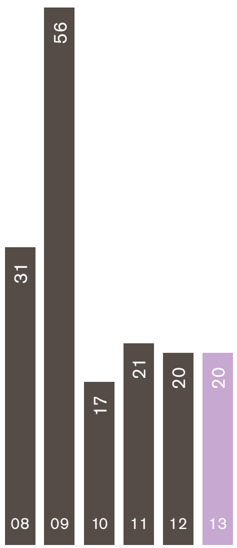
NET PROFIT AFTER TAX UP 9.6%
NZ$ millions / year ended 30 June



ORDINARY DIVIDEND
Cents per share / year ended 30 June

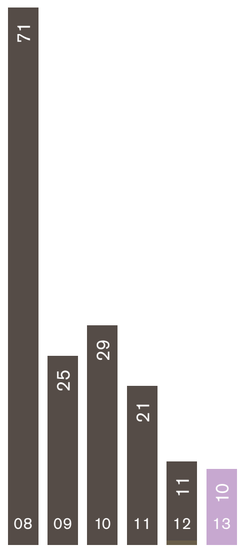


SHARE PRICE PERFORMANCE LAST SIX YEARS
NZ$ / as at 30 June



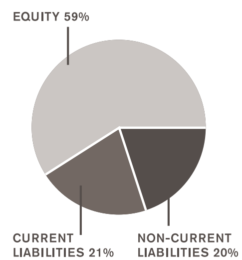
RETURN ON AVERAGE SHAREHOLDERS' FUNDS 20%

% / year ended 30 June



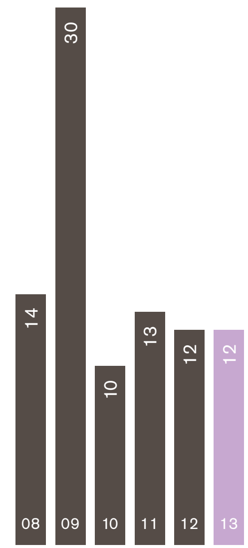
GEARING RATIO 10%

% / year ended 30 June



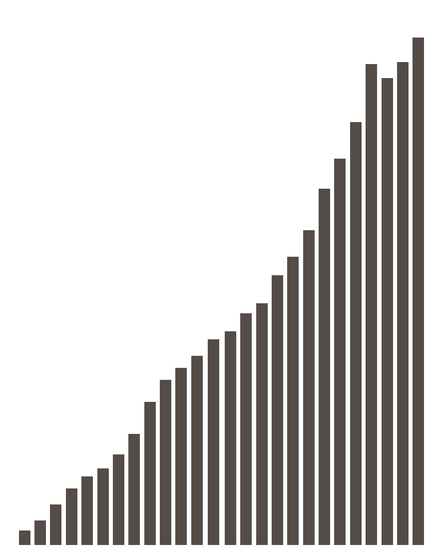
SOURCE OF FUNDING

30 June 2013



RETURN ON AVERAGE ASSETS 12%

% / year ended 30 June



TOTAL JEWELLERY STORES 267

1987 - 2013, year ended 30 June

CHAIRMAN'S REVIEW

DEAR SHAREHOLDERS,

Our Group has reported a net profit after tax of $40.032m for the 2012-13 financial year, up 9.6% on 2011-12, and earnings before interest and tax of $50.193m, up 9.4% on the previous year. The Group's revenues of $549.521m were up 7.4% on the previous year. The net profit after tax represents a 20.0% return on average shareholders' funds for the year, with our average return over the past 5 years being 26.7%.

The Group continues to have a very sound balance sheet with an equity ratio of 59.4% at 30 June 2013 (60.1% in 2012), and a working capital ratio of 3.0:1 (3.1:1 in 2012). Net operating cash flows were $52.345m compared to $52.131m the previous year. Net debt at 30 June 2013 was $20.890m compared to $20.994m at 30 June 2012. The Group remains in a strong position to take advantage of growth opportunities as they arise.

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

For shareholders, the dividend for the year was 6.5 cents per share, up 18.2% from 5.5 cents in 2011-12, with the final dividend of 4.0 cents per share being payable on 4 October 2013. The final dividend will have no imputation credits attached for New Zealand shareholders but full franking credits for Australian shareholders.

New store openings are being evaluated in all four markets but only the very best opportunities will be considered and the emphasis will remain on growing same store sales, managing margins and controlling costs. It is especially pleasing to see our Canadian business continue to grow and make a profit for the second year running. The Group is also re-evaluating its opportunities in the US market and is considering some further store openings in the coming year. This large and lucrative jewellery market offers the Group a bright future once our retail model has been refined to take full advantage of this opportunity.

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

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

In New Zealand, the amount in dispute is $24.636m, being the tax effect of deductions claimed by the New Zealand Group from the date of the sale through to 30 June 2012. The tax effect of deductions for the 2013 financial year is $6.406m. In the event any tax liability was payable, the Group would also incur an interest expense.

In respect of Australia, the value at which the intellectual property was transferred was originally determined by reference to an independent valuation carried out by an internationally recognised firm and a deferred tax asset was raised in 2009 based on that valuation. The deferred tax asset balance at 30 June 2013 was $41.099m as a result of depreciation of components of the intellectual property and a previously announced adjustment in value. The ATO has signalled that it has issues with aspects of that valuation which, if correct, would reduce the amount of depreciation able to be deducted by the Group. As noted, the Group does not accept the ATO's position and believes the ATO's views are based on a number of factual, legal and technical valuation errors. The Group has filed a formal, detailed response with the ATO, together with legal and valuation reports which support the Group's position.

Both matters are capable of being resolved by agreement, but if the Group is unable to find common ground with either the IR or ATO then further formal legal processes may be needed to achieve resolution. As is the case with almost all legal processes there is inherent uncertainty as to the outcome and the Group does not believe that the outcome of either process can be predicted or the range of possible implications quantified. The Board does not consider that either of the above on-going tax matters require a provision in the Group's 2013 financial statements but further detail is included at note 34 to the Financial Statements.

I would like to thank our Board for their wise advice and direction that gives us the confidence to pursue our goals and vision. I would also like to welcome Gary Smith who joined the Board in November 2012 and has now been appointed Chair of the Audit Committee.

Sir Michael Hill
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS

A REVIEW OF PRIORITIES FROM LAST YEAR

PRIORITIES	RESULTS
To drive an increase in same store sales and EBIT, especially in Australia →	Group same store sales increased 1.2% and 4.3% in Australia. Group EBIT grew 9.4% and 14.7% in Australia.
To open 20 new stores across the Group →	18 new stores were opened during the year.
To deliver a return on average shareholders' funds in excess of 20% →	A return on average shareholders' funds was achieved of 20.0%.
To achieve further profit growth in Canada →	Canadian segment profit improved 116% to CA$1.1m, an increase of CA$0.6m on the previous year.
To drive continued sales improvement in the 9 stores in the US →	Same store sales in the US increased 6.4% during the year.
To establish an in-house customer finance department to support our North American businesses →	The credit facility was established and sales of CA$9.0m and US$1.1m were funded by the in-house customer finance program.
To improve gross margin on inventory employed →	Gross profit margin increased 1.8% to 63.7% in 2012-13 and our return on inventory employed increased 13% to 188.8%.

The Group has reported operating revenues of $549.521m, with a net profit after tax of $40.032m for the 2012-13 financial year. Earnings before interest and tax were $50.193m, up 9.4% on the previous year, and net profit before tax lifted 11.9%.

A strong focus on growing same store sales resulted in a pleasing increase in sales and bottom line growth in all four markets. NZ increased same store sales by 1.9%, Australia 4.3%, Canada 1.7% and the US 6.4%.

The continued growth in sales of our Professional Care Plans has provided strong cash flow for the Group. The PCP program provides a comprehensive suite of services to our customers to ensure their jewellery is cared for in the years to come. Total sales of these plans grew by 22.7% this year to $33.072m.

This year we continued our program to differentiate Michael Hill as a brand. This has included undertaking an extensive global brand strategy project to refresh the Michael Hill brand and to ensure it is relevant across all countries we are operating in.

Our store refurbishment program continued throughout 2012-13 and provided positive sales growth in those locations. The Group invested significantly this year in refurbishing and relocating 33 existing stores as leases came due. This strategy will contribute to improved sales performance in coming years. Total expenditure on store refurbishments was $11.126m.

We have also continued with development of our differentiated proprietary collections. These now span watches, diamond jewellery, charms and diamond rings. Sales of these collections represent 14.6% of our total business and yield a premium on margin.

Investment in technology and infrastructure continued to position the Group for growth in the coming years. The hand-held devices for our sales teams continue to be rolled out and will assist with delivering information to them during sales presentations, including product information, pricing, CRM and sales processing capabilities. This will improve customer service levels and make our sales presentations more seamless. In-store tablets for presentations and to allow customers to browse products and services and media walls to deliver compelling imagery have proven popular and will continue to be implemented across key stores. In addition, this year we have invested in inventory management and supply chain technology to improve our merchandise management capabilities. A new merchandise budgeting and planning system has been implemented along with a very sophisticated demand forecasting system. This will result in more efficient inventory management, reducing out of stocks and maximising inventory investment.

Our in-house customer finance program was established in North America during the financial year. This facility will support our focus in the bridal market in North America and allow us to better understand and support our potential customers within this segment of the industry. The bridal business is critical to our future growth and a proprietary credit facility is an important part of our strategy in growing our position in this category.

In addition to this we have also invested in a new e-commerce platform that will position the Group for an increased share in the global growth in e-commerce sales. Our new web site is expected to launch in October 2013 in all four countries, and will also become the focal point to all our digital marketing efforts going forward.

The Group opened 18 new stores during the year: 10 in Australia, 8 in Canada; and 3 stores were closed resulting in a total of 267 stores open across the Group at 30 June 2013.

SEGMENT RESULTS

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

AUSTRALIA

OPERATING RESULTS (AU $000)	**2013**	**2012**	**2011**	**2010**	**2009**
Revenue	**289,333**	259,032	251,261	236,314	221,113
Operating surplus	**42,225**	36,798	38,650	38,105	33,831
As a % of revenue	**14.6%**	14.2%	15.4%	16.1%	15.3%
Average assets employed	**102,041**	90,160	81,020	79,931	82,426
Return on assets	**41.4%**	40.8%	47.7%	47.7%	41.0%
Number of stores	**162**	153	146	141	143
Exchange rate	**0.80**	0.78	0.77	0.81	0.82

Total sales in Australian dollars increased 11.7% to AU$289.333m and same store sales increased by 4.3%. The operating surplus (EBIT) increased 14.7% to AU$42.225m and this represented 14.6% of sales (2012 – 14.2%).

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

- Albany, Western Australia
- Goulburn, New South Wales
- Hobart CBD, Tasmania
- Melbourne CBD, Victoria
- Mt Gambier, South Australia
- Parramatta, New South Wales
- Perth CBD, Western Australia
- Queen's Plaza Brisbane CBD, Queensland
- Shepparton, Victoria
- Singleton, New South Wales

There were 162 stores trading at 30 June 2013.

The Australian business still has expansion opportunities available for future growth. Our latest revision of the retail opportunities indicate there are at least 20 new stores to be opened. This combined with our relocation and refurbishment strategy on existing stores provides the Group with excellent prospects to grow revenue and EBIT. New stores are being actively pursued and we expect to open up to 10 new stores in Australia during 2013-14.

Despite a continued difficult retail environment in Australia, we will remain focused on lifting same store sales and EBIT performance. The restructuring completed in 2012-13 has delivered some improved results over the past year, however we believe we can achieve further significant earnings growth from the existing store base over the coming year.

NEW ZEALAND

OPERATING RESULTS (NZ $000)	**2013**	**2012**	**2011**	**2010**	**2009**
Revenue	**111,357**	109,110	101,843	95,811	90,393
Operating surplus	**22,128**	21,550	18,484	16,050	14,954
As a % of revenue	**19.9%**	19.8%	18.1%	16.8%	16.5%
Average assets employed	**45,249**	40,979	37,946	39,454	40,418
Return on assets	**48.9%**	52.6%	48.7%	40.7%	37.0%
Number of stores	**52**	53	52	53	53

Total sales increased 2.1% to NZ$111.357m and same store sales increased by 1.9%. The operating surplus (EBIT) improved by 2.7% to NZ$22.128m and represented 19.9% of sales (2012 – 19.8%).

The New Zealand retail sector tightened up over the course of the 2012-13 year which resulted in a flattening off of the segment's operating surplus growth. A reorganisation of the New Zealand regions and regional management team has been implemented recently to assist with delivering further top line growth in this mature market.

There were 52 stores trading at 30 June 2013.

CANADA

OPERATING RESULTS (CA $000)	**2013**	**2012**	**2011**	**2010**	**2009**
Revenue	**52,950**	44,265	36,885	29,998	25,645
Operating surplus	**1,121**	518	(237)	(1,211)	(239)
As a % of revenue	**2.1%**	1.2%	(0.6%)	(4.0%)	(0.9%)
Average assets employed	**36,101**	27,583	22,837	17,593	15,387
Return on assets	**3.1%**	1.9%	(1.0%)	(6.9%)	(1.6%)
Number of stores	**45**	37	33	29	26
Exchange rate	**0.83**	0.80	0.76	0.76	0.70

Total sales in Canadian dollars grew by 19.6% to CA$52.950m and same store sales increased by 1.7%. The Canadian segment increased its operating surplus to CA$1.121m for the twelve months, up 116.4% from CA$0.518m for the previous corresponding period.

Due to our Canadian consumer credit provider withdrawing from the Canadian market place in September 2012, we established an in-house customer finance program to take over this critical function. Due to the strategic importance of consumer credit to our future revenue stream and the fact that there was no suitable replacement credit provider in the Canadian market, the decision was made to bring that function in-house. This strategy not only secures our revenue in the Canadian market but will provide a strategic advantage as we build a valuable database of our customers.

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

- Cambridge, Ontario
- Edmonton City Centre, Alberta
- Georgian Mall, Ontario
- Hillside, British Columbia
- Lambton Mall, Ontario

- Markville, Ontario
- Prairie Mall, Ontario
- St Laurent, Ontario

There were 45 stores trading at 30 June 2013. The Group plans to open up to 12 new stores during the 2013-14 year subject to availability of suitable sites.

USA

OPERATING RESULTS (US $000)	2013	2012	2011	2010	2009*
Revenue	10,265	9,576	8,133	10,574	9,088
Operating surplus	(2,359)	(2,650)	(3,410)	(6,264)	(3,094)
As a % of revenue	(23.0%)	(27.7%)	(41.9%)	(59.2%)	(34.1%)
Average assets employed	9,535	9,653	8,101	7,378	8,012
Return on assets	(24.7%)	(27.5%)	(42.1%)	(84.9%)	(38.6%)
Number of stores	8	9	9	9	17
Exchange rate	0.82	0.80	0.76	0.72	0.58

*Commenced trading September 2008

Same store sales in the eight US stores increased by 6.4%. The operating deficit improved from US$2.650m to US$2.359m. Focus remains on improving the performance of the existing stores over the coming twelve months. The Group's strategy moving forward is to refine our approach on the bridal market and our property portfolio based on our learnings from the last 5 years in Chicago. The first step in this strategy has been the closure of the Water Tower store in Chicago in June 2013, which will be replaced by a new store to be based in Columbus, Ohio before Christmas this year.

As mentioned in my report last year the Group established its own in-house customer finance program in September 2012. Availability of consumer credit and the ownership and control of the customer database is viewed as a key strategy for our long term success in the US. Risk in this division is managed by a local specialist firm based in Salt Lake City, Utah.

We remain confident in the long term future of the US business and will continue to focus on improving the existing store base while at the same time seeking prime locations for possible expansion opportunities.

There were 8 stores trading at 30 June 2013.

OUR PRIORITIES

Our priorities for the 2013-14 financial year to build shareholder wealth are:

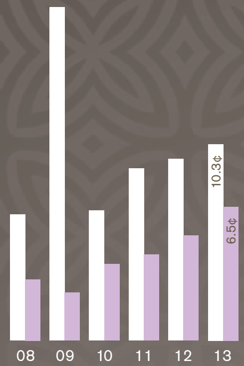
- To drive same store sales and EBIT performance across the Group
- To deliver 20% return on shareholder funds
- To open 20 new Michael Hill stores across the Group
- To establish our e-commerce operation across all four countries
- To achieve further EBIT improvement in the Canadian operation
- To improve same store sales in the US operation through an increased focus on the bridal market
- To improve return on assets employed through increased efficiency in inventory management

OUR THANKS

It was pleasing to see all four segments improve their bottom line results in 2012-13 despite continued pressure on the retail sector. Our focus will continue on improving the existing business during 2013-14 as well as continued store openings when suitable sites become available.

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

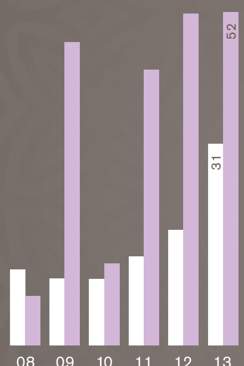
Mike Parsell
Chief Executive Officer



EARNINGS AND ORDINARY DIVIDENDS

Cents per share / year ended 30 June

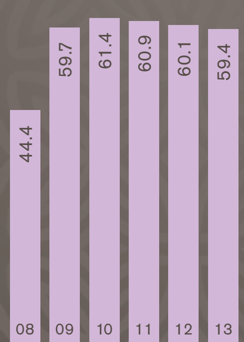
EARNINGS DIVIDENDS



CAPITAL EXPENDITURE AND NET OPERATING CASH FLOW

NZ$ millions / year ended 30 June

CAPEX CASH FLOW



EQUITY RATIO 60%

% / year ended 30 June

FINANCIAL REVIEW

DISCUSSIONS & ANALYSIS

FINANCIAL PERFORMANCE

The Group's surplus after tax was $40.032m, up 9.6% on last year's surplus after tax of $36.511m. Total operating revenue increased from $511.497m to $549.521m, a 7.4% increase.

The Australian retail segment achieved a same store sales increase of 4.3% in Australian dollars and a segment result of NZ$52.712m, up from NZ$47.509m the previous year.

The New Zealand retail segment achieved a same store sales increase of 1.9% and a segment result of NZ$22.128m, up from NZ$21.550m the previous year.

The Canadian retail segment had a same store sales increase of 1.7% for the year in Canadian dollars and the segment operating profit further improved to NZ$1.356m, up from NZ$0.713m the previous year.

The US retail segment completed its fourth full year of trade and produced an improved segment loss of NZ$2.863m compared to a loss of NZ$3.296m the previous year.

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

CASH FLOW

The Group has reported net operating cash inflows of $52.345m for the twelve months, compared to $52.131m for the previous year. The strong surplus from operations, in line with last year, is a result of improved revenue from all markets and also due to the second full year of cash flow from the sale of Professional Care Plans. The cash inflow was impacted by the introduction of the in-house customer finance program in North America in September 2012. The average plan length taken up by customers is currently 18 months, and there was $7.723m in receivables at 30 June 2013.

Net cash outflow relating to investing activities was $31.143m. 18 new stores were opened during the period.

Net cash outflow from financing activities was $20.402m compared to a net outflow of $30.587m last year.

BALANCE SHEET

Net assets increased from $194.359m at the end of the previous year to $206.865m. Net debt now stands at NZ$20.890m with total borrowings steady at $33.349m. The equity ratio at year end was 59.4%, down from 60.1% last year. Total assets increased from $323.648m to $348.182m. The current ratio decreased from 3.1:1 last year to 3.0:1 at 30 June 2013.

EVENTS AFTER BALANCE DATE

There were no events after balance sheet date requiring disclosure.

SHAREHOLDERS RETURN

- Declared dividends total 6.5 cents per share up from 5.5 cents in 2011-12.
- Shares traded between a high of $1.48 and a low of $0.96, ending the year at $1.31.
- Return on average equity was 20.0% compared to 19.6% last year.
- Return on average total assets was 11.9% compared to 11.8% last year.

TREND STATEMENT

FINANCIAL PERFORMANCE	2013 $000	2012 $000	2011 $000	2010 $000	2009 $000	2008 $000
Group revenue	**549,521**	511,497	489,330	443,710	411,999	376,664
Profit before depreciation, amortisation and interest (EBITDA)	**63,227**	58,220	57,091	46,320	36,026	50,851
Depreciation and amortisation	**13,034**	12,328	11,453	10,786	9,833	8,574
Earnings before interest and tax (EBIT)	**50,193**	45,892	45,638	35,534	26,193	42,277
Net interest paid	**3,153**	3,856	5,653	5,326	6,044	4,789
Profit before taxation	**47,040**	42,036	39,985	30,208	20,149	37,488
Income tax	**7,008**	5,525	5,486	4,193	(46,639)	12,256
Operating profit after tax attributable to shareholders	**40,032**	36,511	34,499	26,015	66,788	25,232
Net operating cash flow	**52,345**	52,131	43,319	12,872	47,643	7,763
Ordinary dividends paid	**22,968**	19,139	15,307	11,474	11,490	10,668

FINANCIAL POSITION	2013 $000	2012 $000	2011 $000	2010 $000	2009 $000	2008 $000
Cash	**12,459**	12,064	8,540	6,270	23,529	10,013
Inventories	**183,770**	187,017	173,055	144,750	119,105	143,708
Other current assets	**18,671**	11,847	8,551	9,514	8,825	7,317
Total current assets	**214,900**	210,928	190,146	160,534	151,459	161,038
Other non-current assets	**63,721**	48,565	42,211	39,054	35,280	35,291
Deferred tax assets	**66,775**	64,085	60,599	58,349	58,591	7,822
Total tangible assets	**345,396**	323,578	292,956	257,937	245,330	204,151
Intangible assets	**2,786**	70	152	280	471	884
Total assets	**348,182**	323,648	293,108	258,217	245,801	205,035
Current interest bearing debt	**-**	-	-	-	-	23,320
Other liabilities	**72,627**	68,786	57,192	46,226	37,300	38,900
Total current liabilities	**72,627**	68,786	57,192	46,226	37,300	62,220
Term borrowings	**33,349**	33,058	45,413	51,707	60,487	50,927
Other long term liabilities	**35,341**	27,445	12,127	1,740	1,275	887
Total liabilities	**141,317**	129,289	114,732	99,673	99,062	114,034
Net assets	**206,865**	194,359	178,376	158,544	146,739	91,001
Reserves and retained profits	**202,703**	190,276	174,393	154,694	142,889	87,151
Paid up capital	**4,263**	4,221	4,177	4,141	4,141	4,141
Treasury stock	**(101)**	(138)	(194)	(291)	(291)	(291)
Total shareholder equity	**206,865**	194,359	178,376	158,544	146,739	91,001

		2013	2012	2011	2010	2009	2008
Per ordinary share							
Basic earnings per share		**10.46¢**	9.54¢	9.02¢	6.80¢	17.46¢	6.61¢
Diluted earnings per share		**10.28¢**	9.50¢	8.99¢	6.79¢	17.44¢	6.60¢
Dividends declared per share	- interim	**2.5¢**	2.0¢	1.5¢	1.5¢	1.0¢	1.2¢
	- final	**4.0¢**	3.5¢	3.0¢	2.5¢	1.5¢	2.0¢
Net Tangible asset backing		**$0.53**	$0.51	$0.47	$0.41	$0.38	$0.24

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

ANALYTICAL INFORMATION		2013	2012	2011	2010	2009	2008
EBITDA to sales		**11.5%**	11.4%	11.7%	10.4%	8.7%	13.5%
EBIT to sales		**9.1%**	9.0%	9.3%	8.0%	6.4%	11.2%
Profit after tax to sales		**7.3%**	7.1%	7.1%	5.9%	16.2%	6.7%
EBIT to total assets		**14.4%**	14.2%	15.6%	13.8%	10.7%	20.6%
Return on average shareholders' funds		**20.0%**	19.6%	20.5%	17.0%	56.2%	30.9%
Return on average total assets		**11.9%**	11.8%	12.5%	10.3%	29.6%	14.0%
Current ratio		**3.0**	3.1	3.3	3.5	4.1	2.6
EBIT interest expense cover		**15.5**	11.3	7.8	6.4	4.1	8.4
Effective tax rate		**14.9%**	13.1%	13.7%	13.9%	-231.5%	32.7%
Gearing							
Gearing ratio		**10.1%**	10.8%	20.7%	28.7%	25.2%	70.6%
Equity ratio		**59.4%**	60.1%	60.9%	61.4%	59.7%	44.4%
Other							
Shares issued at year end excl Treasury		**382,849,544**	382,775,586	382,664,473	382,468,900	382,468,900	382,468,900
Treasury stock at year end		**203,646**	277,604	388,717	584,290	584,290	584,290
Exchange rate for translating Australian results		**0.80**	0.78	0.77	0.81	0.82	0.85
Exchange rate for translating Canadian results		**0.83**	0.80	0.76	0.76	0.70	0.77
Exchange rate for translating United States results		**0.82**	0.80	0.76	0.72	0.58	-
Number of stores	- New Zealand	**52**	53	52	53	53	52
	- Australia	**162**	153	146	141	143	136
	- Canada	**45**	37	33	29	26	22
	- USA	**8**	9	9	9	17	-
Total number of stores		**267**	252	240	232	239	210

COMMUNITY SPIRIT

Michael Hill prides itself on regularly supporting the communities surrounding its 267 stores in the four countries we operate in. This year, our sponsorships and donations of products, gift vouchers and cash amounted to $488,000.

MICHAEL HILL INTERNATIONAL VIOLIN COMPETITION

This biennial competition is recognised globally in the music world for the encouragement and recognition of young violinists, and in June 2013 attracted world class violinists representing 27 different countries.

This year's competition, held in Queenstown and Auckland, New Zealand saw 18 out of 125 of the world's finest violinists compete for the coveted winner's title for 2013. The talented and gracious winner Nikki Chooi from Victoria, Canada received the first prize of NZ$40,000, a CD recording on the Atoll label and the opportunity to go on the 2014 Winner's tour.

Each concert from the competition was streamed live to the Radio New Zealand Concert station, reaching a nationwide audience. We are also proud to be a member of the World Federation of International Music Competitions.

Michael Hendry from New Zealand, winner of the 2013 NZPGA

THE NZPGA CHAMPIONSHIP IN 2013

Michael Hill is a proud sponsor of the NZPGA Golf Championships held at Sir Michael Hill's private golf course, 'The Hills' in picturesque Arrowtown, New Zealand. This is an ongoing sponsorship for the Group and we take great pride in supporting international amateur and professional golfers in the competition.

This year's involvement as a major sponsor saw Michael Hill aligned with such highly established brands as Westpac, Rebel Sport, Milford Track Guided Walks, Sky City Entertainment and Hilton Queenstown, forging great leverage opportunities around the competition for the future.

With the event attracting a record number of spectators we had a big increase in foot traffic over last year in our on-course "store marquee" . This allowed us to display our entire watch range, our specially developed Men's NZPGA Golf watch, a range of the beautiful Spirits Bay Collection, charms from our Captured Moments and our Infinitas collection. This was a chance to revolutionise the style and structure of the marquee thereby creating a real "in store" experience on the golf course. This proved to be a success with the sales team achieving record sales over the 4 day event.

Michael Hill adopted the tenth hole with a large billboard sign at the tee off, advertising our hole in one prize of a stunning 3.05 princess cut diamond solitaire valued at NZD$75,000.

The 2013 professional field attracted a field of 144 with 64 players making the cut after the first two rounds. These 64 professionals were then each paired with an amateur and, in conjunction with the professional tournament, played the last two rounds in a four ball best ball format for the $50,000 NZ PGA Pro-Am Championship.

Mirroring other iconic Pro-Am events such as the AT&T National Pro-Am at Pebble Beach and the Alfred Dunhill Links Pro-Am at St Andrews in a setting as dramatic as Queenstown, the NZ PGA Pro-Am Championship is set to become the premier Pro-Am tournament in the Southern Hemisphere.

HARRIS THEATRE, CHICAGO

This year saw Michael Hill as a proud naming right sponsor of the Michael Hill series as part of the Harris Theatre 2012/2013 season. The series consisted of 3 concert performances featuring the Chamber Music Society of Lincoln Centre.

The first concert "Horizons" in January featured Sergey Malov, the 2011 Michael Hill International Competition winner and Bella Hristova, the 2007 Michael Hill International Violin Competition winner.

The second concert "Blockbusters" held in February saw performances of works by Strauss, Franck, and Rorem. The third and final concert of the series held in May, "Britton at 100" was in celebration of Benjamin Britton's 100th birthday, a tribute to the greatest English composer of the 20th century. We look forward to continuing the sponsorship with the Harris Theatre for the next two seasons.

CELEBRATING OUR SUCCESS

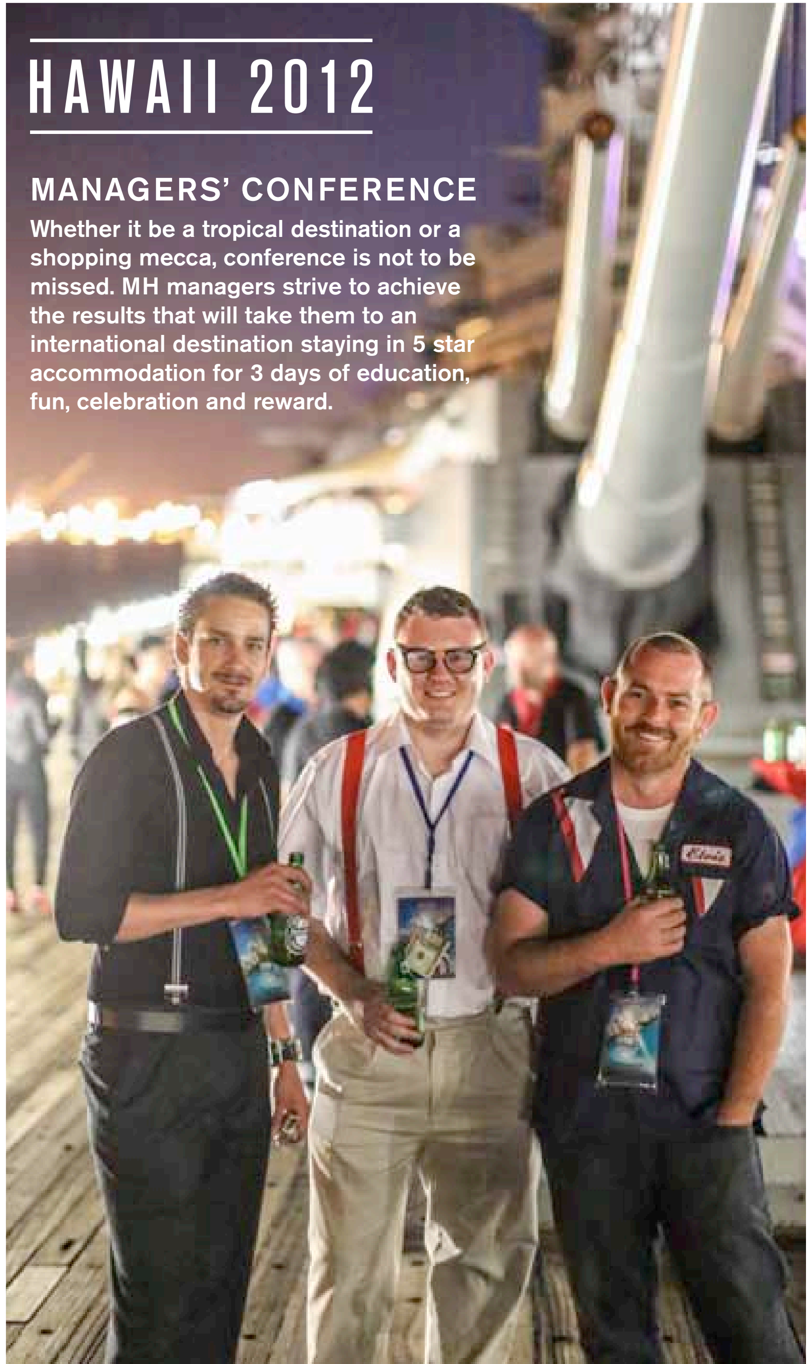
GOLD CLUB

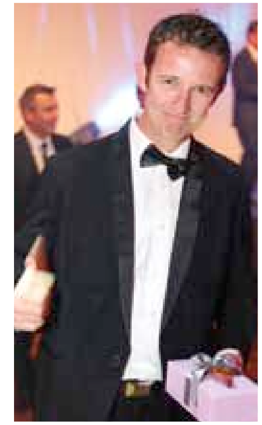
Our elite sales professionals are rewarded and recognised every year at our exclusive Gold Signature Club event. They are wined, dined and awarded for their phenomenal sales performance throughout the year **– it's our people who make our company**.

HAWAII 2012

MANAGERS' CONFERENCE

Whether it be a tropical destination or a shopping mecca, conference is not to be missed. MH managers strive to achieve the results that will take them to an international destination staying in 5 star accommodation for 3 days of education, fun, celebration and reward.





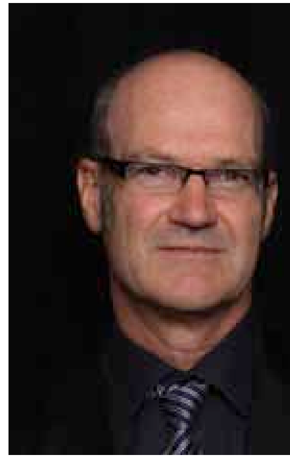
OUR VALUES & GUIDING PRINCIPLES

Our values are based on both our internal strengths and our customers' needs

INTERNAL STRENGTHS	+ CUSTOMER NEEDS	VALUES
A passion for customer satisfaction	+ Tailored, personal service	**PEOPLE-FOCUSED** Delight the customer and our employees first, always, and often
Product orientation, value, occasion, and fashionable	+ High quality, accessible, and attainable products	**PRECISION** Be the leader with high quality, attainable jewellery
Honesty, reputation, company history, and ethics	+ Trust and credibility	**INTEGRITY** Build credibility with our honesty and ethics
Innovation and common sense	+ An empowering experience	**ADAPTABILITY** Embrace flexibility and customise every experience
A passion for brand and business success	+ Consistent, impactful brand experiences	**DRIVEN** Take ownership of our business

OUR SENIOR EXECUTIVE TEAM

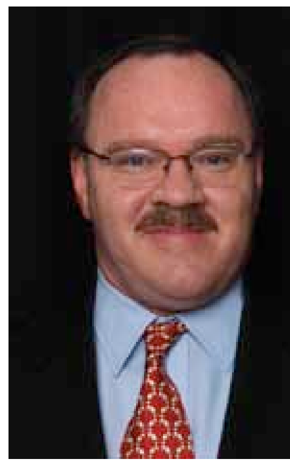
Mike Parsell
Chief Executive Officer



Phil Taylor
Chief Financial Officer

Ross McKinnon
Chief Information Officer

Lindsay Corfield
Group Strategy and Distribution Executive



Tony Van Der Ark
Group Property Executive

Galina Hirtzel
Group Merchandising and Manufacturing Executive

Stewart Silk
Group Human Resources Executive

Sue Szylvester
Group Marketing Executive

Kevin Stock
Retail General Manager, Australasia

Brett Halliday
Retail General Manager, Canada

Darcy Harkins
Retail General Manager, United States

CORPORATE GOVERNANCE

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

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

The Board believes that it's corporate governance policies and procedures are consistent with those detailed in the NZX Best Practice Code. During the last year, there have been no changes to the Group's governance practices.

THE BOARD IS ACCOUNTABLE FOR THE PERFORMANCE OF THE GROUP

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

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

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

BOARD MEMBERSHIP

The Constitution sets the size of the Board at a minimum of three and at least two Directors must be resident in New Zealand. The Board currently comprises seven Directors, including an Executive Chairman, a Chief Executive Officer, and five non-executive Directors. During the year, the following changes occurred in board membership. Murray Doyle retired as a Director at the annual meeting on 2 November 2012 after twelve and a half years on the Board. Gary Smith was appointed a Director at the annual meeting on 2 November 2012 and Deeta McGeoch (Colvin) resigned as a Director on 10 May 2013 after two years on the Board. The Board convened on five occasions in the financial year ended 30 June 2013. Profiles of the current Directors appear on page 34 of this report. Under the Company's constitution, and the NZX Listing rules, one third of all Directors must retire every year, but can be re-elected at an annual meeting if eligible. Newly appointed Directors must seek re-election at the first annual meeting of shareholders following their appointment.

The Company has no requirement for Directors to hold shares in the Company but actively encourages them to do so. Holdings of the current Directors are detailed on page 81 of this report. Directors adhere to the Company's insider trading policy at all times.

GENDER COMPOSITION OF DIRECTORS AND OFFICERS

As at 30 June 2013, two of the seven Directors of Michael Hill International Limited are female (2012: 3 females out of 8), and two of the eleven Group Executives are female (2012: 2 females out of 12).

INDEPENDENT DIRECTORS

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

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

The Company has determined that Wayne Peters, Gary Gwynne, and Gary Smith are independent Directors under the NZX Listing rules.

DIRECTORS' MEETINGS

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

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

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

	Board of Directors		Audit Sub-committee		Remuneration Sub-committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
Sir Michael Hill	5	5	2	2	2	2
M.R. Parsell	5	5	2	2	2	2
L.W. Peters	5	4	2	2	2	2
G.J. Gwynne	5	5	2	2	2	1
M.R. Doyle	2	2	1	1	1	1
A.C. Hill	5	5	2	2	2	2
E.J. Hill	5	5	2	2	2	2
G.W. Smith	3	3	1	1	1	0
D.W. McGeoch (Colvin)	3	3	2	2	1	1

BOARD REVIEW

During the course of the last financial year, the Chairman reviewed the performance of the Directors and the workings of the Board. The Remuneration sub-committee was restructured in August 2013 and is now called the People Development and Remuneration sub-committee to encompass succession planning and people development.

CHIEF EXECUTIVE OFFICER PERFORMANCE REVIEW

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

BOARD SUB-COMMITTEES

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

AUDIT SUB-COMMITTEE

The Audit sub-committee has been restructured from August 2013 and now comprises Gary Smith as Chairman, Wayne Peters, and Emma Hill. This sub-committee met twice during the year.

All other Directors can attend the meetings of this sub-committee. The function of the Audit sub-committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993, regarding management's accountancy practices, policies and controls relative to the Group's financial position and to review and make appropriate inquiry into the audits of the Group's financial statements by both internal and external auditors. This responsibility includes advising on the appointment of the external auditor and reviewing the scope and quality of the audit. The Audit sub-committee has the responsibility of monitoring the Group's risk management practices and procedures to ensure that policies and processes exist to effectively identify, manage and monitor principal business risks. The Group's auditors, both internal and external, along with other relevant management, attend all meetings and may discuss any matters in connection to audits, the Group's risk and control environment or any other matters relating to the Group's financial and non-financial affairs. This sub-committee also approves any non-audit work carried out by the Group's auditors, and ensures that the lead partner in the audit firm is rotated every five years. The sub-committee will also approve all major accounting policy changes. At least once a year, the Chairman of the sub-committee meets with the external auditor without the presence of management to discuss any matters that either the committee or the external auditor believes should be discussed privately.

PEOPLE DEVELOPMENT AND REMUNERATION SUB-COMMITTEE

This sub-committee has been restructured from August 2013 and now comprises Wayne Peters as Chairman and Gary Gwynne, Emma Hill and Gary Smith. Mike Parsell attends in an advisory capacity. The main purpose of the sub-committee is to;

- Oversee the people strategy of the Group including the organisation structure, performance, succession planning, development and remuneration strategies and policies of the Group;
- Set performance goals for the Chief Executive Officer (CEO), review performance and make recommendations to the full Board regarding the CEO's performance and remuneration;
- Approve the performance reviews and remuneration recommendations made by the CEO for Group Executives;
- Participate in annual succession planning reviews and selection processes as required from time to time for the CEO and the CEO's direct reports;
- Operate independently of Group Executives and obtain independent advice on the appropriateness of the remuneration packages;
- Monitor the gender diversity on the board and in the senior management group.

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

NOMINATIONS SUB-COMMITTEE

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

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

SHARE TRADING BY DIRECTORS

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

The Director named below has disclosed to the Board under Section 148 of the Companies Act 1993, particulars of the following disposals of relevant interests in the ordinary shares of the Company during the year.
Wayne Peters disposed of shares of client accounts under management as follows: 4,100,000 shares sold on 17/4/2013 for $5,740,000 and 3,700,000 shares sold on 9/5/2013 for $5,190,010.

NON-EXECUTIVE DIRECTORS' FEES

Fees for non-executive Directors are based on the nature of their work and their responsibilities. The Group is now truly global with 81% of the Group's stores in Australia, Canada and the USA. Shareholders at the Annual Meeting in November 2011 approved a maximum amount of $570,000 to be paid to Directors.

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

EMPLOYEE SHARE SCHEME

The Company has a Employee Share Scheme for management in operation. The scheme was designed to encourage store managers, regional managers and other senior employees of the Group to purchase shares in the Company. In order to provide a pool of shares for eligible employees to purchase, the Company from time to time will buy MHI shares on the New Zealand Stock Exchange. The rules of the scheme provide for the Company to on sell shares to purchasing Group employees at a 10% discount to the weighted average price for the ordinary shares during the 10 working day period ending 2 working days immediately prior to the date on which the Company offers shares to the Group's employees. The discount is deemed to be "financial assistance" under the Companies Act 1993. The Trustees of the scheme hold the shares for a restrictive period of one year, which is to promote the concept of encouraging long-term investing in the Company. In the year ended 30 June 2013, 73,958 shares were issued to staff at a price of $0.96 in September 2012. The Company holds a further 203,646 shares which are held as "Treasury Stock" and will be used for the next issue of shares under the scheme in September 2013.

SHARE OPTIONS

During the year, a total of 750,000 options to purchase fully paid shares in the Company were issued to executive management of the Group. There are currently 7,250,000 options outstanding to employees as at 30 June 2013. Further information on options outstanding to employees is included in note 31 to the financial statements on page 73.

COMMUNICATION WITH SHAREHOLDERS

MHI places high importance on communication with shareholders.

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

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

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

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

CONTINUOUS DISCLOSURE POLICY

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

1. At each Board meeting, a standard agenda item is now considered – "Does the Group have anything to disclose?" The Board considers the information in its possession and decides appropriately whether any information needs to be disclosed to the market.
2. Between Board meetings, management will bring to the attention of the Directors any information they believe should be disclosed to the market for their consideration.
3 The Company normally releases a trading update for each quarter within 10 working days of the end of the quarter. This update gives a breakdown of year to date sales by country and an update on the trading conditions experienced in the last quarter and any other relevant information. For the second and fourth quarters, this update will be given in advance of the full earnings announcement made to NZX.
4. For the 12 months ended 30 June 2013, all the announcements and disclosures made by the Company under the continuous disclosure rules can be viewed on the Company's investor website **investor.michaelhill.com**

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

EXTERNAL AUDIT INDEPENDENCE POLICY

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

The policy covers the following areas:

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

PROVISION OF NON-AUDIT SERVICES BY THE EXTERNAL AUDITING FIRM

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

Bookkeeping

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

Valuations

Prohibited.

Tax Services

Permitted but limited, as not seen to threaten independence.

Provision of IT Systems

Design and implementation of financial IT systems prohibited.

Staff secondment from Auditors

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

Litigation Support Services

Permitted with safeguards.

Legal Services

Permitted where immaterial to the financial statements.

Executive Search and Selection

Permitted with safeguards. Making selection for MHI prohibited.

Corporate Finance

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

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

FEES AND BILLINGS

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

For the 2012/13 financial year audit fees amounting to $314,000 (2011/12 - $332,000) and fees for other professional services amounting to $76,000 (2011/12 - $98,000) were paid to Ernst & Young.

HIRING OF STAFF FROM THE EXTERNAL AUDITING FIRM

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

RISK MANAGEMENT REPORT

MICHAEL HILL INTERNATIONAL LIMITED IS COMMITTED TO THE MANAGEMENT OF RISK THROUGHOUT ITS OPERATIONS IN ORDER TO **PROTECT OUR EMPLOYEES, ASSETS, EARNINGS AND REPUTATION.**

RISK MANAGEMENT PROCESS

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

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

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

INSURANCE PROGRAM

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

INTERNAL AUDIT

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

CODE OF ETHICS

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

CORPORATE CODE OF ETHICS

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

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

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

OUR EMPLOYEES

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

OUR CUSTOMERS

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

OUR BUSINESS PARTNERS

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

OUR SHAREHOLDERS

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

OUR COMMUNITIES

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

GROUP PROPERTY AND ASSETS

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

GOVERNMENTS

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

SHARE TRADING BY DIRECTORS AND OFFICERS IN MHI SHARES

- The Company does not condone any form of insider trading by Directors or officers.
- The board operations manual sets out a procedure which must be followed by Directors when trading in Michael Hill International shares. If Directors or officers possess “material information” (refer to definition below) at any time, then they must not trade in MHI securities, advise or encourage others to trade or hold, or pass on material information to others. Material Information is information that:
  - Is not generally available to the market; and
  - If it were generally available to the market, would have a material effect on the price of Michael Hill International’s listed securities. Information is generally available to the market if it has been released as an NZX announcement.
- There are additional restrictions for Directors and all other senior executives who report to the CEO, as well as anyone else who has been advised by the Company that they are a ‘restricted person’. These individuals are subject to ‘black-out’ periods during which they may not trade in MHI securities unless the Board of MHI provides a specific exemption. These ‘black-out’ periods are
  - 1 December, until the half year results are released to NZX.
  - 1 June until after the full year results are released to NZX.
- Before trading in MHI shares, Directors and officers must, in writing
  i) Notify MHI’s Company Secretary of their intention to trade in securities and seek consent to do so.
  ii) Confirm that they do not hold material information.
  iii) Confirm that there is no known reason to prohibit trading in MHI securities.
- From the 3 May 2004, all officers of the Company (as defined by the Securities Amendment Act 2003) must also disclose to the Company and to the NZX within 5 days, any dealings in MHI shares.

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

CONFLICTS OF INTERESTS

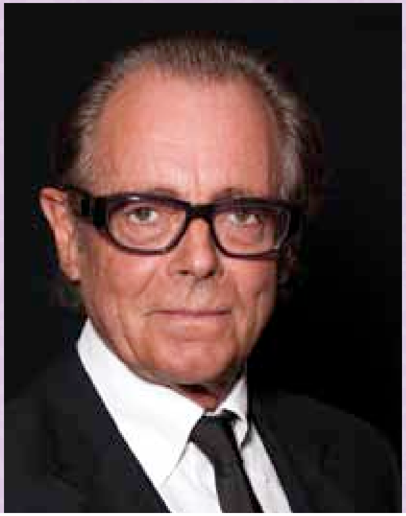
- Employees will not accept anything of value from a customer, vendor, or business associate which would impair or be presumed to impair their judgment in business matters.
- The acceptance of gifts and gratuities is discouraged and any over $50 must be entered in the Gifts Register held by the CFO.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

SPEAKING UP

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

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

DIRECTOR PROFILES



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

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

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

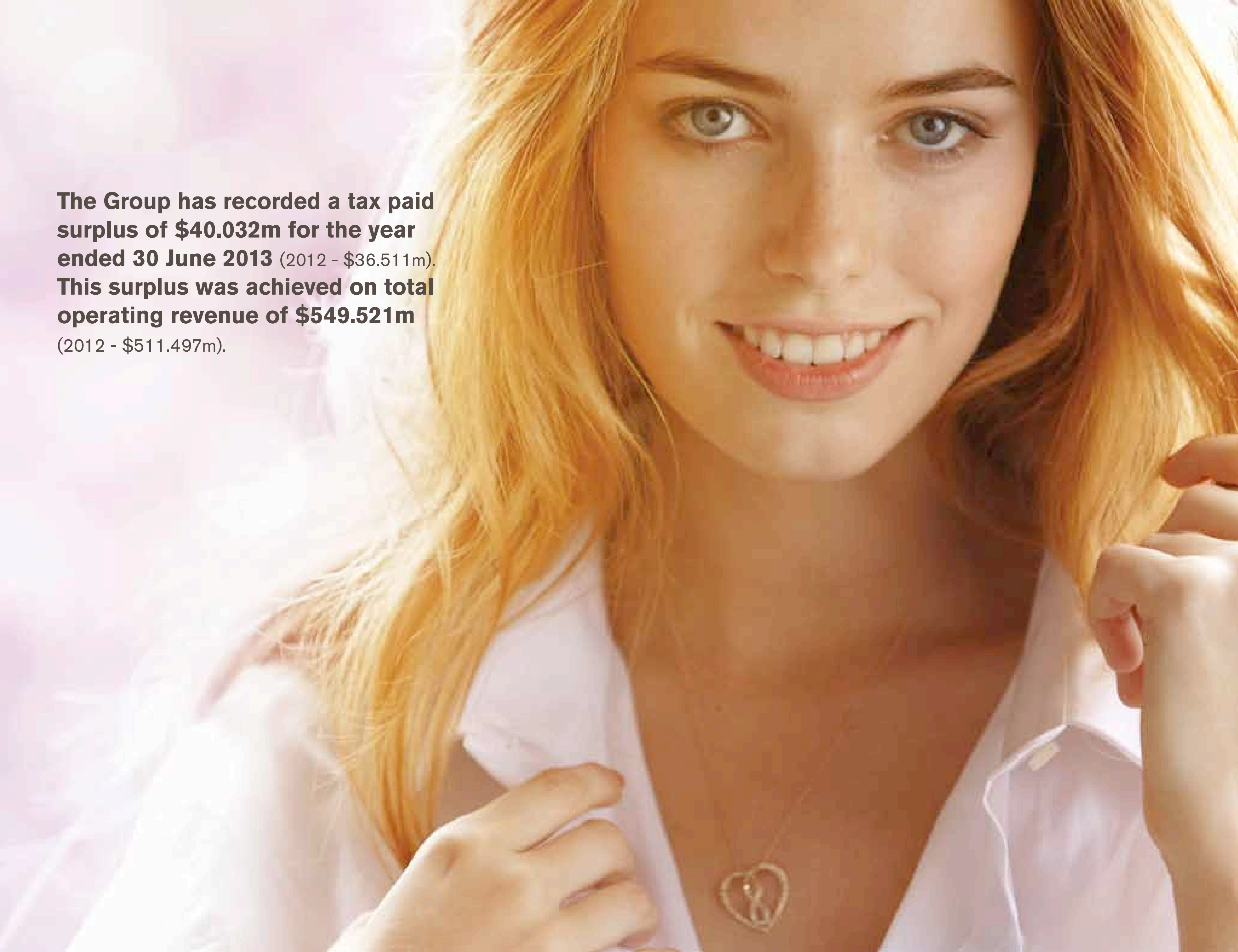
GARY GWYNNE
Non-executive and Independent Director. Gary has an extensive background in marketing, retailing and property development. He is currently a Director of Oyster Property Group, the operators of Dress Smart Factory Shopping Centres, and a Director of Overland Footwear Company and Sheppard Industries.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

WAYNE PETERS
Non-executive and Independent Director. Wayne, who is based in Sydney, has 30 years of retailing and investment management experience. He is Chairman and Chief Investment Officer of Peters MacGregor Capital Management Ltd.
Member of the Audit and Nominations sub-committees and Chairman of the People Development and Remuneration sub-committee. Wayne joined the Board in February 1999.

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

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

The Group has recorded a tax paid surplus of $40.032m for the year ended 30 June 2013 (2012 - $36.511m). **This surplus was achieved on total operating revenue of $549.521m** (2012 - $511.497m).



STATUTORY REPORT OF THE DIRECTORS

The Directors have pleasure in submitting to shareholders the 26th Annual Report and audited accounts of the Company for the year ended 30 June 2013.

BUSINESS ACTIVITIES

The Group's primary business activities during the 2012/13 financial year continued to be jewellery retailing and manufacturing.

CONSOLIDATED FINANCIAL RESULTS

The Group has recorded a tax paid surplus of $40.032m for the year ended 30 June 2013 (2012 - $36.511m). This surplus was achieved on total operating revenue of $549.521m (2012 - $511.497m).

The accounts for the year ended 30 June 2013 have been presented in accordance with the accounting principles and policies detailed on pages 46 to 50 of this report.

	2013 $000	**2012** $000
Total operating revenue	549,521	511,497
Surplus before tax	47,040	42,036
Taxation	(7,008)	(5,525)
Surplus after tax	40,032	36,511
Dividends paid	(22,968)	(19,139)
Net surplus retained	17,064	17,372

SHAREHOLDERS' FUNDS/RESERVES

Total shareholders' funds of the Group now stand at $206.865m. Contributed equity increased to $4.162m due to shares issued under the employee share scheme.
The Group's reserves at 30 June 2013 totalled $202.703m.

	$000
The Group's reserves at 30 June 2012 were	**190,276**
To which was added:	
Operating surplus after tax for the year	40,032
Exchange differences on translation of foreign operations	(4,777)
Option reserve movement	140
From which was deducted:	
Ordinary dividends paid	(22,968)
Leaving reserves at 30 June 2013 at	**202,703**
These comprise:	
Retained profits	205,547
Other reserves	(2,844)
	202,703

ACCOUNTING POLICIES

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

DIVIDENDS

Your Directors paid an interim dividend of 2.5 cents per share, with nil imputation credits and full franking credits attached on 3 April 2013. On 15 August 2013, your Directors declared a final dividend of 4.0 cents per share payable on 4 October 2013. The share register will close at 5:00pm on 27 September 2013 for the purpose of determining entitlement to the final dividend.

The total ordinary dividend for the year is 6.5 cents (not imputed), (2011 – 5.5 cents not imputed). The payout represents 62.2% (2012 – 57.7%) of the tax paid profit of the Group.

DIRECTORS

Gary Gwynne and Emma Hill retire by rotation and being eligible offer themselves for re-election at the next annual meeting on 30 October 2013.

DIRECTORS' REMUNERATION

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

	2013 $000	2012 $000
Sir Michael Hill*	$170	$170
M.R. Parsell*	A$1,347	A$1,409
G.J. Gwynne	$85	$85
L.W. Peters	A$85	A$85
M.R. Doyle	$29	$85
Ann Christine Lady Hill	$85	$85
E.J. Hill	$85	$85
D.W. McGeoch (Colvin)	A$77	A$85
G.W. Smith	A$56	-

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

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

Mike Parsell has the following share options outstanding as at 30 June 2013:

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

REMUNERATION OF EMPLOYEES

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

$000	2013	2012
100-110	45	36
110-120	14	15
120-130	15	15
130-140	11	17
140-150	11	11
150-160	11	7
160-170	11	6
170-180	7	7
180-190	4	2
190-200	7	5
200-210	5	3
210-220	2	2
220-230	3	1
230-240	0	1
280-290	0	1
290-300	1	0
300-310	0	2
310-320	1	0
340-350	2	0
350-360	1	0
360-370	0	1
370-380	0	1
380-390	0	1
390-400	1	0
420-430	0	1
440-450	1	0
460-470	1	0
470-480	0	1
500-510	0	1
710-720	1	0
750-760	0	1

Australian remuneration has been converted into New Zealand dollars at the exchange rate used for translating the Australian results into New Zealand dollars, 0.80 (2012 - 0.78), Canadian remuneration on the same basis at 0.83 (2012 - 0.80) and USA remuneration on the same basis at 0.82 (2012 - 0.80).

INFORMATION ON DIRECTORS

The qualifications and experience of the Directors are shown on pages 34 and 35.

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 40 of this report.

DONATIONS

The total of donations made during the year amounted to $30,000.

INTERESTS REGISTER

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

On behalf of the Directors,

Michael Hill. MParsell

Sir Michael Hill Mike Parsell

Building a better working world

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MICHAEL HILL INTERNATIONAL LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Michael Hill International Limited and its subsidiaries on pages 42 to 78, which comprise the statements of financial position of Michael Hill International Limited and the Group as at 30 June 2013, and the statements of comprehensive income, statements of changes in equity and statement of cash flows for the year then ended of the Company and Group, and a summary of significant accounting policies and other explanatory information.

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Ernst & Young provides taxation advice and risk advisory services to Michael Hill International Limited. We have no other relationship, or interest in Michael Hill International Limited.

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

OPINION

In our opinion, the financial statements on pages 42 to 78:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Michael Hill International Limited and the Group as at 30 June 2013 and the financial performance and cash flows of the Company and Group for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Ernst+Young

Ernst & Young
15 August 2013
Brisbane

FINANCIAL STATEMENTS

The Directors are pleased to present the financial statements of Michael Hill International Limited for the year ended 30 June 2013. The Board of Directors of Michael Hill International Limited authorised these financial statements for issue on 15 August 2013.

Sir Michael Hill
Chairman of Directors

Mike Parsell
Chief Executive Officer/Director

STATEMENTS OF COMPREHENSIVE INCOME for the year ended 30 June 2013

	NOTES	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Revenue from continuing operations	5	**549,521**	511,497	21,946	18,076
Other income	6	**412**	1,494	7	10
Cost of goods sold		**(199,349)**	(194,573)	-	-
Employee benefits expense		**(140,706)**	(124,394)	(101)	(98)
Occupancy costs	7	**(52,086)**	(47,531)	-	-
Selling expenses		**(30,927)**	(30,074)	-	-
Marketing expenses		**(30,365)**	(29,753)	-	-
Depreciation and amortisation expense	7	**(13,034)**	(12,328)	(27)	(26)
Loss on disposal of property, plant and equipment	7	**(123)**	(457)	-	-
Other expenses		**(33,068)**	(27,792)	(2,905)	(3,937)
Finance costs		**(3,235)**	(4,053)	-	-
Profit before income tax		**47,040**	42,036	18,920	14,025
Income tax (expense) / benefit	8	**(7,008)**	(5,525)	809	1,090
Profit for the year		**40,032**	36,511	19,729	15,115
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Currency translation differences arising during the year		**(4,777)**	(1,843)	-	-
Total comprehensive income for the year		**35,255**	34,668	19,729	15,115

Total comprehensive income for the year is attributable to:			
Owners of Michael Hill International Limited		**35,255**	34,668
Earnings per share attributable to the ordinary equity holders of the Company during the year, attributable to continuing operations:			
Basic earnings per share	28	**10.46¢**	9.54¢
Diluted earnings per share	28	**10.28¢**	9.50¢

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

STATEMENTS OF FINANCIAL POSITION as at 30 June 2013

	NOTES	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
ASSETS					
Current assets					
Cash and cash equivalents	9	**12,459**	12,064	18	36
Trade and other receivables	10	**18,671**	11,847	875	3,812
Inventories	11	**183,770**	187,017	-	-
Current tax receivables	12	**-**	-	-	2
Total current assets		**214,900**	210,928	893	3,850
Non-current assets					
Trade and other receivables	13	**1,272**	-	-	-
Property, plant and equipment	14	**60,067**	47,116	74	97
Deferred tax assets	15	**66,775**	64,085	(8)	-
Intangible assets	16	**2,786**	70	-	-
Other non-current assets	17	**2,382**	1,449	-	-
Investments in subsidiaries	18	**-**	-	314,869	314,869
Total non-current assets		**133,282**	112,720	314,935	314,966
Total assets		**348,182**	323,648	315,828	318,816
LIABILITIES					
Current liabilities					
Trade and other payables	19	**49,172**	51,260	109	77
Current tax liabilities	20	**3,223**	5,325	-	-
Provisions	21	**4,579**	3,871	-	-
Deferred revenue	22	**15,653**	8,330	-	-
Total current liabilities		**72,627**	68,786	109	77
Non-current liabilities					
Borrowings	23	**33,349**	33,058	-	-
Provisions	24	**2,000**	2,062	-	-
Deferred revenue	25	**33,341**	25,383	-	-
Total non-current liabilities		**68,690**	60,503	-	-
Total liabilities		**141,317**	129,289	109	77
Net assets		**206,865**	194,359	315,719	318,739
EQUITY					
Contributed equity	26	**4,162**	4,083	4,162	4,083
Reserves		**(2,844)**	1,793	1,525	1,385
Retained profits		**205,547**	188,483	310,032	313,271
Total equity		**206,865**	194,359	315,719	318,739

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

STATEMENTS OF CHANGES IN EQUITY for the year ended 30 June 2013

Attributable to owners of Michael Hill International Limited	Notes	GROUP Contributed equity $000	GROUP Options reserve $000	GROUP Foreign currency translation reserve $000	GROUP Retained profits $000	GROUP Total equity $000	PARENT Contributed equity $000	PARENT Options reserve $000	PARENT Retained profits $000	PARENT Total equity $000
Balance at 1 July 2011		3,983	1,031	2,251	171,111	178,376	3,983	1,031	317,295	322,309
Total comprehensive income		-	-	(1,843)	36,511	34,668	-	-	15,115	15,115
		3,983	1,031	408	207,622	213,044	3,983	1,031	332,410	337,424
Transactions with owners in their capacity as owners:										
Dividends paid	27	-	-	-	(19,139)	(19,139)	-	-	(19,139)	(19,139)
Employee shares issued	31(b)	100	-	-	-	100	100	-	-	100
Option expense through share based payments reserve	31(c)	-	354	-	-	354	-	354	-	354
		100	354	-	(19,139)	(18,685)	100	354	(19,139)	(18,685)
Balance at 30 June 2012		4,083	1,385	408	188,483	194,359	4,083	1,385	313,271	318,739
Total comprehensive income		-	-	(4,777)	40,032	35,255	-	-	19,729	19,729
		4,083	1,385	(4,369)	228,515	229,614	4,083	1,385	333,000	338,468
Transactions with owners in their capacity as owners:										
Dividends paid	27	-	-	-	(22,968)	(22,968)	-	-	(22,968)	(22,968)
Employee shares issued	31(b)	79	-	-	-	79	79	-	-	79
Option expense through share based payments reserve	31(c)	-	140	-	-	140	-	140	-	140
		79	140	-	(22,968)	(22,749)	79	140	(22,968)	(22,749)
Balance at 30 June 2013		4,162	1,525	(4,369)	205,547	206,865	4,162	1,525	310,032	315,719

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

CASH FLOW STATEMENTS for the year ended 30 June 2013

	NOTES	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		**617,361**	585,137	-	-
Payments to suppliers and employees (inclusive of goods and services tax)		**(512,583)**	(488,239)	(3)	(2)
		104,778	96,898	(3)	(2)
Interest received		**82**	197	-	-
Other revenue		**432**	485	-	-
Interest paid		**(2,790)**	(4,077)	-	-
Income tax paid		**(11,847)**	(3,732)	-	-
Net goods and services tax paid		**(38,310)**	(37,640)	-	-
Net cash inflow / (outflow) from operating activities	32	**52,345**	52,131	(3)	(2)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**518**	230	-	-
Payments for property, plant and equipment		**(28,720)**	(18,127)	(4)	(5)
Payments for intangible assets		**(2,941)**	-	-	-
Net cash (outflow) from investing activities		**(31,143)**	(17,897)	(4)	(5)
Cash flows from financing activities					
Proceeds from borrowings		**88,583**	39,742	-	-
Repayment of borrowings		**(86,088)**	(51,280)	-	-
Proceeds from sale of treasury stock		**71**	90	-	-
Dividends paid to Company's shareholders	27	**(22,968)**	(19,139)	(22,968)	(19,139)
Intercompany advance		**-**	-	22,937	19,081
Net cash (outflow) from financing activities		**(20,402)**	(30,587)	(31)	(58)
Net increase / (decrease) in cash and cash equivalents		**800**	3,647	(38)	(65)
Cash and cash equivalents at the beginning of the financial year		**12,064**	8,540	36	80
Effects of exchange rate changes on cash and cash equivalents		**(405)**	(123)	20	21
Cash and cash equivalents at end of year	9	**12,459**	12,064	18	36

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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2013

NOTE 1 Summary of significant accounting policies

(a) BASIS OF PREPARATION

The financial statements for the year ended 30 June 2013 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities.

Compliance with IFRS

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

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

Entities reporting

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

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

Statutory base

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 15 August 2013.

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

Historical cost convention

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

(b) PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Michael Hill International Limited ('Company' or 'Parent Entity') as at 30 June 2013 and the results of all subsidiaries for the year then ended. Michael Hill International Limited and its subsidiaries together are referred to in these financial statements as the Group or the Consolidated Entity.

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

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

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

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

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

(c) SEGMENT REPORTING

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

(d) FOREIGN CURRENCY TRANSLATION

(i) **Functional and presentation currency**

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

(ii) **Transactions and balances**

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

(iii) **Group companies**

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

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

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

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

(e) REVENUE RECOGNITION

(i) Sales of goods - retail

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

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

(ii) Rendering of services - deferred service revenue

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

(iii) Rendering of services - repairs

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

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

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

(v) Interest income

Interest income is recognised using the effective interest method.

(f) INCOME TAX

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

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

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

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

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

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

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

(g) LEASES

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

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

(h) IMPAIRMENT OF ASSETS

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

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

The discount rates used in determining the recoverable amount ranged between 10.0% and 11.5% (2012: 10.0% and 11.5%).

(i) CASH AND CASH EQUIVALENTS

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

(j) TRADE AND OTHER RECEIVABLES

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

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

(k) DEFERRED EXPENDITURE

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

(l) INVENTORIES

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

(m) INVESTMENTS AND OTHER FINANCIAL ASSETS

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

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

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

(ii) **Loans and receivables**

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

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

(n) DERIVATIVES

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

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

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

(i) **Fair value hedge**

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

(ii) **Cash flow hedge**

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

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

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

(o) FAIR VALUE ESTIMATION

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

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

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

(p) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

(q) INTANGIBLE ASSETS

Computer software

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

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

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

(r) TRADE AND OTHER PAYABLES

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

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

(s) BORROWINGS

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

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

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

(t) PROVISIONS

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

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

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

(u) EMPLOYEE BENEFITS

(i) **Short-term obligations**

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

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

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

(iii) **Retirement benefit obligations**

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

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

(iv) **Share-based payments**

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

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

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

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

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

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

(v) CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

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

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

(w) DIVIDENDS

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

(x) EARNINGS PER SHARE

(i) **Basic earnings per share**

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

(ii) **Diluted earnings per share**

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

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

Certain new standards, amendments and interpretations to existing standards have been published that are not mandatory for 30 June 2013 reporting periods. The new standards have been reviewed and there are no standards that will have a material impact on the performance or position of the Group.

NOTE 2 Financial risk management

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

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

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

(a) MARKET RISK

(i) Foreign exchange risk

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

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

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

	30 June 2013			30 June 2012		
	USD $000	AUD $000	CAD $000	USD $000	AUD $000	CAD $000
Cash and cash equivalents	677	4,634	2,172	1,439	5,301	1,964
Trade receivables	450	3,587	4,434	62	2,818	214
Borrowings	-	28,000	-	-	26,000	-
Trade payables	2,357	3,876	798	5,810	2,330	409

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

Group sensitivity

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

Based on the USD trade payables due for payment at 30 June 2013, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's pre-tax profit for the year would have been NZ$335,000 lower / NZ$274,000 higher (2012: NZ$812,000 lower / NZ$665,000 higher).

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

Based on the AUD commercial bills owing at 30 June 2013, had the New Zealand dollar weakened/strengthened by 10% against the Australian dollar with all other variables held constant, the Group's equity for the year would have been NZ$3,705,000 lower / NZ$3,032,000 higher (2012: NZ$3,673,000 lower / NZ$3,005,000 higher) on restatement of commercial bills to spot rate.

Based on the CAD receivables at 30 June 2013, had the New Zealand dollar weakened/strengthened by 10% against the Canadian dollar with all other variables held constant, the Group's equity for the year would have been NZ$604,000 higher / NZ$494,000 lower (2012: NZ$29,000 higher / NZ$24,000 lower) on restatement of receivables to spot rate.

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

(ii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings and cash. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain between 10% and 50% in fixed rate instruments. All the Group's borrowings are denominated in Australian dollars. The majority of the Group's sales are generated in Australian dollars which reduces the overall net exposure.

To manage variable interest rate borrowings risk, the Group enters into interest rate swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

As at the reporting date, the Group had the following borrowings outstanding:

	30 JUNE 2013		30 JUNE 2012	
	Weighted average interest rate	**Balance**	**Weighted average interest rate**	**Balance**
	%	$000	%	$000
Variable rate fully drawn down advance facility	**3.72%**	27,394	-	-
Commercial bills	**6.10%**	5,955	5.11%	33,058
		33,349		33,058

An analysis by maturity and a summary of the terms and conditions is in note 23.

In order to reduce the variability of the future cash flows in relation to the interest bearing loans, the Group has entered into an Australian dollar interest rate swap contract under which it has a right to receive interest at variable rates and to pay interest at fixed rates. Swaps in place cover approximately 21.7% (2012: 0.0%) of the variable rate principal outstanding.

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

GROUP	**2013**	**2012**
	$000	$000
0-1 years	**-**	-
1-3 years	**-**	-
3-5 years	**5,955**	-
5+ years	**-**	-
	5,955	-

The interest rate derivatives require settlement of net interest receivable or payable each 30 days and are settled on a net basis. The swaps do not qualify for hedge accounting. Therefore changes in the fair value of these derivative instruments are recognised immediately in the income statement.

Group sensitivity

At 30 June 2013, if interest rates had changed by -/+100 basis points from the year end rates with all other variables held constant, pre tax profit for the year would have been NZ$333,000 higher / lower (2012: NZ$331,000 higher / lower), mainly as a result of lower / higher interest expense on commercial bills. All other non-direct financial liabilities have a contractual maturity of less than 6 months.

(b) CREDIT RISK

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

(c) LIQUIDITY RISK

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

Please see note 23 for more information on the Group's borrowings, financing arrangements and interest rate exposures.

(d) CAPITAL RISK MANAGEMENT

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

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

NOTE 3 Critical accounting estimates and assumptions

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

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

Share-based payment transactions

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

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

Make good provisions

A provision has been made for the present value of anticipated costs of future restoration of leased store premises. The provision includes future cost estimates associated with dismantling and closure of stores. The calculation of this provision requires assumptions such as discount rates, store closure dates and lease terms. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes for the estimated future costs for sites are recognised in the statement of financial position by adjusting both the expense or asset (if applicable) and provision. The related carrying amounts are disclosed in note 21 and note 24.

Estimation of useful lives of assets

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

CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

Revenue recognition

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

Due to management reviews conducted during the year, an adjustment to the revenue recognition pattern has been deemed necessary. As a result of this, an additional $4,242,000 has been recognised as revenue in the current financial year. Of this, $2,300,000 relates to the current financial year, and $1,942,000 relates to prior financial years.

Taxation and recovery of deferred tax assets

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

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

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

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

NOTE 4 Segment information

Identification and description of segments

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

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

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

Types of products and services

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

Major customers

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

Accounting policies and inter-segment transactions

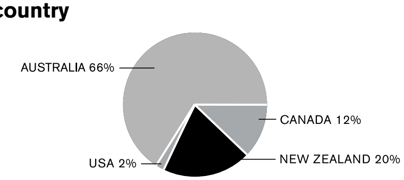
The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the accounts and in the prior period.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments, then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments, which management believes will be inconsistent. Unallocated expenses include all expenses that do not relate directly to the relevant segment and include: manufacturing activities, warehouse and distribution, general corporate expenses, interest and company tax. Inter-segment pricing is at arm's length or market value.

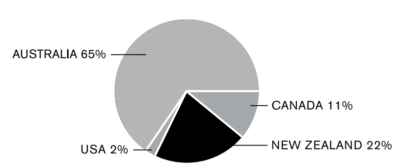
STATEMENT OF SEGMENTED RESULTS for the year ended 30 June 2013

NOTE 4 cont.	NEW ZEALAND 2013 $000	NEW ZEALAND 2012 $000	NEW ZEALAND +/- %	AUSTRALIA 2013 $000	AUSTRALIA 2012 $000	AUSTRALIA +/- %	CANADA 2013 $000	CANADA 2012 $000	CANADA +/- %	USA 2013 $000	USA 2012 $000	USA +/- %	GROUP 2013 $000	GROUP 2012 $000	GROUP +/- %
Operating revenue															
Sales to customers	**111,357**	109,110	2.1%	**361,238**	333,174	8.4%	**64,138**	55,124	16.4%	**12,472**	11,999	3.9%	**549,205**	509,407	7.8%
Unallocated revenue													**316**	2,090	(84.9%)
Total operating revenue													**549,521**	511,497	7.4%
Segment results															
Operating surplus / (loss)	**22,128**	21,550	2.7%	**52,712**	47,509	11.0%	**1,356**	713	90.2%	**(2,863)**	(3,296)	13.1%	**73,333**	66,476	10.3%
Unallocated revenue less unallocated expenses													**(26,293)**	(24,440)	(7.6%)
Profit before income tax													**47,040**	42,036	11.9%
Income tax expense													**(7,008)**	(5,525)	(26.8%)
Profit for the year													**40,032**	36,511	9.6%
Segment assets	**47,754**	42,743	11.7%	**130,503**	120,167	8.6%	**52,125**	36,476	42.9%	**11,804**	12,393	(4.8%)	**242,186**	211,779	14.4%
Unallocated													**105,996**	111,869	(5.2%)
Total													**348,182**	323,648	7.6%
Segment liabilities	**16,895**	13,514	25.0%	**59,773**	47,841	24.9%	**11,884**	8,086	47.0%	**2,826**	2,730	3.5%	**91,378**	72,171	26.6%
Unallocated													**49,939**	57,118	(12.6%)
Total													**141,317**	129,289	9.3%
Segment acquisitions of property, plant & equipment and intangibles	**1,812**	3,114	(41.8%)	**17,493**	10,229	71.0%	**6,581**	3,030	117.2%	**255**	280	(8.9%)	**26,141**	16,653	57.0%
Unallocated													**5,520**	1,474	274.5%
Total													**31,661**	18,127	74.7%
Segment depreciation and amortisation expense	**1,982**	1,896	4.5%	**6,823**	6,525	4.6%	**2,045**	1,662	23.0%	**575**	533	7.9%	**11,425**	10,616	7.6%
Unallocated													**1,609**	1,712	(6.0%)
Total													**13,034**	12,328	5.7%

Operating revenue by country



2013



2012

NOTE 5 Revenue

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
From continuing operations:				
Sales revenue				
Revenue from sale of goods and repair services	**533,081**	505,154	-	-
Revenue from professional care plans	**16,208**	6,025	-	-
Interest revenue from in-house customer finance program	**130**	-	-	-
	549,419	511,179	-	-
Other revenue				
Interest income	**82**	197	124	130
Rent income	**20**	121	-	-
Intercompany dividends	**-**	-	21,822	17,946
	549,521	511,497	21,946	18,076

NOTE 6 Other income

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Insurance recovery relating to earthquake	**-**	79	-	-
Net foreign exchange gains (net loss for Group in 2013 - see note 7)	**-**	1,051	7	10
Other income	**412**	364	-	-
	412	1,494	7	10

NOTE 7 Expenses

	GROUP		PARENT	
	2013 $000	**2012** $000	**2013** $000	**2012** $000
Profit before income tax includes the following specific expenses:				
Depreciation				
Leasehold improvements	**5,608**	5,720	-	-
Furniture and fittings	**2,492**	2,021	-	-
Plant and equipment	**3,461**	3,153	3	2
Motor vehicles	**245**	220	24	24
Display material	**1,184**	1,134	-	-
Total depreciation	**12,990**	12,248	27	26
Amortisation – software	**44**	80	-	-
Total depreciation and amortisation	**13,034**	12,328	27	26
Impairment of property, plant and equipment	**41**	27	-	-
Net loss on disposal of property, plant and equipment	**123**	457	-	-
Rental expense relating to operating leases	**52,086**	47,531	-	-
Defined contribution superannuation expense	**8,782**	7761	-	-
Net foreign exchange losses (net gain for Group in 2012 - see note 6)	**247**	-	-	-
Donations	**30**	23	-	-
Remuneration of auditors				
During the year the following fees were paid or payable for services provided by the auditor of the Parent Entity, its related practices and non-related audit firms:				
(a) Assurance services - audit services				
Ernst & Young Australian firm audit and review of financial reports and other audit work	**314**	332	-	-
Grant Thornton New Zealand firm audit of ordinary shares register	**2**	2	2	2
Total remuneration for assurance services	**316**	334	2	2
(b) Advisory services				
Ernst & Young Australian firm consulting fees	**76**	98	-	-
	392	432	2	2

NOTES TO THE FINANCIAL STATEMENTS cont. for the year ended 30 June 2013

NOTE 8 Income tax expense

	GROUP		PARENT	
	2013 $000	**2012** $000	**2013** $000	**2012** $000
(a) Income tax expense				
Current tax	**10,342**	9,579	(813)	(1,097)
Deferred tax	**(3,439)**	(4,083)	4	-
Under provided in prior years	**105**	29	-	7
Income tax expense / (benefit)	**7,008**	5,525	(809)	(1,090)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	**47,040**	42,036	18,920	14,025
Tax at the New Zealand tax rate of 28%	**13,171**	11,770	5,298	3,927
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non deductible entertainment expenditure	**175**	132	2	1
Non deductible legal expenditure	**54**	38	-	-
Share of partnership	**(6,406)**	(6,778)	-	-
Dividends not assessable	**-**	-	(6,110)	(5,025)
Sundry items	**(492)**	98	1	3
	6,502	5,260	(809)	(1,094)
Difference in overseas tax rates	**402**	309	-	-
Change in tax rate on deferred tax balance	**(1)**	46	-	-
Under provision in prior years	**105**	26	-	4
Tax losses not recognised	**-**	(116)	-	-
	506	265	-	4
Income tax expense / (benefit)	**7,008**	5,525	(809)	(1,090)
(c) Tax losses				
Unused tax losses for which no deferred tax has been recognised	**5,211**	4,847	-	-
Potential tax benefit @ 40%	**2,084**	1,939	-	-

All unused tax losses were incurred by the USA entity.

NOTE 9 Current assets - Cash and cash equivalents

	GROUP		PARENT	
	2013 $000	**2012** $000	**2013** $000	**2012** $000
Cash at bank and on hand	**12,459**	12,064	18	36

Interest rates for the bank accounts has been between 0.00% and 2.10% during the year (2012: between 0.00% and 2.25%).

NOTE 10 Current assets - Trade and other receivables

	GROUP		PARENT	
	2013 $000	2012 $000	2013 $000	2012 $000
Trade receivables	**6,484**	5,936	-	-
Provision for impaired receivables	**(769)**	(694)	-	-
	5,715	5,242	-	-
In-house customer finance	**6,355**	-	-	-
Provision for impaired receivables	**(445)**	-	-	-
	5,910	-	-	-
Other receivables	**2,687**	3,194	-	-
Prepayments	**3,253**	2,925	-	-
Related party receivables	**-**	-	875	3,812
Deferred expenditure	**1,106**	486	-	-
	18,671	11,847	875	3,812

(a) Impaired trade receivables

Trade receivables from sales made to customers through third party credit providers are non-interest bearing and are generally on 0-30 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $544,000 (2012: $581,000) has been recognised by the Group. All trade receivables related to third party credit providers past 90 days have been impaired.

At 30 June 2013, the ageing analysis of trade receivables related to third party credit providers is as follows:

	GROUP		PARENT	
	2013 $000	2012 $000	2013 $000	2012 $000
0 - 30 days	**5,253**	4,813	-	-
31 - 60 days	**428**	373	-	-
61 - 90 days	**84**	131	-	-
91 + days	**719**	619	-	-
	6,484	5,936	-	-

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

Opening balance	**694**	819	-	-
Amounts written off	**(544)**	(581)	-	-
Additional provisions recognised	**662**	470	-	-
Exchange differences	**(43)**	14	-	-
	769	694	-	-

(b) In-house customer finance

In October 2012, Michael Hill launched an in-house customer finance program in the Canadian and United States markets. The terms available to customers range from a revolving line of credit through to 24 months, although 18 months is the typical financing period, and the majority of the products are offered as non-interest bearing.

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

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

	GROUP		PARENT	
	2013 $000	**2012** $000	**2013** $000	**2012** $000
Performing:				
Current, aged 0 - 30 days	**7,452**	-	-	-
Past due, aged 31 - 90 days	**150**	-	-	-
Non performing:				
Past due, aged more than 90 days	**121**	-	-	-
	7,723	-	-	-

Ageing has been calculated with reference to payment due dates.

This has been disclosed as:				
Current receivables	**6,355**	-	-	-
Non-current receivables	**1,368**	-	-	-
	7,723	-	-	-

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

	GROUP		PARENT	
	2013 $000	**2012** $000	**2013** $000	**2012** $000
Opening balance	**-**	-	-	-
Amounts written off	**-**	-	-	-
Additional provisions recognised	**527**	-	-	-
Exchange differences	**14**	-	-	-
	541	-	-	-

This has been disclosed as:				
Current receivables	**445**	-	-	-
Non-current receivables	**96**	-	-	-
	541	-	-	-

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

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

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

(e) Effective interest rates
Other than in-house customer finance, all receivables are non-interest bearing. The majority of in-house customer finance receivables are also non-interest bearing.

NOTE 11 Current assets - Inventories

	GROUP		PARENT	
	2013 $000	**2012** $000	**2013** $000	**2012** $000
Finished goods	**176,507**	175,157	-	-
Raw materials	**5,583**	10,957	-	-
Packaging and other consumables	**1,680**	903	-	-
	183,770	187,017	-	-

All inventories are held at cost.

NOTE 12 Current assets - Current tax receivables

	GROUP		PARENT	
	2013 $000	**2012** $000	**2013** $000	**2012** $000
Income tax	**-**	-	-	2

NOTE 13 Non-current assets - Trade and other receivables

	GROUP		PARENT	
	2013 $000	**2012** $000	**2013** $000	**2012** $000
In-house customer finance	**1,368**	-	-	-
Provision for impaired receivables	**(96)**	-	-	-
	1,272	-	-	-

NOTES TO THE FINANCIAL STATEMENTS cont. for the year ended 30 June 2013

NOTE 14 Non-current assets - Property, plant and equipment

	Plant and equipment $000	Fixtures and fittings $000	Motor vehicles $000	Leasehold improvements $000	Display material $000	Total $000
GROUP						
At 1 July 2011						
Cost	23,425	16,657	983	50,791	6,526	98,382
Accumulated depreciation	(14,012)	(9,265)	(407)	(29,636)	(2,851)	(56,171)
Net book amount	9,413	7,392	576	21,155	3,675	42,211
Year ended 30 June 2012						
Opening net book amount	9,413	7,392	576	21,155	3,675	42,211
Exchange differences	(161)	(122)	(5)	(283)	(56)	(627)
Additions	3,719	4,040	323	7,882	2,163	18,127
Additions - make good asset	-	-	-	367	-	367
Disposals	(99)	(77)	(53)	(296)	(162)	(687)
Depreciation charge	(3,153)	(2,021)	(220)	(5,720)	(1,134)	(12,248)
Impairment charge	(26)	(1)	-	-	-	(27)
Closing net book amount	9,693	9,211	621	23,105	4,486	47,116
At 30 June 2012						
Cost	26,259	19,811	1,085	55,864	8,273	111,292
Accumulated depreciation	(16,566)	(10,600)	(464)	(32,759)	(3,787)	(64,176)
Net book amount	9,693	9,211	621	23,105	4,486	47,116
GROUP						
Year ended 30 June 2013						
Opening net book amount	9,693	9,211	621	23,105	4,486	47,116
Exchange differences	(593)	(515)	(23)	(817)	(189)	(2,137)
Additions	7,973	6,188	392	11,931	2,236	28,720
Additions - make good asset	-	-	-	(42)	-	(42)
Disposals	(114)	(99)	(81)	(263)	(84)	(641)
Depreciation charge	(3,461)	(2,492)	(245)	(5,608)	(1,184)	(12,990)
Impairment charge	29	(2)	-	14	-	41
Closing net book amount	13,527	12,291	664	28,320	5,265	60,067
At 30 June 2013						
Cost	31,770	24,351	1,135	64,089	9,794	131,139
Accumulated depreciation	(18,243)	(12,060)	(471)	(35,769)	(4,529)	(71,072)
Net book amount	13,527	12,291	664	28,320	5,265	60,067

NOTE 15 Non-current assets - Deferred tax assets

	GROUP		PARENT	
	2013 $000	2012 $000	2013 $000	2012 $000
The balance comprises temporary differences attributable to:				
Doubtful debts	**349**	205	-	-
Fixed assets and intangibles	**5,629**	5,880	(8)	-
Intangible assets from intellectual property transfer	**41,099**	42,592	-	-
Unearned income	**454**	520	-	-
Employee benefits	**2,879**	2,626	-	-
Retirement benefit obligations	**434**	446	-	-
Deferred service revenue	**12,452**	8,347	-	-
Provision for warranties and legal costs	**896**	745	-	-
Other provisions	**1,169**	730	-	-
Deferred expenditure	**(981)**	(497)	-	-
Straight line lease provision	**1,260**	1,161	-	-
Prepayments	**(1)**	(10)	-	-
Tax losses	**1,136**	1,340	-	-
Net deferred tax assets	**66,775**	64,085	(8)	-
Movements:				
Opening balance at 1 July	**64,085**	60,599	-	-
Credited / (charged) to the income statement (note 8)	**3,439**	4,083	(4)	-
Prior year adjustment	**6**	(110)	(4)	-
Losses utilised	**(202)**	(349)	-	-
Foreign exchange differences	**(553)**	(138)	-	-
Closing balance at 30 June	**66,775**	64,085	(8)	-
Expected settlement:				
Within 12 months	**8,616**	7,365	-	-
In excess of 12 months	**58,159**	56,720	(8)	-
	66,775	64,085	(8)	-

NOTES TO THE FINANCIAL STATEMENTS cont. for the year ended 30 June 2013

NOTE 16 Non-current assets - Intangible assets

	Patents, trademarks and other rights $000	Computer software $000	Total $000
GROUP			
At 1 July 2011			
Cost	15	4,244	4,259
Accumulated amortisation	-	(4,107)	(4,107)
Net book amount	15	137	152
Year ended 30 June 2012			
Opening net book amount	15	137	152
Exchange differences	-	(2)	(2)
Amortisation charge*	-	(80)	(80)
Closing net book amount	15	55	70
At 30 June 2012			
Cost	15	4,159	4,174
Accumulated amortisation	-	(4,104)	(4,104)
Net book amount	15	55	70
Year ended 30 June 2013			
Opening net book amount	15	55	70
Exchange differences	(2)	(179)	(181)
Additions	16	2,925	2,941
Amortisation charge*	-	(44)	(44)
Closing net book amount	29	2,757	2,786
At 30 June 2013			
Cost	29	6,644	6,673
Accumulated amortisation	-	(3,887)	(3,887)
Net book amount	29	2,757	2,786

*Amortisation of $44,000 (2012: $80,000) is included in depreciation and amortisation expense in the statement of comprehensive income.
The Parent has no intangible assets.

NOTE 17 Non-current assets - Other non-current assets

	GROUP		PARENT	
	2013 $000	2012 $000	2013 $000	2012 $000
Deferred expenditure	**2,382**	1,449	-	-

NOTE 18 Non-current assets - Investments in subsidiaries

	GROUP		PARENT	
	2013 $000	2012 $000	2013 $000	2012 $000
Shares in subsidiaries	**-**	-	314,869	314,869

The subsidiaries of Michael Hill International Limited are set out in note 30. All investments in subsidiary companies are eliminated on consolidation.

NOTE 19 Current liabilities - Trade and other payables

	GROUP		PARENT	
	2013 $000	2012 $000	2013 $000	2012 $000
Trade payables	**28,532**	32,882	1	5
Accrued expenses	**6,137**	7,115	29	-
Annual leave liability	**7,696**	6,949	-	-
Other payables	**6,807**	4,314	79	72
	49,172	51,260	109	77

NOTE 20 Current liabilities - Current tax liabilities

	GROUP		PARENT	
	2013 $000	2012 $000	2013 $000	2012 $000
Income tax	**3,223**	5,325	-	-

NOTE 21 Current liabilities - Provisions

	GROUP		PARENT	
	2013 $000	2012 $000	2013 $000	2012 $000
Employee benefits - long service leave	**1,868**	1,685	-	-
Returns provision	**2,693**	2,133	-	-
Make good provision	**18**	53	-	-
	4,579	3,871	-	-

(a) Employee benefits - long service leave

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

(b) Returns provision

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

(c) Make good provision

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

(d) Movements in provisions

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

	Employee benefits $000	Returns provision $000	Make good provision $000	Total $000
Carrying amount at start of year	1,685	2,133	53	3,871
Additional provisions recognised	587	2,694	-	3,281
Amounts incurred and charged	(287)	(2,152)	(33)	(2,472)
Exchange differences	(117)	18	(2)	(101)
Carrying amount at end of year	1,868	2,693	18	4,579

NOTE 22 Current liabilities - Deferred revenue

	GROUP		PARENT	
	2013 $000	2012 $000	2013 $000	2012 $000
Deferred service revenue	**15,220**	7,915	-	-
Lease incentive income	**433**	415	-	-
	15,653	8,330	-	-

NOTE 23 Non-current liabilities - Borrowings

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Secured				
Bank loans	**33,349**	33,058	-	-
Total non-current borrowings	**33,349**	33,058	-	-

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

(a) Financing arrangements

The Group's objectives when managing capital are to ensure sufficient liquidity to support its financial obligations and execute the Group's operational and strategic plans. The Group continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. Accordingly, the Group entered into an agreement with ANZ on 1 February 2013 that provides for a $90,519,000 multi option borrowing facility, the availability of which is adjusted throughout the year in line with business requirements. At balance date $47,642,000 was available, and of that, $33,349,000 was utilised.

The Group also has access to various uncommitted credit facility lines serving working capital needs that, at balance date, totalled $4,191,000. No amounts were drawn under these credit facility lines as at balance date.

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

(b) Interest rate risk exposures

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

	Floating interest rate $000	Less than 6 months $000	6 - 12 months $000	Over 1 year less than 5 years $000	Over 5 years $000	Total $000
2013						
Commercial bill facility	-	5,955	-	-	-	5,955
Variable rate fully drawn advance facility	27,394	-	-	-	-	27,394
	27,394	5,955	-	-	-	33,349
Weighted average interest rate	3.72%	6.10%	-	-	-	
2012						
Commercial bill facility	-	16,529	10,172	6,357	-	33,058
Weighted average interest rate	-	4.57%	5.36%	6.10%	-	

The Group retains the discretion to roll all commercial bills as they fall due and maintain required borrowing levels under the fully drawn advance facility until the borrowing facility terminates on 29 August, 2014, so long as the facility limit has not been reached.

NOTE 24 Non-current liabilities - Provisions

	GROUP		PARENT	
	2013 $000	**2012** $000	**2013** $000	**2012** $000
Employee benefits - long service leave	**1,415**	1,453	-	-
Make good provision	**585**	609	-	-
	2,000	2,062	-	-

(a) Employee benefits - long service leave

The basis used to measure the liability for long service leave is set out in note 21(a).

(b) Make good provision

The basis used to calculate the make good provision is set out in note 21(c).

(c) Movements in provisions

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

	Employee benefits $000	**Make good provision** $000	**Total** $000
Carrying amount at start of year	1,453	609	2,062
Additional provisions recognised	54	51	105
Amounts incurred and charged	-	(48)	(48)
Exchange differences	(92)	(27)	(119)
Carrying amount at end of year	1,415	585	2,000

NOTE 25 Non-current liabilities - Deferred revenue

	GROUP		PARENT	
	2013 $000	**2012** $000	**2013** $000	**2012** $000
Deferred service revenue	**31,827**	23,755	-	-
Lease incentive income	**1,514**	1,628	-	-
	33,341	25,383	-	-

NOTE 26 Contributed equity

	GROUP		PARENT	
	2013 Shares	**2012** Shares	**2013** $000	**2012** $000
(a) Share capital: Ordinary shares				
- Fully paid (b)	**383,053,190**	383,053,190	4,263	4,221
- Treasury stock held for Employee Share Scheme (c)	**(203,646)**	(277,604)	(101)	(138)
	382,849,544	382,775,586	4,162	4,083
(b) Fully paid ordinary share capital				
Opening balance of ordinary shares issued	**383,053,190**	383,053,190	4,221	4,177
Issues of ordinary shares during the year				
Employee Share Scheme issue	**73,958**	111,113	79	100
Transfer from treasury stock	**(73,958)**	(111,113)	(37)	(56)
Closing balance of ordinary shares issued	**383,053,190**	383,053,190	4,263	4,221

(c) Treasury stock

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

	GROUP		PARENT	
	2013 Shares	**2012** Shares	**2013** $000	**2012** $000
Opening balance of treasury stock shares issued	**277,604**	388,717	138	194
Allocated to employee share ownership plan	**(73,958)**	(111,113)	(37)	(56)
Closing balance of treasury stock shares issued	**203,646**	277,604	101	138

(d) Ordinary shares

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

(e) Employee Share Scheme

Information relating to the Michael Hill International Limited Employee Share Scheme, including details of shares issued under the scheme, is set out in note 31.

(f) Options

Information relating to the Michael Hill International Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 31.

NOTE 27 Dividends

	Parent 2013 $000	Parent 2012 $000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2012 of 3.5 cents (2011 - 3.0 cents) per fully paid share paid on 5 October 2012 (2011 - 10 October 2011).	**13,397**	11,483
Interim dividend for the year ended 30 June 2013 of 2.5 cents (2012 - 2.0 cents) per fully paid share paid on 3 April 2013 (2012 - 2 April 2012).	**9,571**	7,656
	22,968	19,139
(b) Dividends not recognised at year end		
Since year end, the Directors have declared the payment of a final dividend of 4.0 cents per fully paid ordinary share (2012 - 3.5 cents). No imputation credits are attached to the final dividend. The aggregate amount of the proposed dividend expected to be paid on 4 October 2013 out of retained profits at 30 June 2013, but not recognised as a liability at year end, is:	**15,314**	13,397

(c) Imputed dividends

The dividends paid during the current financial period and corresponding previous financial period are not imputed.
Imputation credits available for subsequent financial years based on a 28% tax rate for the Group are $1.736m (2012: $1.303m).
Imputation credits available for subsequent financial years based on a 28% tax rate for the Parent are $0.634m (2012: $0.633m).

The above amounts represent the balance of the imputation account as at the end of the financial year, adjusted for:
- (a) imputation credits that will arise from the payment of the amount of the provision for income tax;
- (b) imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- (c) imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

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

NOTE 28 Earnings per share

	GROUP 2013 Cents	GROUP 2012 Cents
(a) Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company	**10.46**	9.54
(b) Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company	**10.28**	9.50

(c) Reconciliations of earnings used in calculating earnings per share	GROUP 2013 $000	GROUP 2012 $000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**40,032**	36,511
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**40,032**	36,511

(d) Weighted average number of shares used as the denominator	GROUP 2013 Number	GROUP 2012 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**382,831,308**	382,749,710
Adjustments for calculation of diluted earnings per share:		
Options	**6,500,000**	1,500,000
Treasury stock	**203,646**	277,604
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**389,534,954**	384,527,314

(e) Information concerning the classification of securities

(i) **Options**

Options granted to employees under the Michael Hill International Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 31.

(ii) **Treasury stock**

Treasury stock held under the Michael Hill International Limited Employee Share Scheme are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. Treasury stock has not been included in the determination of basic earnings per share. Details relating to treasury stock are set out in note 26.

NOTES TO THE FINANCIAL STATEMENTS cont. for the year ended 30 June 2013

NOTE 29 Related party transactions

(a) Directors

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

(b) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2013 and 2012 is set out below. The key management personnel are all the Directors of the Company and the Group Executive team responsible for the strategic direction and management of the Group.

	SHORT-TERM BENEFITS $000	POST-EMPLOYMENT BENEFITS $000	SHARE-BASED PAYMENTS $000	TOTAL $000
2013	**6,245**	**282**	**143**	**6,670**
2012	6,064	416	339	6,819

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

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

	GROUP		PARENT	
	2013 $000	**2012** $000	**2013** $000	**2012** $000
Unsecured loans to key management personnel	**55**	59	-	-

Employee share scheme

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

(d) Subsidiaries

The ultimate parent and controlling entity of the Group is Michael Hill International Limited. Interests in subsidiaries are set out in note 30.

(e) Transactions with related parties

The following transactions occurred with related parties:

	GROUP		PARENT	
	2013 $000	**2012** $000	**2013** $000	**2012** $000
Purchases of goods				
Services rendered for typing and editing the annual and half year reports by a related party of board members	**11**	13	11	13
Travel purchased through an ASX listed travel company which is a related entity of a board member	**601**	-	-	-
Other transactions				
Annual sponsorship of the New Zealand PGA	**125**	125	125	125
Annual sponsorship of the Michael Hill International Violin Competition	**58**	63	58	63

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

NOTE 30 Investments in subsidiaries

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

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING 2013 %	2012 %
Michael Hill Jeweller Limited	New Zealand	Ordinary	100	100
Michael Hill Trustee Company Limited	New Zealand	Ordinary	100	100
Michael Hill Finance (NZ) Limited	New Zealand	Ordinary	100	100
Michael Hill Franchise Holdings Limited	New Zealand	Ordinary	100	100
MHJ (US) Limited	New Zealand	Ordinary	100	100
Michael Hill Jeweller (Australia) Pty Limited	Australia	Ordinary	100	100
Michael Hill Wholesale Pty Limited	Australia	Ordinary	100	100
Michael Hill Manufacturing Pty Limited	Australia	Ordinary	100	100
Michael Hill Franchise Pty Limited	Australia	Ordinary	100	100
Michael Hill Franchise Services Pty Limited	Australia	Ordinary	100	100
Michael Hill Finance (Limited Partnership)	Australia	-	100	100
Michael Hill Group Services Pty Limited	Australia	Ordinary	100	100
Michael Hill Jeweller (Canada) Limited	Canada	Ordinary	100	100
Michael Hill LLC	United States	Ordinary	100	100

NOTE 31 Share-based payments

(a) Employee Option Plan

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

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

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

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

NOTE 31 cont.

Set out below are summaries of options granted under the plans:	**2013 Weighted average exercise price in $ per share**	**2013 Number of options**	2012 Weighted average exercise price in $ per share	2012 Number of options
Outstanding at the beginning of the year	1.16	6,500,000	1.16	5,750,000
Granted during the year	1.41	750,000	1.16	900,000
Cancelled during the year	-	-	1.15	(150,000)
Outstanding at the end of the year	1.19	7,250,000	1.16	6,500,000

Share options outstanding at the end of the year have the following expiry date and exercise prices:	**Exercise price in $ per share**	**2013 Number of options**	2012 Number of options
30 September 2017	**1.25**	**4,250,000**	4,250,000
30 September 2019	**0.94**	**750,000**	750,000
30 September 2020	**0.88**	**750,000**	750,000
30 September 2021	**1.16**	**750,000**	750,000
30 September 2022	**1.41**	**750,000**	-
		7,250,000	6,500,000

The weighted average remaining contractual life of share options outstanding at the end of the period was 6.7 years (2012: 6.3 years).
The range of exercise prices for options outstanding at the end of the year was $0.88 - $1.41. Refer to the table above for detailed information on each issue.

Option pricing model

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

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

The following table lists the inputs to the models used for the options issued during the years ended 30 June 2013 and 30 June 2012:

	June 2013 19 Sept 2012	**June 2012 16 Sept 2011**	**June 2012 8 July 2011**
Number of options	**750,000**	**750,000**	**150,000**
Dividend yield	5.00%	5.00%	5.00%
Expected volatility	30%	30%	30%
Risk-free interest rate	3.70%	4.50%	5.10%
Expected life of option (years)	10	10	10
Option exercise price	$1.41	$1.16	$1.15
Weighted average share price at measurement date	$1.09	$0.89	$0.91

(b) Employee Share Scheme

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

(b) Employee Share Scheme (continued)

	GROUP		PARENT	
	2013 Number	**2012** Number	**2013** Number	**2012** Number
The plan held the following ordinary shares at the end of the year:				
Shares issued to participating employees (fully paid)	**73,958**	111,113	73,958	111,113
Not yet allocated to employees	**203,646**	277,604	203,646	277,604
	277,604	388,717	277,604	388,717

During the year, 73,958 (2012: 111,113) shares were issued to the Michael Hill Employee Share Scheme at an average price of $1.07 (2012 - $0.90).
Michael Hill International Limited acquired no shares through on-market purchases on the New Zealand Stock Exchange during the year that related to the employee share scheme.

(c) Expenses arising from share-based payment transactions

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

	GROUP		PARENT	
	2013 $000	**2012** $000	**2013** $000	**2012** $000
Options issued under employee option plan	**140**	354	-	-
Shares issued under employee share scheme	**8**	10	8	10
	148	364	8	10

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

	GROUP		PARENT	
	2013 $000	**2012** $000	**2013** $000	**2012** $000
Profit for the year	**40,032**	36,511	19,729	15,115
Depreciation	**12,990**	12,248	27	26
Amortisation	**44**	80	-	-
Non-cash employee benefits expense - share-based payments	**148**	364	8	10
Other non-cash expenses	**(1)**	(340)	(22,735)	(18,648)
Net loss on sale of non-current assets	**123**	457	-	-
Deferred taxation	**(3,356)**	(3,715)	8	-
Net exchange differences	**247**	(1,051)	(7)	(10)
(Increase) / decrease in trade and other receivables	**(7,339)**	(3,389)	2,937	2,971
(Increase) in inventories	**(7,088)**	(16,070)	-	-
(Increase) / decrease in current tax receivables	**(1,725)**	4,815	(2)	523
(Increase) in other non current assets	**(1,054)**	(1,449)	-	-
Increase in trade and other payables	**703**	579	32	11
Increase in deferred revenue	**17,550**	21,182	-	-
Increase in provisions	**1,071**	1,909	-	-
Net cash inflow / (outflow) from operating activities	**52,345**	52,131	(3)	(2)

NOTE 33 Commitments

Operating leases

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

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

	GROUP		PARENT	
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	**2013** $000	**2012** $000	**2013** $000	**2012** $000
Within one year	**34,376**	34,970	-	-
Later than one year but not later than five years	**92,028**	96,434	-	-
Later than five years	**18,473**	13,693	-	-
	144,877	145,097	-	-

NOTE 34 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities in respect of guarantees to bankers and other financial institutions of subsidiary companies' overdraft facilities and fixed assets at 30 June 2013 of $476,000 (30 June 2012 - $477,000).

The Parent Entity had contingent liabilities in respect of guarantees to bankers and other financial institutions of subsidiary companies' overdraft facilities and fixed assets at 30 June 2013 of $75,000 (30 June 2012 - $75,000).

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

The New Zealand Inland Revenue is currently disputing the tax treatment adopted by the Group in relation to the financing arrangements between New Zealand and Australian Group members for the 2009, 2010, 2011 and 2012 financial years. The amount in dispute is $24,636,000, being the tax effect of deductions claimed by the New Zealand Group to 30 June 2012. The tax effect of deductions for the 2013 financial year is $6,406,000 (note 8). In the event any tax liability was payable, the Group would also incur an interest expense. The Group does not agree with the technical arguments advanced by the Inland Revenue and believes the tax treatment it has adopted is correct. The Group continues to defend its position in the on-going discussions with the Inland Revenue in relation to the 2009, 2010, 2011 and 2012 tax returns.

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

Both matters are capable of being resolved by agreement, but if the Group is unable to find common ground with either the Inland Revenue or Australian Taxation Office then further formal legal processes may be needed to achieve resolution. The board does not consider that either of the tax matters require a provision in the Group's financial statements for the 2013 financial year.

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

(b) Contingent assets

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

NOTE 35 Events occurring after the reporting period

There were no significant events occurring after 30 June 2013.

NOTE 36 Deed of cross guarantee

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

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

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

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

Statements of comprehensive income

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

	2013 $000	**2012** $000
Revenue from sale of goods and services	**497,110**	468,119
Sales to Group companies not in Closed Group	**30,299**	26,931
Other income	**195**	2,336
Cost of goods sold	**(198,641)**	(193,506)
Employee benefits expense	**(125,756)**	(111,238)
Occupancy costs	**(44,225)**	(40,807)
Selling expenses	**(27,445)**	(25,213)
Marketing expenses	**(22,139)**	(22,468)
Depreciation and amortisation expense	**(10,403)**	(10,121)
Loss on disposal of property, plant and equipment	**(217)**	(445)
Other expenses	**(23,310)**	(21,936)
Finance costs	**(3,696)**	(4,483)
Profit before income tax	**71,772**	67,169
Income tax expense	**(14,512)**	(13,072)
Profit for the year	**57,260**	54,097
Other comprehensive income		
Currency translation differences arising during the year	**(21,467)**	(6,232)
Total comprehensive income for the year	**35,793**	47,865
Statements of changes in equity		
Balance at 1 July	**475,137**	470,589
Total comprehensive income	**35,793**	47,865
Employee shares issued	**79**	100
Option expense through share based payments reserve	**140**	354
Dividend paid	**(45,430)**	(43,771)
Balance at 30 June	**465,719**	475,137

NOTES TO THE FINANCIAL STATEMENTS cont. for the year ended 30 June 2013

NOTE 36 Deed of cross guarantee cont.

Statements of financial position

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

	2013 $000	2012 $000
Current assets		
Cash and cash equivalents	**6,843**	4,026
Trade and other receivables	**9,824**	9,104
Inventories	**151,333**	158,288
Loans to related parties	**148,403**	168,861
Total current assets	**316,403**	340,279
Non-current assets		
Trade and other receivables	**29**	-
Property, plant and equipment	**46,176**	34,515
Deferred tax assets	**64,004**	61,197
Intangible assets	**38**	70
Investments in subsidiaries	**130,762**	123,039
Other non-current assets	**2,089**	1,256
Total non-current assets	**243,098**	220,077
Total assets	**559,501**	560,356
Current liabilities		
Trade and other payables	**42,558**	45,867
Current tax liabilities	**4,116**	5,325
Provisions	**4,275**	3,565
Deferred revenue	**12,746**	6,969
Total current liabilities	**63,695**	61,726
Non-current liabilities		
Provisions	**1,874**	1,951
Deferred revenue	**28,213**	21,542
Total non-current liabilities	**30,087**	23,493
Total liabilities	**93,782**	85,219
Net assets	**465,719**	475,137
Equity		
Contributed equity	**277,431**	295,590
Reserves	**(3,246)**	(158)
Retained profits	**191,534**	179,705
Total equity	**465,719**	475,137

SHARE PRICE PERFORMANCE

PRICES FOR SHARES TRADED DURING THE YEAR

	HIGH	LOW	as at 30/6/13
	$1.48	$0.96	$1.31

SEVEN YEAR COMPARATIVE REVIEW OF SHARE PRICES AS AT 30 JUNE

2013	2012	2011	2010	2009	2008	2007
$1.31	$0.98	$0.90	$0.69	$0.60	$0.72	$1.01

SHAREHOLDER INFORMATION

Information specifically for investors and shareholders is featured on our website **http://investor.michaelhill.com**

It includes our latest share and historical share prices over the last six years. It also includes all announcements and powerpoint presentations made to Analysts and the Press at the time of the release of our half year and annual financial results to the New Zealand Stock Exchange each year. A copy of the Company's Constitution, minutes of the last Annual Meeting and the Company's Insider Trading Policy are also available on the website.

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

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

FINANCIAL CALENDAR

ANNUAL MEETING

Wednesday 30 October 2013 at 10.30am
Stamford Plaza Hotel
Albert St, Auckland

DIVIDENDS PAYABLE

Interim - April   Final - October

FINANCIAL RESULTS ANNOUNCED

Half year - February   Annual - August

ANALYSIS OF SHAREHOLDING

TWENTY LARGEST SHAREHOLDERS AS AT 31 JULY 2013

	ORDINARY SHARES	% OF SHARES
Durante Holdings Pty Limited	202,644,452	52.90
Accident Compensation Corporation - NZCSD	23,879,105	6.23
Tea Custodians Limited	17,854,060	4.66
Australian Executor Trustees Limited	7,946,000	2.07
Peters MacGregor Pty Limited	7,000,000	1.83
M.R. Parsell	6,459,114	1.69
HSBC Nominees (New Zealand) Limited - NZCSD	6,020,730	1.57
Citibank Nominees New Zealand Limited	3,863,453	1.01
New Zealand Superannuation Fund Nominees Limited	3,819,669	1.00
R.L. Parsell	3,560,250	0.93
National Nominees New Zealand Limited	3,491,242	0.91
BNP Paribas Nominees (NZ) Limited	3,444,048	0.90
New Zealand Permanent Trustees Limited	2,880,000	0.75
Double Dragon Superannuation Pty Limited	2,370,000	0.62
P.R. Taylor	2,000,000	0.52
G.J. Gwynne, P.A. Gwynne & D.H. Rishworth	1,922,000	0.50
W.K. Butler, C.A. Butler & R.M.J. Urlich	1,823,640	0.48
J P Morgan Chase Bank NA- NZCSD	1,820,308	0.48
FNZ Custodians Limited	1,547,859	0.40
E.J. Hill	1,524,750	0.40
Total	305,870,680	79.85

SHAREHOLDING BY RANGE OF SHARES AS AT 31 JULY 2013

	NO. OF HOLDERS	% OF HOLDERS	NO. OF SHARES
1 - 9,999	1,827	52.3	6,953,288
10,000 - 49,999	1,359	38.9	26,385,934
50,000 - 99,999	190	5.4	12,133,099
100,000 & over	118	3.4	337,580,869
Total	3,494	100	383,053,190

SUBSTANTIAL SECURITY HOLDERS

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

	NO. OF ORDINARY SHARES
Durante Holdings Pty Limited	202,644,452
Accident Compensation Corporation	23,879,105

Total number of issued voting securities of the Company as at 31 July 2013 is 382,849,544.

An additional 203,646 shares are held as Treasury stock for the Michael Hill Employee Share Scheme.

DIRECTORS' & ASSOCIATED INTERESTS' SHAREHOLDING

The table below sets out the relevant interests in equity securities of Directors and Associated Persons of Directors at 30 June 2013, in terms of Listing Rule 10.5.5 (c) of the New Zealand Exchange Listing Rules.

	RELEVANT INTEREST OF DIRECTOR	RELEVANT INTEREST OF ASSOCIATED PERSON
Sir Michael Hill and Ann Christine Lady Hill	202,644,452	
M.R. Parsell	6,459,114	3,700,400
G.J. Gwynne	1,972,000	
L.W. Peters	18,521,000	
E.J. Hill	1,524,750	

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CORPORATE DIRECTORY

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

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

REGISTERED OFFICE
The Offices of Kensington Swan
Ground Floor
KPMG Building
18 Viaduct Harbour Avenue
Auckland
(All communications to
GPO Box 2922
Brisbane, QLD 4001, Australia)

CORPORATE HEAD OFFICE
Metroplex on Gateway
7 Smallwood Place
Murarrie, QLD 4172
GPO Box 2922
Brisbane, QLD 4001, Australia
Telephone 617 3114 3500
Fax 617 3399 0222

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

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Kensington Swan
PO Box 10246
Wellington
New Zealand

AUDITORS
Ernst & Young
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One One One
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Brisbane, QLD 4000
Australia

BANKERS
ANZ Banking Group (New Zealand)
Limited
Australia and New Zealand Banking
Group Limited
Bank of America N.A.
Bank of Montreal

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michael hill

INTERNATIONAL LIMITED

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