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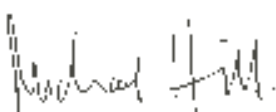
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The Directors are pleased to present the Annual Report of Michael Hill International for the year ended 30 June 2003. We report this year on the progress we have made towards our strategic goal of growing shareholder wealth over time, including our entry into the Canadian market and highlight our progress in the human resources area.



R.M. Hill
Chairman of Directors
Dated 15 August 2003



M.R. Parsell
Chief Executive Officer/Director
Dated 15 August 2003

"This has been a year of change. Many divisions under the new group executive team were restructured to help us cope with our ambitious growth plans. The Company has built a sound platform for growth and is now positioned to take advantage of the opportunities that lie ahead."

Mike Parsell's report on the company's performance in 2003 and outlook for 2004.



company profile

Michael Hill International operates Michael Hill Jeweller - a retail jewellery chain catering principally for the middle section of the jewellery market, with 134 stores between Australia, New Zealand and Canada as at 30 June 2003. The Company also specialises in higher priced diamond jewellery. The Company had its origins in 1979 when Michael Hill opened the first store in the New Zealand town of Whangarei, some 160 kilometres north of Auckland.

A unique retail jewellery formula that included dramatically different store designs, a product range devoted exclusively to jewellery and almost saturation levels of high impact advertising elevated the Company to national prominence and record sales.

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

Today the group employs over 1,600 full and part time staff in retailing, manufacturing and administration. It has approximately 3,400 shareholders and remains the most profitable publicly listed retail jeweller in Australia/New Zealand.

our overall strategic goal

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

our mission

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



our values and guiding principles

Customer satisfaction is our passion, our love and our life

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

Our people make our company

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

Encourage innovation and use common sense

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

Take ownership of your business

- Act and think as if this was your own business.
- Make decisions in the best interests of your customers and your team.
- Be responsible for the company's profitability and growth.
- Search for great ideas and share them across the company.

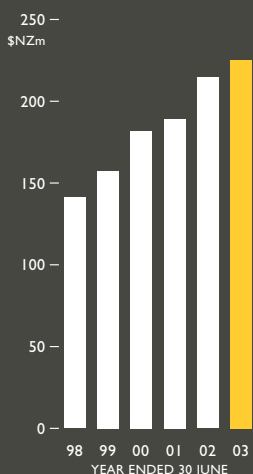
Be honest and ethical

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

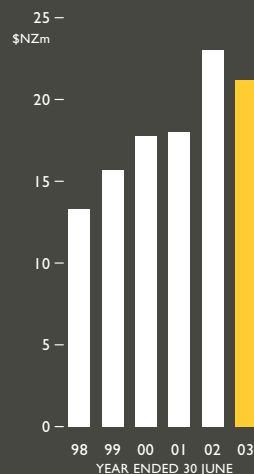


performance highlights

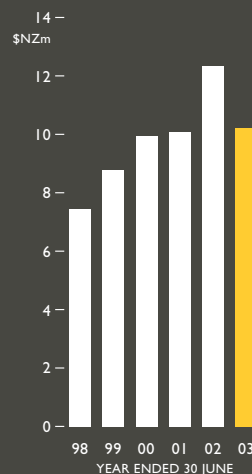
- Group Revenue up 5% to \$224.8 million
- 15 new stores opened in 3 countries
- Trial of 4 stores commences in Canada
- 22% return on average Shareholders funds
- Dividend for year maintained at 17 cents per share plus special dividend of 20 cents per share paid in October 2002
- Group consolidates structure for future growth



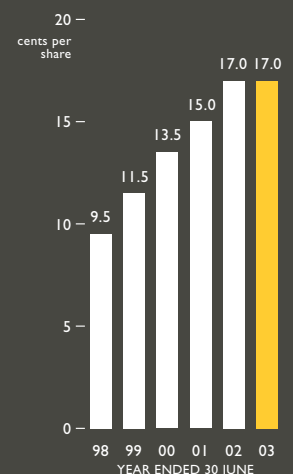
SALES REVENUE UP 5%



EARNINGS BEFORE INTEREST & TAX AND UNALLOCATED EXPENSES (BEFORE ABNORMALS) DOWN 7.8%



NET SURPLUS AFTER TAX (BEFORE ABNORMALS) DOWN 16.7%



ORDINARY DIVIDEND STEADY AT 17¢

key facts

YEAR ENDED 30 JUNE, NZ\$000's UNLESS STATED

	2003	2002	% change
TRADING RESULTS			
• Group revenue	224,802	214,105	+5.0%
• Earnings before interest and tax			
and unallocated expenses (before abnormals)	21,219	23,013	-7.8%
• Group surplus after tax (before abnormals)	10,244	12,298	-16.7%
- First half	7,525	8,712	-13.6%
- Second half	2,719	3,586	-24.2%
• Group surplus after tax (after abnormals)	11,570	12,706	-8.9%
• Net cash from operating activities	6,789	8,871	-23.5%

FINANCIAL POSITION AT YEAR END

• Issued and paid up capital, 38,558,600 ordinary shares	7,712	7,712	
• Total shareholders' funds	50,048	53,328	-6.2%
• Total assets	109,228	96,413	+13.3%
• Net debt	40,177	27,454	+46.3%
• Capital expenditure - cash	10,313	6,256	+64.8%

NUMBER OF STORES 30 JUNE

• New Zealand	46	43
• Australia	84	77
• Canada	4	-
Total	134	120

DISTRIBUTION TO SHAREHOLDERS

• Dividends - including final dividend		
- Per ordinary share	17.0¢	17.0¢
- Times covered by surplus after tax	1.77	1.9
• Special Dividend - paid 14 October 2002	20.0¢	-

SHARE PRICE

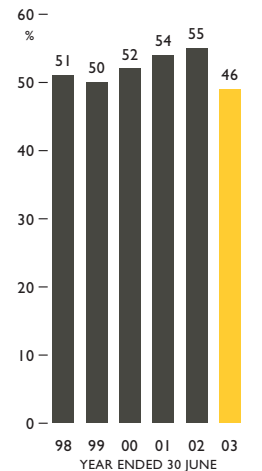
30 June	\$4.60	\$5.00
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KEY DATA PER SHARE

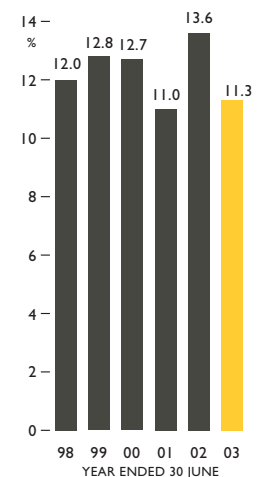
• Earnings before abnormal items	26.6¢	31.9¢
• Earnings after abnormal items	30.0¢	32.95¢

KEY MEASURES

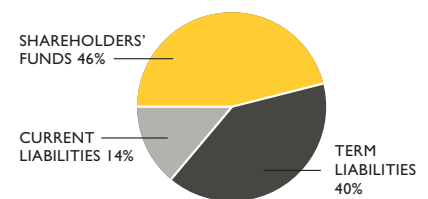
• Same store sales up		
- Australia	5.7%	6.4%
- New Zealand	1.0%	13.0%
• Return on average shareholders' funds	22%	23.9%
• Interest cover (times)	7.2	10.3
• Equity Ratio	45.8%	55%
• Current ratio	5.4:1	5.6:1



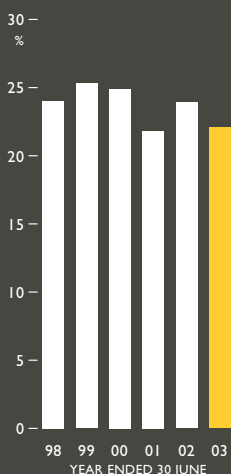
EQUITY RATIO 46%



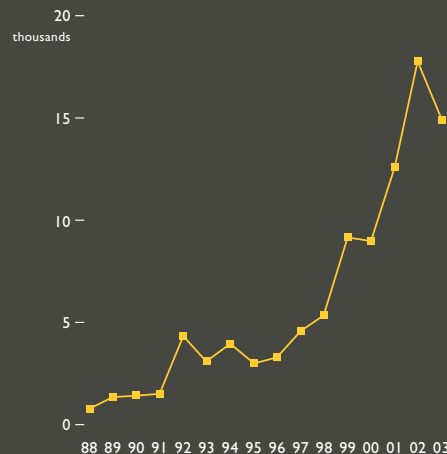
RETURN ON AVERAGE ASSETS 11.3%



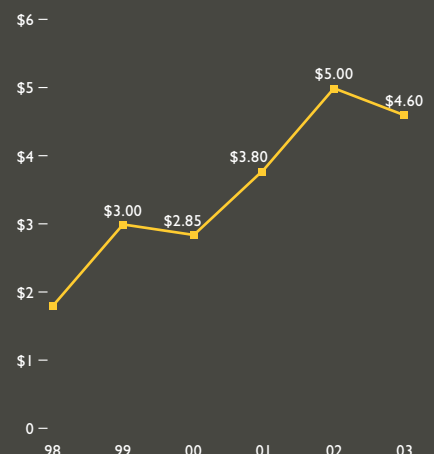
SOURCE OF FUNDING
YEAR ENDED 30 JUNE



RETURN ON AVERAGE SHAREHOLDERS' FUNDS 22%



VALUE OF \$1000 ON LISTING
ASSUMES ALL DIVIDENDS REINVESTED. COMPOUND ANNUAL GROWTH RATE OF 18.4%. NZ\$1000 INVESTED IN JULY 1997 WORTH \$14,809 AS AT 28 AUGUST 2003.



SHARE PRICE PERFORMANCE - LAST 6 YEARS
AS AT 30 JUNE



*chairman's
review*

Dear shareholders,

Michael Hill International has achieved a tax paid profit of \$11,570,000 for the year ended 30 June 2003 including an after tax profit on the sale of our Australian Head Office building of \$1,326,000. The profit achieved represents an excellent 22% return on average shareholders' funds for the year. Over the past 6 years, our after tax return on funds employed has averaged 23.65%, matched by few companies on the NZ Stock Exchange.

Our main goals at the beginning of the year were to achieve group revenue of \$234 million, an after tax operating profit of \$12.98 million and most importantly to trial an expansion of the Michael Hill brand into Canada. Although our financial results fell short of the goals set, the operating results in both New Zealand and Australia were very close to the budgets set. Higher than budgeted group infrastructure costs, some one off costs, and a higher than budgeted loss on our entry into the Canadian market resulted in the overall operating profit being 16.7% down on the 2001/02 year. There were also a number of other factors that contributed to the decline including the strengthening of the NZ dollar against the Australian dollar, which accounted for \$668,000 of the profit decline.

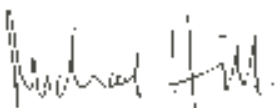
The drop in the operating profit needs to be seen in the light of the Board's strategic decisions to increase shareholder value over time. This includes the expansion trial into Canada, which Mike Parsell expands upon in his report, and the setting up of a group infrastructure that will cope with the expansion of the Group internationally beyond Australia and New Zealand. The benefits for shareholders from these strategic moves will flow through in the years to come.

The Company has maintained its ordinary dividend payout of 17 cents per share for the 12 months ended 30 June 2003. In addition, a special dividend of 20 cents per share was paid out in October 2002 following the sale and lease back of our Head Office building in Australia. Our growth opportunities remain substantial for the years ahead. In the 2002/03 financial year, we opened a further 15 stores – 3 in NZ, 8 in Australia, and 4 in Canada, bringing our total number of stores operating to 134 at 30 June 2003. There is significant potential for new stores in Australasia and our expansion into Canada will open up new horizons. Our fundamental philosophy of controlled profitable growth will underlie all our growth strategies.

In summary, it has been very much a year of innovation, development and reorganisation for the future. Our people have again performed exceptionally well and I congratulate all our staff in Australia and New Zealand. Our pioneers into Canada late last year deserve special mention. It is a challenge to take an unknown brand into a new market and I am delighted with their achievements.

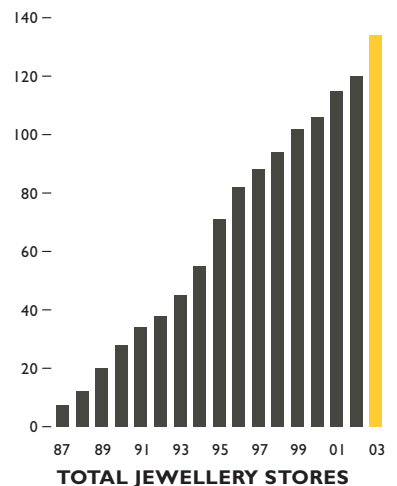
I must also thank my fellow Board members for their contribution. Their combined advice and insight is invaluable in these exciting times. Our company is a team of dedicated and passionate professionals at all levels and their expertise and enthusiasm contributes enormously to our continuing success.

Our annual meeting this year will be held at Eden Park in Auckland on the 7th of November. I look forward to welcoming you all there.



Michael Hill
Chairman

“The profit achieved represents an excellent 22% return on average shareholders' funds for the year. Over the past 6 years, our after tax return on funds employed has averaged 23.65%, matched by few companies on the NZ Stock Exchange.”





CEO's review of operations

A review of the priorities from last year

PRIORITIES	RESULTS
<p>REORGANISATION OF THE GROUP</p> <p>To continue with the reorganisation of the groups structure to cater for international growth.</p>	<p>This continued to plan and is near completion. The company is now positioned to grow as planned with most resources required now in place.</p>
<p>GROUP IT PLATFORM</p> <p>To implement a consistent IT platform across the group.</p>	<p>This was achieved with NZ coming on to the same platform as Australia and Canada in July.</p>
<p>STORE EXPANSION</p> <p>To open 3 stores in New Zealand, 6 in Australia, and 4 in Canada.</p>	<p>15 new stores opened.</p>
<p>LEVERAGING BUYING AND MANUFACTURING FUNCTIONS</p> <p>To gain efficiencies and improvements from our buying and manufacturing divisions. To improve margins and product ranges.</p>	<p>A Group Category Manager was appointed to head up our team of international buyers, and the group's manufacturing divisions have also been consolidated under a Group Manufacturing Manager.</p>
<p>IMPROVING PERFORMANCE OF THE EXISTING STORE BASE</p> <p>To increase the performance of our existing store base especially in Australia.</p>	<p>NZ improved same store sales by 1%, and EBIT improved 5%. In Australia same store sales increased 5.7%, and EBIT overall improved by 4.2% (in Australian dollars).</p>
<p>CANADA</p> <p>To successfully launch the Canadian operation, including a support centre and four new stores during the financial year. To reach a number of performance indicators set within our plan.</p>	<p>The operation opened as planned. Sales are improving with brand awareness.</p>

Overview of the year

This has been a year of change. Many divisions under the new group executive team were restructured to help us cope with our ambitious growth plans. These changes did not come without some cost and resulted in us not meeting all our financial objectives. However, the Company has built a sound platform for growth and is now positioned to take advantage of the opportunities that lie ahead.

Our Australian and New Zealand retail businesses performed to our expectations during the year. We opened a further 15 new stores, and refurbished 19 stores at a total cost of NZ\$3.495 million. This refurbishment program is an essential part of our strategy to improve our brand perception and deliver same store sales growth.

We opened in Canada

OPERATING RESULTS - CANADA (NZ \$000's)	2003
Revenue	2,308
Earnings before interest & tax	-1,802
Average assets employed	5,195
Number of stores	4

In September, our start up team moved to Vancouver. The first stores opened in Lougheed Mall and Seven Oaks Mall in November 2002, Mayfair Mall in early December 2002 and Metrotown, Vancouver's largest Mall in April 2003.

With only four stores, building brand awareness was always going to take time as we found when we have opened new states in Australia. This financial year we have budgeted a larger percentage of revenue to this task. Sales are now trending up each month, and our high levels of customer service, along with the in store experience is being well received.

Currently our main priority is to fine-tune our existing stores to ensure their success. Further stores will be considered only when this is achieved.

Restructuring

As planned, we have restructured our top level of management. Our Manufacturing Divisions are now under one Group Manager and with the appointment of a Group Buying Manager, we have completed our international buying team. This will result in greater efficiencies and improved margins.



MIKE PARSELL, CEO

Michael Hill

JEWELLER

Buy one diamond
pendant or earrings
and get one
FREE



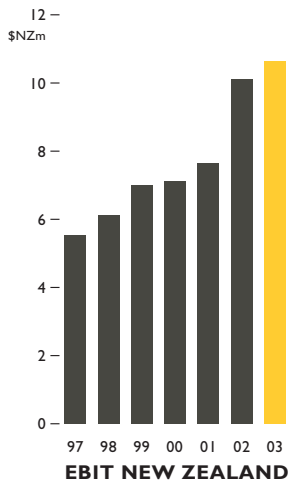
just because



Canada: sales are now trending up each month, and our high levels of customer service, along with the in-store experience is being well received



CEO's review of operations cont.



New Zealand continues its success

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

	2003	2002	2001	2000	1999	1998	1997
Revenue	83,784	80,643	68,314	63,105	56,600	50,845	47,894
Earnings before interest & tax	10,644	10,134	7,643	7,120	7,002	6,117	5,525
As a % of revenue	12.7%	12.6%	11.2%	11.3%	12.4%	12.0%	11.5%
Average assets employed	29,404	28,935	29,818	30,569	25,615	23,520	23,214
Return on assets	36.2%	35.0%	25.6%	24.5%	27.3%	26.0%	23.8%
Number of stores	46	43	41	40	38	36	36

Our New Zealand business continued to improve its performance and built on an extremely strong result last year. Sales rose 3.9% and EBIT improved 5%. Same store sales increased 1% over last year. EBIT as a percentage of sales improved from 12.6% to 12.7%. This result continues to demonstrate the Company's ability to grow our core business year after year. The result was achieved on the back of a magnificent result in 2002 and is a credit to the entire team.

Three new stores were opened during the year. The Palms Shopping Centre at Christchurch opened in November 2002, Papakura in South Auckland opened in December 2002, and Blenheim in the South Island in April 2003.

In the past two years the Company has sought out new opportunities in cities previously considered too small to support a Michael Hill Jeweller store. Taupo and Blenheim have been very successful. They have demonstrated that there are further opportunities in New Zealand for growth and we will be taking advantage of these opportunities in the coming years. In total 46 stores were open at 30 June 2003.

Australia continues to grow

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

	2003	2002	2001	2000	1999	1998	1997
Revenue	138,710	133,462	120,854	118,878	100,340	90,409	70,409
Earnings before interest & tax	12,377	12,879	10,354	10,678	8,663	7,158	5,299
As a % of revenue	8.9%	9.6%	8.6%	9.0%	8.6%	7.9%	7.5%
Average assets employed	69,346	64,064	56,589	48,704	42,516	35,820	31,755
Return on assets	17.8%	20.1%	18.3%	21.9%	20.4%	20.0%	16.7%
Number of stores	84	77	74	66	64	58	52
Exchange rate for profit translation	0.89	0.82	0.79	0.80	0.84	0.83	0.91

In Australian dollars total sales increased 12.8%. EBIT rose 4.2%, and same store sales increased 5.7%.

The fall in EBIT percentage reflected higher wage costs within the operation. This was partly due to the introduction of seven day trading in Queensland. It also reflected an adjustment the Company made to our bonus system for sales professionals, which resulted in higher bonus payments. This was part of a strategic move to improve same store performance over the medium term. In a growth business it is important to retain high performing staff as their stability underpins our ability to grow and to continue delivering same store sales growth. This

investment will help improve retention levels and assist us in delivering improved performance this financial year.

The company recruited a higher number of Managers in training to meet our growth opportunities especially in Victoria, Western Australia, and Tasmania.

A further eight stores were opened during the year. They included;

- Hurstville in Sydney which opened in July 2002,
- Maitland in NSW, August 2002.
- Eastgardens in Sydney, October 2002.
- Werribee in Melbourne, November 2002.
- Rockingham (our fourth store) in Perth, February 2003.
- Victoria Gardens in Melbourne, April 2003.
- Northgate in Hobart (our first store in Tasmania) May 2003.

In total 84 stores were open as at 30 June 2003.

We have not yet reached full scales of economy in Perth, Melbourne, or Tasmania. Therefore our strategy is to continue opening stores over the next twelve months focusing on these areas. All of our support structures are in place and the brand is established in these markets.

We have currently identified that we will reach 130 outlets in Australia. However with the increase in the number of mall refurbishments, redevelopments and new projects this number is growing and we now realise that the number of potential of store numbers is greater than planned. This will provide us with growth prospects well into the future.

Our Priorities

Our main priorities for the next year are as follows.

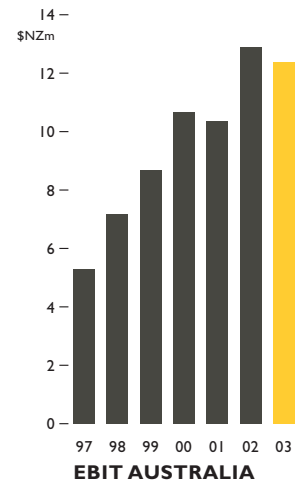
- To continue to build the Canadian business.
- To open further stores in Australasia as opportunities arise.
- To deliver improved merchandise ranges to the stores.
- To leverage the new group structure and to deliver value across the entire group, allowing us to grow more effectively.
- With the IT systems on the same platform, we will improve our position regarding consolidated reporting, merchandise planning systems, inventory management and logistics.
- To continue to grow our same store business through a strong focus on our people, our customers, and our brand.

My thanks to the team

Finally I would like to thank our entire team. You make this Company unique, and I thank you all for sharing our vision.



Mike Parsell,
Chief Executive Officer



financial review

- discussion and analysis

Surplus After Tax

The Group's surplus after tax, before unusual items for 2003 was \$10,224,000, down 16.7% on the previous year. The surplus after unusual items was \$11,570,000, down 8.9%. The unusual item was the profit on the sale of the Australian Head Office building amounting to \$1,326,000 after tax. The main drivers behind the profit decrease were:

- The movement in the exchange rate between Australia and New Zealand for translating the Australian profits (last year .82 versus this year .89). The total impact on our group's result has been NZ\$668,000.
- One-off restructuring costs of NZ\$510,000.
- Additional Head Office rental costs of A\$310,000 as a result of the decision to sell off the Australian Head Office building and pay a special dividend to shareholders.
- Additional interest costs of some NZ\$350,000 as a result of the payment of the special dividend to shareholders.
- The EBIT loss of NZ\$1,802,000 relating to the commencement of operations in Canada.

Total sales in New Zealand increased by 4% for the year with same store sales increasing by 1% compared with 13% for the previous year. In Australian dollars, total sales in Australia increased by 12.8% to A\$123,452,000, and same store sales increased by 5.7% compared with 6.4% for the previous year.

Depreciation and amortisation charged to profit was \$5,070,000 compared to \$4,855,000 in 2002. Our interest costs for the year were \$2,677,000 compared to \$2,014,000 for the previous year and were covered 7.2 times by earnings compared with 10.3 times the previous year.

Our rental and operating lease costs increased from \$13,274 million (6.2% of revenue) to \$14,598 million (6.5% of revenue).

The Group's taxation charge decreased from \$5,992,000 to \$5,067,000 due to the reduction in profit. The effective tax rate for the year was 30.5% (2002 - 32.1%), which was favorably affected by a write back of deferred tax in New Zealand.

Cash Flow

Net cash flow from operating activities for 2003 was \$6,789,000, down 23.4% on the previous year. Key drivers were:

- Receipts from customers increased by 3.9% to \$240,854,000, reflecting increased sales in both New Zealand and Australia.
- The establishment of the Canadian operation resulted in an outflow of NZ\$3,900,000 for the year.
- Payments to suppliers and employees increased from \$214,300,000 to \$225,027,000 reflecting the increased number of stores operating and also higher operating costs in Australia.
- Interest costs paid increased by \$679,000 reflecting the decision of the Board to restructure the balance sheet and pay out a special dividend during the year.

Cash outflow relating to investing activities was \$4,841,000 compared to \$4,448,000 the previous year. Key drivers were:

- Sale and lease back of the Australian Head Office building which realised \$5,172,000 in cash.
- Cash paid for new store fit outs and refurbishments were up from \$6,256,000 to \$10,313,000 reflecting the increased number of new stores opened this year (15 versus 5 in 2002).

Cash flow relating to financing activities changed to a net inflow of \$78,000 from an outflow of funds of \$4,087,000 in 2002. Key drivers were:

- There was a net increase in borrowings of \$14,656,000 during the year.
- Dividends paid increased to \$14,266,000 (including the 20 cents per share special dividend), from \$5,978,000 in 2001/02.
- Net outflow of \$312,000 relating to the management share purchase scheme.

Balance Sheet

Net assets decreased from \$53,328,000 to \$50,048,000 reflecting an increase in total assets to \$109,228,000 from \$96,413,000, and offset by an increase in total liabilities from \$43,085,000 to \$59,180,000.

Long-term borrowings increased from \$27,965,000 to \$42,299,000 reflecting the increased number of stores opened and the decision to pay a special dividend to restructure the balance sheet. The net debt to debt plus equity ratio increased from 34% in 2001/02 to 44.5% in 2002/03. Key factors in the increase in total assets of \$12,815,000 were:

- Debtors increasing by \$3,208,000 reflecting the higher percentage of sales on credit in Australia.
- Inventories increased by \$4,678,000 reflecting the 15 new stores opened during the year.
- Total property plant and equipment increased from \$16,449,000 to \$21,877,000, again reflecting the increased number of stores and the expansion to Canada.

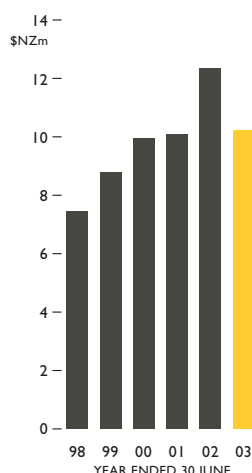
The working capital ratio decreased from 5.6:1 to 5.4:1.

EVENTS AFTER BALANCE DATE

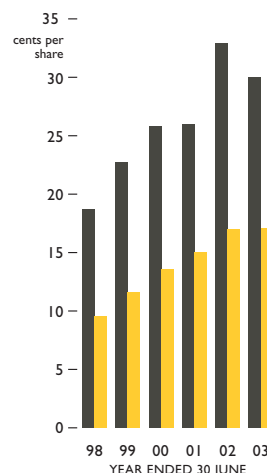
There were no events after balance date requiring disclosure.

SHAREHOLDERS' RETURNS

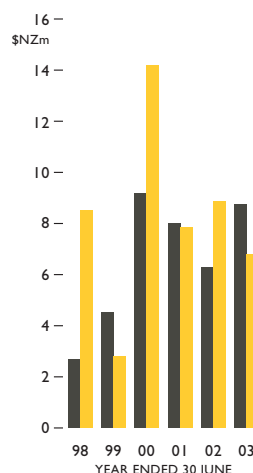
- Declared dividends total 37cents per share compared to 17cents for 2001/02. The 37cents includes the 20cent dividend paid in October 2002.
- Shares traded between \$4.00 and \$6.45 ending at \$4.60 at 30 June 2003.
- Average return on equity 22%, - 2001/02, 23.9%.



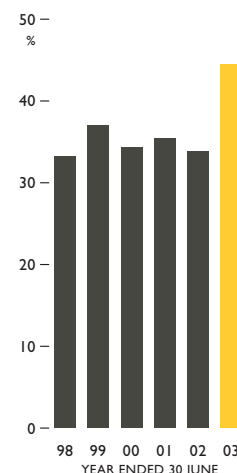
SURPLUS BEFORE ABNORMALS AFTER TAX



EARNINGS AND ORDINARY DIVIDENDS
■ EARNINGS ■ DIVIDENDS



CAPITAL EXPENDITURE AND NET OPERATING CASH FLOW
■ CAPEX ■ CASH FLOW



NET DEBT TO NET DEBT PLUS EQUITY

trend statement

	2003 \$000	2002 \$000	2001 \$000	2000 \$000	1999 \$000	1998 \$000	1997 \$000
Group Sales	\$ 224,802	\$ 214,105	\$ 189,168	\$ 181,983	\$ 156,940	\$ 141,254	\$ 118,303
Earnings							
Surplus before taxation, before abnormals	15,096	18,340	15,130	15,517	13,549	11,059	8,037
Surplus before taxation, after abnormals	16,637	18,698	15,130	15,517	13,549	11,059	8,037
Tax provision	5,067	5,992	5,091	5,578	4,755	3,867	2,883
Surplus after tax, before abnormals	10,244	12,298	10,039	9,939	8,774	7,192	5,154
Surplus after tax, after abnormals	11,570	12,706	10,039	9,939	8,774	7,192	5,154
Dividend Distributions	14,266	5,978	2,518*	5,216	4,444	3,669	2,695
Retained surplus for year	(2,696)	6,728	7,521	4,723	4,330	3,523	2,459
Funds Employed							
Paid-up ordinary capital	7,712	7,712	7,712	7,712	7,712	7,712	7,712
Reserves and retained earnings	42,336	45,616	41,860	34,875	29,339	24,605	20,310
Shareholders' funds	50,048	53,328	49,572	42,587	37,051	32,317	28,022
Long term debt/deferred tax	43,478	28,994	28,503	22,670	21,849	18,302	18,904
	93,526	82,322	78,075	65,257	58,900	50,619	46,926
Utilisation of funds							
Non current assets	23,475	17,510	22,652	19,635	14,583	13,169	13,106
Expenditure carried forward/goodwill	298	393	505	625	756	892	974
Net working capital	69,753	64,419	54,918	44,997	43,561	36,558	32,846
	\$ 93,526	\$ 82,322	\$ 78,075	\$ 65,257	\$ 58,900	\$ 50,619	\$ 46,926

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

CASH FLOW STATEMENT	2003 \$000	2002 \$000	2001 \$000	2000 \$000	1999 \$000	1998 \$000	1997 \$000
Net profit before tax	16,637	18,698	15,130	15,517	13,549	11,059	8,037
Depreciation	5,070	4,855	4,280	4,264	2,903	2,783	2,398
Other non-cash adjustments	311	(350)	147	1,545	1,002	1,901	(183)
Tax paid	(6,627)	(6,753)	(7,911)	(5,718)	(4,567)	(3,786)	(3,179)
Dividends	(14,266)	(5,978)	(5,410)	(4,638)	(4,059)	(3,091)	(2,695)
Working capital increase	(8,602)	(7,579)	(3,759)	(1,394)	(10,106)	(3,455)	(4,088)
Capital expenditure	(10,313)	(6,256)	(8,028)	(9,161)	(4,502)	(2,652)	(2,751)
Other	0	0	0	0	(30)	(82)	(20)
Surplus cash pre external funds	(17,790)	(3,363)	(5,551)	415	(5,810)	2,677	(2,421)
External source of funds							
Net borrowings/(repayments)	14,656	2,326	6,250	0	3,455	(1,750)	1,152
Treasury stock	(312)	(435)	-	-	-	-	-
Asset sales	5,472	1,808	178	146	222	238	101
Surplus cashflow	\$ 2,026	\$ 336	\$ 877	\$ 561	(\$ 2,133)	\$ 1,165	(\$ 1,168)

STATISTICS & OTHER FINANCIAL DATA	2003	2002	2001	2000	1999	1998	1997
Earning per share	30.0c	32.95c	26.03c	25.8c	22.8c	18.7c	13.4c
Net tangible asset backing	\$1.29	\$1.37	\$1.27	\$1.09	94.6c	82.1c	71c
Interest cover (times)	7.2	10.3	8.1	10.6	9.9	8	6.1
Cash flow from operating activities \$000's	\$ 6,789	\$ 8,871	\$ 7,887	\$ 14,214	\$ 2,781	\$ 8,502	\$ 3,045
Net debt \$000's	\$40,177	\$27,454	\$27,113	\$22,051	\$21,234	\$16,023	\$17,710
Dividend per ordinary share	†37.0c	17.0c	15.0c	13.5c	11.5c	9.5c	7.0c
% of tax paid profit as ordinary dividend	56.6%*	45.6%*	25.0%*	52.3%	50.5%	51.0%	52.3%
Working capital ratio	5.4:1	5.6:1	5.1:1	3.6:1	3.8:1	3.9:1	4.3:1
EBIT/Sales % before abnormals	7.9%	9.5%	9.1%	9.4%	9.6%	8.9%	8.1%
Return on average capital funds	22.0%	23.90%	21.8%	24.9%	25.3%	24.0%	19.0%
Jewellery stores at year end	134	120	115	106	102	94	88
Exchange rate for translating Australian results	0.89	0.82	0.79	0.8	0.84	0.83	0.91
Exchange rate for translating Canadian results	0.80	-	-	-	-	-	-

*From 1/7/01, the current year final dividend is not included in these calculations. † Includes 20c special dividend.

our people make
our company



MIKE PARSELL
Chief Executive Officer, aged 44. A watchmaker by trade, Mike has had an extensive career with Michael Hill Jeweller that spans over 20 years. He progressed through management in New Zealand and came to Australia as joint Managing Director 16 years ago. Mike has been CEO for the last 2 years.

ORGANISATIONAL CHART



KEVIN STOCK
Retail General Manager Australia, aged 41. Kevin moved from the United States in 1990. He joined Michael Hill Jeweller in April 1995 as a Trainee Manager and was promoted to Store Manager and Regional Manager before his appointment to Retail General Manager Australia in 2003.



KEVIN PHILLIPS
Retail General Manager, New Zealand, aged 41. Kevin has been with Michael Hill Jeweller for 15 years as both a Sales Professional and Store Manager. He has held the position of General Manager since October 1999.



EMMA HILL B.Com, M.B.A.
Retail General Manager Canada, aged 31. Emma commenced in retail management with Michael Hill Jeweller. Following her career in the advertising industry, Emma returned to research the Michael Hill Jeweller business plan for expansion into Canada. Appointed General Manager, Canada in 2002.



PHIL TAYLOR C.A., A.I.M.M.
Chief Financial Officer, aged 44. For over 16 years Phil has worked in senior financial roles within MHJ. Originally based in New Zealand, he was part of the startup team over 16 years ago in Australia. Appointed as Chief Financial Officer for the Group November 2003.



WAYNE BUTLER
B.Com, C.A., A.C.I.S.
Company Secretary, aged 56. Wayne has held senior financial positions within Michael Hill Jeweller for the past 17 years. From November 2003, Wayne is restructuring his life and will retain the Public Company Secretarial role on a part-time basis.

Global Human Resources Team

Over the past 12 months our Australian and New Zealand Human Resources team have added significant value to the retail operations in all 3 markets. The Australian Human Resources structure has been realigned with the Retail Operations team. Human Resources specialists now focus on specific States/Regions in partnership with Regional Managers. Two new senior Human Resources practitioners have joined the Australian team to focus on growing and developing our human capital to achieve future store growth objectives.

Over the past year, duplication of people management practices and processes has been eliminated with best practices in recruitment, employer branding, training, workplace health and safety, reporting and reward programs being realised. The results have provided greater global career opportunities for our people and retail focused Human Resources solutions. The shared collective resources of the global team has enabled the Canadian market to be serviced from Australia. The achievements and successes outlined in this report are a direct result of the combined efforts of the Australian and New Zealand 'most people focused' Human Resources teams. The team was also proud to receive the 2002 Annual Reports Award for Best Human Resources reporting in New Zealand.

SENIOR SUPPORT MANAGERS

AUSTRALIA

Brenda Watson	New South Wales Regional Manager
Carson Webb	New South Wales Regional Manager
Grant Prest	New South Wales Regional Manager
Judy Robison	Queensland Regional Manager
Suean Buckley	Queensland Regional Manager
Darcy Harkins	Victoria/Tasmania Regional Manager
Jamie Martin	Victoria Regional Manager
Brett Halliday	Western Australia Regional Manager
Sue Szylvester	Group Advertising Manager
Steve Freer	Group Category Manager
Jane Sheehy	Software Development Manager
Paul Little	Financial Controller
Lisa Marland	Human Resources Manager
Susan Morrison	Human Resources Development Manager
Tanya Raymond	Audit Manager
Cliff Mason	Distribution Manager
Joe De Aizpurua	Group Manufacturing Manager
Ray Tester	Inventory Manager
Craig Bowen	IT Support Manager

NEW ZEALAND

Brigid Rivers	Northern Regional Manager
Greg Smith	Central Regional Manager
Aaron Waters	Wellington Regional Manager
Mark Johnston	Southern Regional Manager
Bruce Brennan	Financial Controller
Andrea Wagstaff	Human Resources Manager
Jackie Stapp	Distribution Manager
Galina Hirtzel	Inventory Manager
Tony Springford	IT Support Manager
Laura Raduenz	Internal Audit Manager
Steve Haywood	Manufacturing Manager

CANADA

Sarah Barnes	Financial Controller
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TINA RADFORD B.Bus (HR/IR)
Group Human Resources Executive, aged 30. Over 10 years experience in Human Resources, having held senior HR roles in both the retail and telecommunications industries. Tina joined the team as a group executive in 2002.



PAUL WILLIAMS B.B.S.
Group Supply Chain Executive, aged 38. Paul joined MHJ in the retail side of the business in 1986 and moved into Merchandising in NZ before relocating to Australia as Retail Operations Manager. Appointed Group Supply Chain Executive 2002.



ROSS MCKINNON
B.Eng Hons. BSc
Chief Information Officer, aged 33. Extensive IT development and management experience across the financial and mining industries. Joined Michael Hill Jeweller as an external contractor in 1999 and appointed to the group executive position in 2002.

Our Values

Our values continue to influence the development of many new projects as managers refer back to the core guiding principles of the company. Our values provide us with a framework which drives our culture – a culture that would be the envy of many retail organisations. Our culture is something that we preserve and enhance as though it were a major item on the balance sheet. Our employees are optimistic about our future growth and there is a strong sense of achievement and success. We live the values by talking about them and using them as a basis for decision making.

We employ nearly 1,400 people on a permanent basis and these numbers are increased by up to 200 casuals over the peak Christmas trading period.

Australia	840
New Zealand	498
Canada	44
Total	1382

We celebrate individual achievements and successes at monthly "Buzz Nights" in the Regions and at our annual Managers' Conference. This year's company strategies were unveiled



over 3 days at Coffs Harbour, New South Wales in Australia. Almost 200 managers from Australia, New Zealand and Canada shared in the vision for the future growth and were inspired and motivated to achieve their individual goals.

People Development Achievements

Our 2002 strategic human resources objectives have been achieved primarily in the areas of training and development, recruitment and career development.

MICHAEL HILL JEWELLER PROFESSIONAL SELLING SYSTEM

For the first time in the company's history, Sales Professionals and Managers in Australia, Canada and New Zealand complete the same international standard 'professional selling skills training'. The program has also passed the Australian competency standards to be certified equivalent to 'Certificate 2 in Retail Operations'. Staff who successfully complete this training will not only enjoy a career with Michael Hill Jeweller but also receive tertiary recognised qualifications.

MICHAEL HILL JEWELLER MANAGEMENT DEVELOPMENT PROGRAMME

Future 'Managers in Training' in all countries now complete the same in-house training program. The 'Michael Hill Jeweller Management Development Programme' consists of 17 modules covering people, sales and business management which are designed to provide theoretical support to practical 'on the job' training over a period of 12 to 18 months. We are proud to announce that this in-house developed programme has recently won national accreditation and therefore is a tertiary recognized 'Certificate in Retail Supervision' qualification in Australia. The first 3 recipients of this qualification are Kate Willmann, Lismore, NSW / Sandra Idel, Whitford City, WA. / and Hayden Dawkins, Forest Hill VIC. Staff at all levels have access to obtaining these formal qualifications whilst gaining on-the-job experience with Michael Hill Jeweller.

MICHAEL HILL JEWELLER REGIONAL MANAGEMENT PROGRAMME

The 2002 'Manager's Conference' saw the successful launch of the global 'Regional Management Programme'. We can now attract, retain and develop high calibre people and provide structured career paths into Regional Management and/or Senior Management within the company. Currently, 54 Store Managers are participating in the program which will allow us to succession plan for future leaders to achieve global expansion.

The development and performance of our Australian and New Zealand regional management team is a key focus for the coming year. A new quarterly performance management system will be implemented and focus on the individual Regional Manager's personal and professional development. As we promote people to these positions internally a strong internal development structure also needs to be established.

A CAREER MADE FOR YOU

Our 'preferred employer' campaign has resulted in aggressive marketing of Michael Hill Jeweller as an 'employer of choice' in the recruitment market. The employer branding strategy has centered around the message 'a career made for you' which aligns with our consumer marketing strategy 'made for you'. A variety of strategies have been implemented in each market. Following are some strategy highlights.

"Having started the Regional Development Programme while a Store Manager, I was given confidence to go to the next step. The training the company provides to enable career development is nothing short of outstanding."

Greg Smith, Regional Manager, Central Region, New Zealand



Sales Professionals
Full & Part Time

Join our sales team in our exciting new stores...
 We are looking for experienced sales professionals...
 who are confident, energetic and have a proven track record...
 in retail sales. You will be responsible for...
 achieving sales targets, providing excellent customer service...
 and maintaining the highest standards of product presentation...
 We offer a competitive salary, a comprehensive benefits package...
 including superannuation, and a flexible working arrangement...
 If you are interested in this exciting opportunity...
 please contact us on 0800 000 000 or visit our website...
 at www.michaelhill.com

MICHAEL HILL JEWELLER CAREERS WEBSITE

www.michaelhill.com/careers a global website designed by the Human Resources team to provide the company with free recruitment advertising and employer branding 24 hours a day 7 days a week, went live in January 2003. The website contains live video testimonials and interviews with our staff and tells the Michael Hill Jeweller story.



EMPLOYER OF CHOICE CAREER EXPO'S

An important part of our 'employer branding' strategy has involved high profile participation at 3 major career Expo's in Brisbane, Sydney and Melbourne. Human Resources and Retail staff proudly represented Michael Hill Jeweller to promote our global career opportunities to 60,000 members of the public.

RECRUITMENT ADVERTISING

All available positions within the company continue to be advertised internally in support of our internal promotion policy. In addition, a strong recruitment advertising strategy consisting of 10 newly developed advertising messages and designs are now being used in all 3 markets with great success. The applicant response rate per advertisement has increased considerably as a result of our new advertisement styles.

CAREER OPPORTUNITIES BROCHURE

All of the benefits of working for Michael Hill Jeweller are now promoted in our new 'career opportunities' brochure designed to 'sell' the careers we offer and entice people to choose Michael Hill Jeweller as their preferred employer.

INTERNAL CAREER OPPORTUNITIES

This past year has seen the promotion and development of many of our employees. In New Zealand 9 talented Trainee Managers have been appointed to Assistant Manager positions. Following restructuring in Australia, 33 new Assistant Manager positions were appointed and 85 Sales Professionals were promoted to Trainee Management.

Seven people were internally promoted to the position of Store Manager in New Zealand and eighteen people to the position of Store Manager in Australia.

With the creation of 2 new regions in 2003 and vacancies created by internal promotions, five Store Managers were able to take on the challenges of regional management in Australia and New Zealand.

PLATINUM CLUB

Four amazing sales people, Lianty Loie from St Lukes, Helen Banks from Whangarei and Warwick MacLachlan from Riccarton and Denise Henderson from Albury-Wodonga, in Australia earned entry into the exclusive Platinum Club by achieving sales in excess of \$500,000 in sales. Entry into this elite club level earned the privilege of an exciting trip to fabulous Las Vegas.

"Last year I worked incredibly hard to make it to Platinum Club. I am so glad that I did because the trip to Las Vegas was such a wonderful prize and it made me feel really valued by the company. Thank you."

Lianty (Henny) Loie, St Lukes

"Platinum Club was a great experience. It is definitely something to aspire to. There are not many companies that reward their employees so richly. Many thanks for the experience."

Warwick MacLachlan, Riccarton



GOLD CLUB - AUSTRALIA



GOLD CLUB - NEW ZEALAND



CARAT CLUB RING

"This is an awesome personal reward. For three days we are treated like princesses and princes, chauffeured, pampered, wined and dined and most of all have tremendous, hilarious fun with an elite, dynamic group of Gold Club people. These three days are an inspiration to us all. We return to our stores more focused and determined to excel again but this time to excel even more. Thank you Michael Hill Jeweller."

Suzanne McGrath, Palmerston North

"I live in Vancouver and joined Michael Hill Jeweller about 3 months ago as an office administrator. I am learning lots!! It is very interesting being in the jewellery business. MHJ seems to be an exciting company and I think they will do very well in Canada."

Pam McDonald, Vancouver, Canada

GOLD CLUB

This past year 20 sales professionals achieved Gold Club in New Zealand and 46 in Australia. These superb sales people individually achieved sales in excess of \$310,000. New Zealanders were rewarded with a trip to Wellington while the Australian "Gold Clubbers" celebrated in the beautiful Blue Mountains in New South Wales.

This year we introduced an exquisite new 18ct diamond Carat Club ring. With every sale over \$5000 sales professionals add a diamond to their carat club ring. These symbols of success are worn proudly by our people.

Canada 'The Pioneers'

Our Australian and New Zealand expatriate team have settled into their role as 'pioneers' in Canada. The key focus has been on attracting and developing future local Canadian people to the group so we can build our Canadian management base to facilitate future store growth.

Number of Ex-pat Staff - 8

Number of Canadian Staff - 44

Number of Managers in Training - 6

Top Sales Professional - Shelley Humble - Mayfair, Vancouver Island

"I started with MHJ 7 years ago as a Trainee Manager, went to Sydney and spent 5 years as a Store Manager at Liverpool with a fantastic team. I then moved into Regional Management looking after 9 stores. Two years later. I have since moved to Canada to help the company with international progression." - Adam Biermann, Metrotown, Canada

Legal Compliance

We take great care to ensure our people are afforded all of their legal rights and entitlements as employees of Michael Hill Jeweller. We have dedicated Human Resources professionals managing legal compliance across the business.

The company has not received any penalties or fines in relation to our employment law obligations over the past year. We continue to focus on implementing proactive measures to ensure legal compliance in all aspects of the employment relationship and that our people are treated fairly and equitably at all times.

Future Strategic Directions

To make a difference the Human Resources Team will continue to proactively manage the human capital requirements of retail and support the retail business objectives. The key strategies for the Group Human Resources team over the next 12 months will be as follows:

STAFF RETENTION - a key focus on reducing controllable staff turnover by measuring, reporting and reacting. An Exit survey process will report on employee's reasons for leaving Michael Hill Jeweller and relevant retention strategies will be implemented to reduce staff turnover and retain talent within the organization.

SUCCESSION PLANNING - a new system for global succession planning and career management will be developed and implemented across the group. Identifying internal talent and future leaders and proactively managing their careers through Individual Development Plans will ensure we have the people in place to realise our business growth objectives.

PREFERRED EMPLOYER STRATEGY - the business will continue to focus on the attraction and recruitment strategies to ensure we recruit high performing individuals and future leaders to the company in readiness for positions in new stores and new markets.

PEOPLE DEVELOPMENT IN CANADA - a key focus for the coming year is to maintain a strong focus on the recruitment, training and development of future Store and Regional Managers for Canada.

PERFORMANCE MANAGEMENT - a performance management system comprising of career development plans and 360 degree feedback surveys will be redeveloped and re-launched in all countries.

Michael Hill in the community

Michael Hill Jeweller says.....

Each year Michael Hill Jeweller supports a number of local community charities. It is our way of saying "thank you" and helping the local communities grow. Schools, kindergartens, hospitals and senior citizens receive our generosity.

Our biggest fund raiser for the year will be raising money for the National Breast Cancer on an international level. This year will see New Zealand and Australia participate. We have chosen the Breast Cancer Foundation as not only is our target market 95% female but unfortunately some of our staff members have been touched by this dreadful disease.

Last year, through the dedication and support from all staff members our company raised money for all these very worthy causes in excess of NZ\$150,000.

Michael Hill World Violin Competition

Once again the Michael Hill International Violin Competition was held in Auckland and Queenstown, New Zealand. This competition aims to recognise and encourage excellence and musical artistry and to expand performance opportunities for young violinists from all over the world.

The first prize in this competition is sponsored by Michael Hill International to a tune of NZ\$40,000. The winner not only receives a compact disc recording on the Naxos label for worldwide distribution but a winner's tour in 2004 under the management of the Auckland Philharmonia.

National Breast Cancer Foundation

October 2002 saw Michael Hill Jeweller proudly support the National Breast Cancer Foundation for the first time by selling 'Pearls of Hope' through the stores and donating \$20 from every sale to the foundation. The 'Pearls of Hope' consisted of a beautiful 4.5mm cultured freshwater pearl strand necklace with a stunning 9mm pearl pendant. Through the fantastic effort and support of the Australian stores we raised AUD\$12,560. Pink ribbons are also on sale during this month and once again the effort from the stores and support centre raised \$4,621.

October this year will see the New Zealand stores coming on board to help raise money for this very worthwhile cause – the 'Pearls of Hope' this year consist of a pearl necklace complete with matching bracelet and earrings, collectively we aim to raise in excess of AUD\$50,000 throughout the month of October.

NATALIA LOMEIKO, MICHAEL HILL INTERNATIONAL VIOLIN COMPETITION 2003 WINNER
BELOW: WITH CHRISTINE & MICHAEL HILL, RIGHT: PERFORMING WITH THE AUCKLAND PHILHARMONIA.





corporate governance

The Board acknowledges the need for and continued maintenance of the highest standards of corporate governance practice and ethical conduct by all Directors and employees of Michael Hill International Limited and its subsidiaries. Michael Hill International has earned a reputation as a leader and an innovator in the area of corporate governance reporting.

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

The Board is accountable for the performance of the Group

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

The workings of the Board and its code of conduct are governed by the Company's constitution and a Board Operations Manual, committed to by all Directors. This manual sets out all the functions and operating procedures of the Board, including charters for each

sub-committee. The Board Operations Manual also clearly sets out those matters that only the Board can make decisions on. These include dividend payments, solvency certificates, raising new capital, major borrowings, approval of the annual accounts, provision of information to shareholders, major capital expenditure and acquisitions.

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

Board Membership

The Constitution currently sets the size of the Board at a minimum of three and a maximum of eight and at least two Directors must be resident in New Zealand. The Board currently comprises six Directors, comprising an Executive Chairman, a Chief Executive Officer; and four non-executive Directors. The Board met on six occasions in the financial year ended 30 June 2003. Profiles of the current Directors appear on page 29 of this Report. Under the Company's constitution, one half of all Directors must retire every year, but can be re-elected at an annual meeting if eligible. Newly appointed Directors must seek re-election at the first annual meeting of shareholders following their appointment.

The Company has no requirement for Directors to hold shares in the company but actively encourages them to do so.

Directors' Shareholdings - See Page 47

Directors' Meetings

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

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

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

	Board of Directors		Audit Committee		Remuneration Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
R.M. Hill	6	6			1	1
M.R. Parsell	6	6				
L.W. Peters	6	6	2	2		
G.J. Gwynne	6	6			1	1
M.R. Doyle	6	6	2	2	1	1
A.C. Hill	6	6			1	1

The Work of Directors

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

Board Review

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

Board Committees

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

Audit Sub-Committee

The Audit sub-committee, which is chaired by Murray Doyle and consists of Messrs Doyle and Peters, met twice during the year. The function of the Audit sub-committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993, regarding management's accountancy practices, policies and controls relative to the Group's financial position and to review and make appropriate inquiry into the audits of the Group's financial statements by both internal and external auditors. This responsibility includes advising on the appointment of the external auditor and reviewing the scope and quality of the audit. The audit sub-committee has the responsibility of monitoring the Group's Risk Management practices and procedures. The Group's auditors, both internal and external, along with other relevant senior executives, attend all meetings and may discuss any matters in connection to audits, the Group's risk and control environment or any other matters relating to the Group's financial and non-financial affairs.

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

Remuneration Sub-Committee

This sub-committee, chaired by Wayne Peters, comprises all Directors except Mike Parsell. The function of the Remuneration sub-committee is to determine the Chief Executive's and Senior Executives' remuneration. This role also includes responsibility for share option schemes, incentive performance packages, and fringe benefit policies. The sub-committee also advises on proposals for significant company wide remuneration policies and programs. In carrying out this role, the sub-committee operates independently of Senior Management of the Company, and obtains independent advice on the appropriateness of the remuneration packages. The committee met once during the year.

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

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

Nominations Sub-Committee

This sub-committee, chaired by Michael Hill, consists of the non-executive Directors and Michael Hill. The function of the sub-committee is to make recommendations to the Board regarding the most appropriate Board structure. It also advises on the appointment of additional Directors. Board membership is reviewed periodically to ensure the Board has an appropriate mix of qualifications, skills and experience. External advisors may be used to assist this process.

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

corporate governance conf.

Share Trading by Directors

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

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

	No. of shares acquired or (disposed of)	Consideration paid or (received)	Date of acquisition or (disposal)
L.W. Peters	211,534	\$923,619	26/03/03
	191,001	\$838,895	30/04/03
R.M. Hill	(1,000,000)	(\$5,800,000)	27/11/02

Conflicts of Interests

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

Non-Executive Directors' Fees

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

No equity incentives are offered to non-executive Directors.

A resolution is being put to the Annual Meeting on 7 November 2003 to alter the Company's Constitution relating to the payment of retirement allowances for Directors. Under the proposed change, no retirement allowances will be payable to Directors unless they are first approved by an ordinary resolution of shareholders.

Share Purchase Scheme

The Company has a Share Purchase Scheme for management in operation.

The scheme was designed to encourage Store Managers, Regional Managers and other senior employees of the Company to purchase shares in the Company. In order to provide a pool of shares for eligible employees to purchase, the Company from time to time will buy Michael Hill International shares on the New Zealand Stock Exchange. In the year ended 30 June 2003, the Company purchased 80,000 shares on market at an average acquisition price of \$5.30 per share. These shares were purchased during the window periods available for Directors to deal in shares of Michael Hill International.

On the 4th of April 2003, the Company sold 27,810 shares to 22 employees of the company. The rules of the scheme provide for the Company to on sell shares to purchasing employees at a 10% discount to the weighted average price for the ordinary shares during the 10 working day period ending 2 working days immediately prior to the date on which the Company offers shares to the employees. The discount is deemed to be "financial assistance" under the Companies Act 1993. The total discount relating to this issue of shares was \$12,236. After taking the discount into account, the purchasing employees paid \$112,391 for the shares which was equivalent to an average acquisition price of \$4.04 per share.

The Trustees of the scheme hold the shares for a restrictive period of one year, which is to promote the concept of encouraging long-term investing in the Company. The balance of shares purchased amounting to 139,438 shares are held as "Treasury Stock" and will be used for the next issue of shares under the scheme in February 2004.

Share Options

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

Further information on options outstanding to employees are included in note 5 to the Financial Statements on page 40.

Communication with Shareholders

Michael Hill International places high importance on communication with shareholders. A half year and annual report is published each year and posted on the MHI website. Announcements to the New Zealand Stock Exchange and the media are also posted on the website as are copies of presentations to Analysts which are done once a year in conjunction with the release of the annual results for the year.



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

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

Continuous disclosure Policy

With the introduction of the new NZX continuous disclosure rules from December 2002, the Board has adopted the following procedure:

1. At each Board meeting, a standard agenda item is now considered - "Does the Company 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 will now disclose revenue figures for the group on a quarterly basis to the market. Since the introduction of the Continuous Disclosure rules, the Board has made the following disclosures to the market:

21 January 2003	Release of sales figures for the six months ended 31 December 2002.
12 February 2003	Notice to the market advising of approximate operating profit for the six months ended 31 December 2002.
26 February 2003	Preliminary half year profit announcement to the NZX.
10 April 2003	Announcement to the NZSE - full year operating profit forecast revision to between \$9.5 million and \$10.5 million.
5 May 2003	Release of sales figures for nine months ended 31 March 2003.
14 May 2003	Correction to sales figure announcement for nine months ended 31 March 2003.
14 August 2003	Preliminary audited profit announcement to the NZX for the year ended 30 June 2003. Operating profit announced of \$10,244,000.

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 Michael Hill International's external financial reporting is viewed as being highly reliable and credible.

The policy covers the following areas:

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

Provision of non audit services by the external auditing firm

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

BOOKKEEPING

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

VALUATIONS

Prohibited.

TAX SERVICES

Permitted, as not seen to threaten independence

PROVISION OF IT SYSTEMS

Design and implementation of financial IT systems prohibited.

STAFF SECONDMENT FROM AUDITORS

These are permitted with safeguards. No management decision making. Signing agreements or discretionary authority to commit MHI is not allowed.

LITIGATION SUPPORT SERVICES

Permitted with safeguards.

LEGAL SERVICES

Permitted where immaterial to the financial statements.

EXECUTIVE SEARCH AND SELECTION

Permitted with safeguards. Making selection for MHI prohibited.

CORPORATE FINANCE

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

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

Fees and Billings

All audit and non audit fees to be reported to the Audit committee annually. Non audit fees greater than \$25,000 should be reviewed by the Group Company Secretary and reported to the Audit committee for approval. (For the 2002/03 financial year audit fees amounting to \$176,000 and fees for taxation compliance amounting to \$320,000 were paid to PricewaterhouseCoopers.)

Hiring of Staff from the External Auditing Firm

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

risk management report

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

Risk Management Process

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

Business Continuity Planning

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

Insurance Programme

The Group has a comprehensive insurance programme which supports the Risk Management process. Insurance needs and coverage are scrutinised annually to ensure the Company's risk profile and exposure is at an appropriate level.

Internal Audit

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

Code of Conduct

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

PRICEWATERHOUSECOOPERS 

review statement to the members of Michael Hill International Limited

We have reviewed the information contained in the Corporate Governance and Risk Management Statements for the year ended 30 June 2003. Our review was made in accordance with the Review Engagement Statement Standards issued by the Institute of Chartered Accountants of New Zealand.

Directors' Responsibilities

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

Reviewer's Responsibilities

We have been engaged to carry out a review engagement to verify the information contained in the Corporate Governance and Risk Management Statements for the year ended 30 June 2003.

Basis of Review

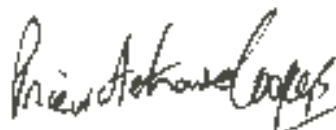
The review consisted of enquiry, analysis and discussion of information provided to us by Michael Hill International Limited. Our review included visits to Head Office where we:

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

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

Review Findings

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



PricewaterhouseCoopers
Chartered Accountants
Auckland, New Zealand
14 August 2003



corporate code of conduct

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

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

Our Employees

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

Our Customers

- We support and uphold at all times the tradition and integrity of the jewellery industry, and conduct our business in such a manner that will reflect credit on our industry and us.
- All our marketing and advertising will be accurate and truthful.
- We are committed to providing the highest quality, service, and value to our customers. We provide a five year Guarantee for all our jewellery which contains a diamond, and a 12-Month Guarantee for any jewellery item not containing a diamond. It is a Guarantee of quality of workmanship and materials. We provide a 30-Day Change of Mind Policy that is a money back guarantee on all purchases if for any reason the customer is not completely satisfied.
- We will protect customer information that is sensitive, private, or confidential just as carefully as our own.

Our Business Partners

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

Our Shareholders

- We require honest and accurate recording and reporting of any and all information in order to make responsible business decisions.

- All financial records and accounts will accurately reflect transactions and events, and conform both to required accounting principles and to our Company's system of internal controls. No false or artificial information will be tolerated.
- We will safeguard all sensitive information. We will not disclose inside information that has not been reported publicly.

Our Communities

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

Governments

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

Conflicts of Interest

- Employees will not accept anything of value from a customer, vendor, or business associate which would impair or be presumed to impair their judgement in business matters.
- The acceptance of gifts and gratuities is discouraged and any over \$50 must be entered in the Gifts Register held by the Financial Controller. We may accept meals/hospitality that are not lavish and are reasonable in the context of doing business. Guidelines to use for the acceptance of any gift are: Will this influence my decision making? Does it place me in obligation? Could it be seen as an inducement? How would this look if reported by the media?
- Our employees will avoid any conflict of interest professionally and personally which might prevail or appear to prevail over the interest of the Company.

Speaking up

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



FROM LEFT: MIKE PARSELL, MURRAY DOYLE, MICHAEL HILL, WAYNE PETERS, GARY GWYNNE, WAYNE BUTLER, CHRISTINE HILL

board member profiles

Michael Hill

The founder of Michael Hill Jeweller Limited in 1979. He is Chairman of the Board. He has more than 43 years of experience in the jewellery industry, including 10 years of management experience before establishing his own business. Aged 64 years, he was appointed to the Board in 1987. Member of Remuneration and Nominations sub-committees.

Mike Parsell

Chief Executive Officer of the Group, Mike spearheaded the Company's move into Australia in 1987. Aged 44, he has had extensive experience in the jewellery industry since 1976. Mike joined the Company in 1981 and was appointed to the Board in 1989, made joint Managing Director in 1995 and CEO in 2000.

Gary Gwynne - Non Executive Director

Gary has an extensive background in marketing, retailing and property development. He is currently a Director of Prime Retail Management, the operators of Dress Smart Factory Shopping Centres. Aged 57, he was appointed to the Board in February 1998. Member of the Remuneration and Nominations sub-committees.

Wayne Peters - Non Executive Director

Wayne, who is 43 and based in Australia, has 25 years of experience in retailing and investment management. He is Executive Chairman of Peters MacGregor Capital Management Pty Ltd. Member of the Audit, Remuneration and Nominations sub-committees, Wayne joined the Board in February 1999.

Murray Doyle - Non Executive Director

Murray is a Director and substantial shareholder in listed investment company Hirequip Limited and Wellington department store Kirkcaldie and Stains Limited. He is also a director of the biotechnology company Blis Technology Limited. His previous experience was in the finance industry until 1998, when his stockbroking firm was purchased by Bankers Trust now Deutsche Bank. Aged 44, he is a member of the remuneration sub-committee and Chairman of the Audit sub-committee.

Christine Hill - Non Executive Director

Christine has been associated with the Company since its formation in 1979 and has been closely involved with the artistic direction of the Group's store design and interior layouts over the years. Aged 63, Christine is a member of the Remuneration sub-committee.

Company Secretary - Wayne Butler

He has a financial background and has worked for the Company for 17 years. Aged 56 years, he has been Secretary of the Board since 1987.



statutory report of the directors

The Directors have pleasure in submitting to shareholders the 16th Annual Report and audited accounts of the Company for the year ended 30 June 2003.

Business Activities

The group's sole business activities during the 2002/03 financial year continued to be jewellery retailing and manufacturing.

Consolidated Financial Results

The Group has recorded a tax paid surplus of \$11,570,000 for the year ended 30 June 2003 (2002 - \$12,706,000). This surplus was achieved on a turnover of \$224,802,000 (2002 - \$214,105,000).

The accounts for the year ended 30 June 2003 have been presented in accordance with the accounting principles and policies detailed on pages 38 and 39 of this report.

	2003 \$000	2002 \$000
Group Turnover	224,802	214,105
Surplus before tax	16,637	18,698
Taxation	(5,067)	(5,992)
Surplus after tax	11,570	12,706
Dividends paid	(14,266)	(5,978)
Net surplus retained	(2,696)	6,728

Shareholders' Funds/Reserves

Total Shareholders' Funds of the Group now stand at \$50,048,000 – a decrease of \$3,280,000 over the previous year.

The Group's reserves at 30 June 2003 totalled \$42,336,000.

	\$000
The Group's reserves at 30 June 2002 were	45,616
To which was added:	
Operating surplus after tax for the year	11,570
From which was deducted:	
Foreign currency translation reserve movement	(272)
Net Treasury stock movement	(312)
Dividends paid	(14,266)
Leaving Reserves at 30 June 2003 at	\$ 42,366
These comprise:	
Retained earnings	41,825
Other reserves	511
	\$ 42,366

Accounting Policies

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

Dividends

Your Directors paid an interim dividend of 7 cents per share, with full imputation credits attached on the 31st March 2003. Overseas shareholders were also paid a supplementary dividend. On the 15th August 2002, your Directors declared a final dividend of 10 cents per share payable on the 20th October 2003. The share register will close at 5:00pm on the 10th October 2003 for the purpose of determining entitlement to the final dividend. Overseas shareholders will also be entitled to a supplementary payment on the final dividend.

The total ordinary dividend for the year was 17 cents (fully imputed), which equalled last year's ordinary dividend. The Company also paid a special dividend of 20¢ per share (fully imputed) on the 14th October 2002, following the sale of our Australian Head Office building.

Directors

A.C. Hill, M.R. Parsell and L.W. Peters retire by rotation and being eligible offer themselves for re-election.

Directors Remuneration

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

	2003 \$000	2002 \$000
Parent Company		
R.M. Hill *	\$153	\$153
M.R. Parsell *	A\$399	A\$483
G.J. Gwynne	\$50	\$50
L.W. Peters	A\$50	A\$50
M.R. Doyle	\$50	\$50
A.C. Hill	\$50	\$50

*Note – Executive Directors do not receive Director's fees.

Executive remuneration includes salary, superannuation, bonus payments, retirement allowances, options and provision of a vehicle received in their capacity as employees.

Remuneration of Employees

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

\$000	2003	2002
100-110	11	7
110-120	8	12
120-130	5	4
130-140	6	3
140-150	4	2
150-160	1	3
160-170	2	4
180-190	-	2
190-200	1	-
200-210	2	-
210-220	1	1
220-230	2	1
230-240	-	-
240-250	1	-
250-260	-	-
270-280	-	1
280-290	-	1
320-330	-	1

Australian remuneration has been converted into New Zealand dollars at the exchange rate used for translating the Australian profits into New Zealand dollars, 0.89 (2001 – 0.82). Canadian remuneration on the same basis at 0.80.



Information on Directors

The qualifications and experience of the Directors are shown on page 29.

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 32 of this report.

Directors' Interests in Contracts

There were no changes recorded in the interests register during the year.

Donations

The total of donations made during the year amounted to \$34,191.

Waivers Granted by N.Z. Exchange Ltd.

Michael Hill International limited were granted the following waivers from N.Z. Exchange Ltd during the past 12 months.

5 August 2002 - NZX granted an exemption from Listing Rule 9.2.1 as provided by Listing Rule 9.2.4(c) relating to the requirement for the passing of an ordinary resolution for the annual salary package for the year ended 30 June 2003 of Mike Parsell, the Chief Executive Officer of the Company who is also a Director of Michael Hill International. The Market Surveillance Panel granted the exemption on the basis that Mr Parsell's remuneration package was set on an arms length basis.

30 July 2003 - NZX approved the text of resolution 4 to be considered at the Annual Meeting on 7 November 2003 (see page 52), and granted a waiver from the requirement to obtain an independent solicitor's opinion on the proposed amendment to the Company's Constitution.

27 August 2003 - NZX granted an exemption from Listing Rule 9.2.1 as provided by Listing Rule 9.2.4(c) relating to the requirement for the passing of an ordinary resolution for the annual salary package for the year ended 30 June 2004, of Mike Parsell, the Chief Executive Officer of the Company who is also a Director of Michael Hill International. The salary package which includes performance bonuses is estimated at A\$490,563. The Market Surveillance Panel

granted the exemption on the basis that Mr Parsell's remuneration package was set on an arms length basis commercial basis.

Annual Report Awards

The Company was delighted to again receive a number of awards for its 2002 Annual Report.

In the Annual Report Awards competition conducted by the Institute of Chartered Accountants of New Zealand, the Company won the top award in the "Other Companies" section. MHI has won this division for four out of the last five years, with a commendation received last year. The Company also received the special award for Human Resource Reporting for all New Zealand companies.

In addition, the Company was also awarded a silver medal in the prestigious Australasian Reporting Awards, which covers all companies in both Australia and New Zealand. The Board again extends its congratulations to the dedicated team who compiled and designed last year's report.

On behalf of the Directors,

R.M. Hill

M.R. Parsell



Auditors' Report to the shareholders of Michael Hill International Limited

We have audited the financial statements on pages 34 to 46. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2003 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 38 and 39.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2003 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

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

Basis of Opinion

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

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

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

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


Unqualified Opinion

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

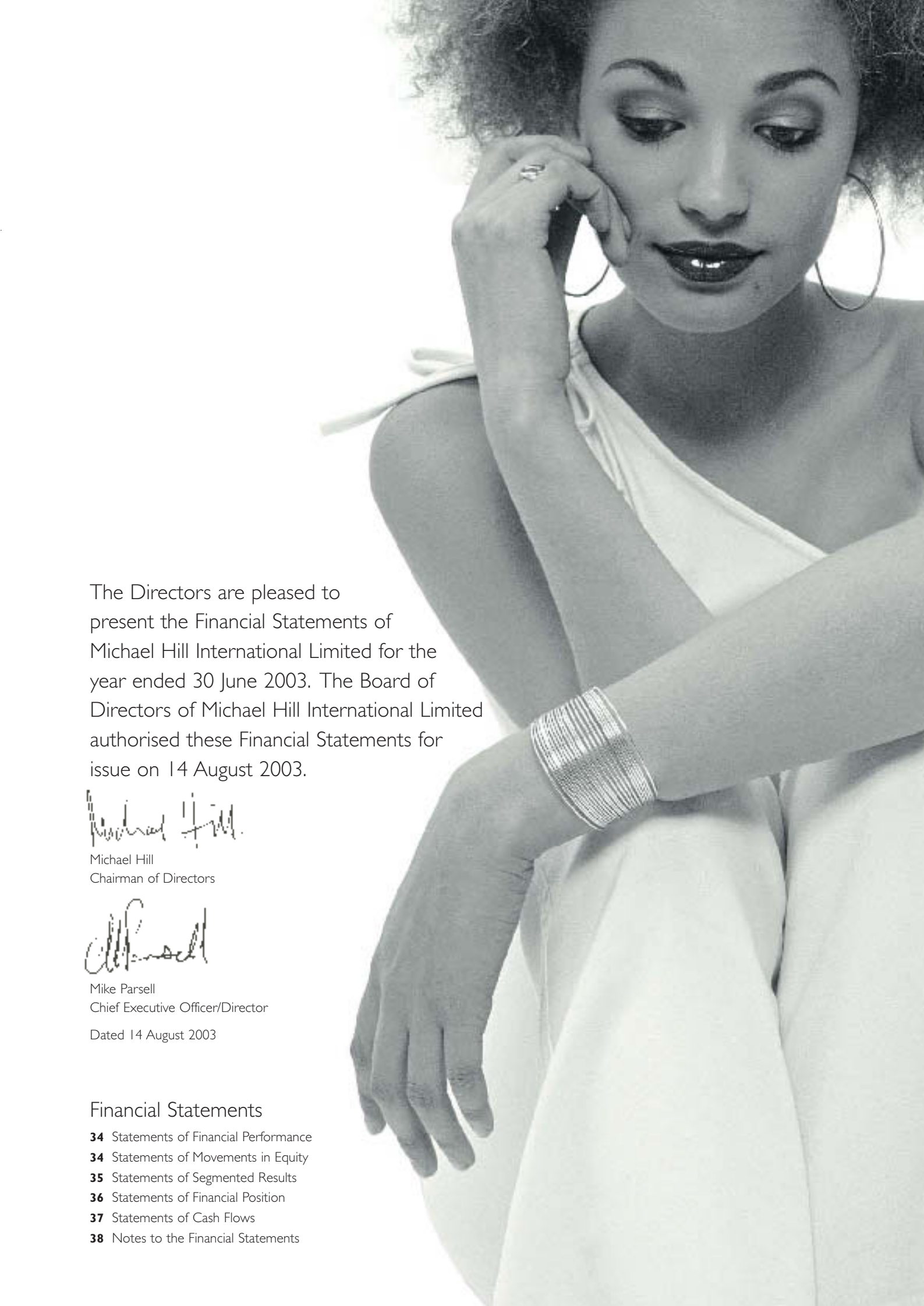
In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 34 to 46
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) give a true and fair view of the financial position of the Company and Group as at 30 June 2003 and their financial performance and cash flows for the year ended on that date.


Our audit was completed on 14 August 2003 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Auckland



The Directors are pleased to present the Financial Statements of Michael Hill International Limited for the year ended 30 June 2003. The Board of Directors of Michael Hill International Limited authorised these Financial Statements for issue on 14 August 2003.



Michael Hill
Chairman of Directors



Mike Parsell
Chief Executive Officer/Director

Dated 14 August 2003

Financial Statements

- 34** Statements of Financial Performance
- 34** Statements of Movements in Equity
- 35** Statements of Segmented Results
- 36** Statements of Financial Position
- 37** Statements of Cash Flows
- 38** Notes to the Financial Statements

statements of financial performance

For the year ended 30 June 2003

	NOTES	GROUP		PARENT	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
Revenue	2	224,802	214,105	15,000	6,512
Expenses	3	(208,165)	(195,407)	(806)	(661)
Surplus before taxation		16,637	18,698	14,194	5,851
Income tax expense	4	(5,067)	(5,992)	261	40
Surplus for the year		\$ 11,570	\$ 12,706	\$ 14,455	\$ 5,891

statements of movements in equity

For the year ended 30 June 2003

	NOTES	GROUP		PARENT	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
Equity - Balance at beginning of year		53,328	49,572	12,587	13,110
Surplus for the year	9	11,570	12,706	14,455	5,891
Foreign currency translation reserve movement	8	(272)	(1,975)	0	0
Investment property revaluation movement reserve	8	0	(561)	0	0
Treasury stock movement	6	(312)	(436)	(312)	(436)
Total recognised revenue and expenses for the year		10,986	9,734	14,143	5,455
Dividends paid to shareholders	10	(14,266)	(5,978)	(14,266)	(5,978)
Equity - Balance at end of year		\$ 50,048	\$ 53,328	\$ 12,464	\$ 12,587

These statements are to be read in conjunction with the Notes on pages 38 - 46 and the Audit Report on page 32.

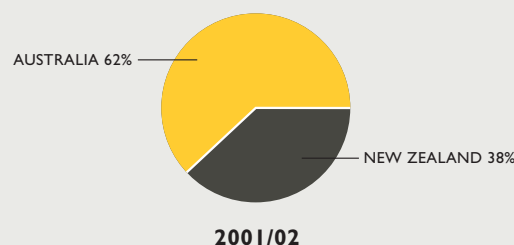
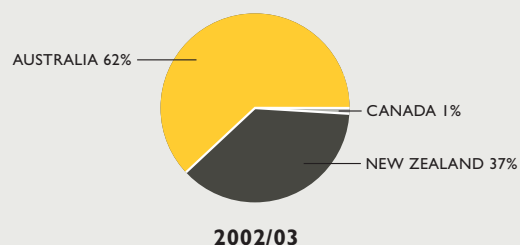
statements of segmented results

For the year ended 30 June 2003

	MHJ NEW ZEALAND			MHJ AUSTRALIA			MHJ CANADA		GROUP		
	2003 \$000	2002 \$000	+/- %	2003 \$000	2002 \$000	+/- %	2003 \$000		2003 \$000	2002 \$000	+/- %
Operating revenue											
Total revenue	83,849	80,643	4.0%	139,996	133,462	4.9%	2,308		226,153	214,105	5.6%
Intersegment sales	(65)	0		(1,286)	0				(1,351)	0	
Sales to customers	83,784	80,643		138,710	133,462		2,308		224,802	214,105	5.0%
Segment results											
Operating	10,644	10,134	5.0%	12,377	12,879	-3.9%	(1,802)		21,219	23,013	-7.8%
As % of revenue	12.7%	12.6%		8.9%	9.6%		-78.1%		9.4%	10.7%	
Sale of NZ Head Office building	0	358		1,541	0				1,541	358	
	10,644	10,492		13,918	12,879		-1,802		22,760	23,371	
As % of revenue	12.7%	13.0%		10.0%	9.6%		-78.1%				
Unallocated expenses									(11,190)	(10,665)	
Surplus for the year									\$ 11,570	\$ 12,706	-8.9%
Segment assets	30,004	28,804		72,453	66,239		5,195		107,652	95,043	
Unallocated assets									1,576	1,370	
Total assets									\$ 109,228	\$ 96,413	13.3%
Segment liabilities	5,405	5,454		53,520	37,593		213		59,138	43,047	
Unallocated liabilities									42	38	
Total liabilities									\$ 59,180	\$ 43,085	37.4%

- Notes:**
1. The Company operates in three (2002 - two) geographical segments - New Zealand, Australia and Canada.
 2. The Company's business relates solely to jewellery retailing and manufacturing.
 3. Intersegment pricing is at arms length or market value.
 4. Unallocated expenses comprise interest, taxation and unallocated corporate costs.
 5. Operations commenced in Canada in September 2002.

operating revenue by country



These statements are to be read in conjunction with the Notes on pages 38 - 46 and the Audit Report on page 32.

statements of financial position

As at 30 June 2003

	NOTES	GROUP		PARENT	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
Equity					
Share capital	5	7,712	7,712	7,712	7,712
Treasury stock	6	(700)	(415)	(700)	(415)
Reserves	8	1,211	1,483	3,650	3,650
Retained earnings	9	41,825	44,548	1,802	1,640
Total equity		50,048	53,328	12,464	12,587
Non-current liabilities					
Deferred taxation	12	0	0	4	6
Term liabilities	13	42,299	27,965	0	0
Employee entitlements		1,179	1,029	0	0
Total non-current liabilities		43,478	28,994	4	6
Current liabilities					
Bank overdraft		0	0	4	31
Trade creditors		6,179	4,586	0	0
Accruals and provisions	14	9,351	9,331	44	38
Term liabilities repayable within twelve months	13	172	174	0	0
Total current liabilities		15,702	14,091	48	69
Total equity and liabilities		\$ 109,228	\$ 96,413	\$ 12,516	\$ 12,662
Non-current assets					
Fixed assets	15	21,877	16,449	64	86
Investments	16	0	0	12,359	12,411
Future income tax benefit	12	1,598	1,061	0	0
Expenditure carried forward	17	12	36	0	0
Goodwill on consolidation		286	357	0	0
Total non-current assets		23,773	17,903	12,423	12,497
Current assets					
Cash on hand		2,294	685	0	0
Trade debtors	18	16,248	13,040	0	0
Other debtors and prepayments		2,386	1,443	0	0
Inventories	19	63,694	59,016	0	0
Property intended for sale		0	4,188	0	0
Taxation receivable		833	138	93	165
Total current assets		85,455	78,510	93	165
Total assets		\$ 109,228	\$ 96,413	\$ 12,516	\$ 12,662

These statements are to be read in conjunction with the Notes on pages 38 - 46 and the Audit Report on page 32.

statements of cash flows

For the year ended 30 June 2003

NOTES	GROUP		PARENT		
	2003 \$000	2002 \$000	2003 \$000	2002 \$000	
Cash flows from operating activities					
Cash was provided from:					
Receipts from customers	240,854	231,783	0	0	
Dividends received	0	0	15,000	6,000	
Interest received	55	53	0	512	
Miscellaneous receipts	219	0	0	0	
Rent received	4	0	0	0	
Cash was applied to:					
Payments to suppliers and employees	(225,027)	(214,303)	(726)	(677)	
Interest paid - short term	(219)	(92)	(1)	(1)	
- long term	(2,271)	(1,719)	0	0	
Income tax paid	(6,627)	(6,753)	332	(85)	
Net goods and services tax paid	(199)	(98)	0	0	
Net cash flow from operating activities	26	\$ 6,789	\$ 8,871	\$ 14,605	\$ 5,749
Cash flows from investing activities					
Cash was provided from:					
Proceeds from sales of fixed assets	163	1,303	0	40	
Proceeds from property intended for sale	5,172	505	0	0	
Lease proceeds	137	0	0	0	
Cash was applied to:					
Purchase of fixed assets	(10,313)	(6,256)	0	(96)	
Net cash used in investing activities		(\$ 4,841)	\$ 0	\$ (56)	
Cash flows from financing activities					
Cash was provided from:					
Proceeds of long term debt	15,805	0	0	0	
Proceeds of short term debt	5,747	9,884	0	0	
Proceeds of Treasury stock	112	302	112	302	
Advance from MHJ NZ	0	0	0	1,005	
Cash was applied to:					
Dividends paid	(14,266)	(5,978)	(14,266)	(5,978)	
Repayment of long term debt	(1,149)	0	0	0	
Repayment of short term debt	(5,747)	(7,558)	0	0	
Purchase of Treasury stock	(424)	(737)	(424)	(737)	
Advance to MH Trustee	0	0	0	(300)	
Net cash flow used in financing activities		\$ 78	(\$ 4,087)	(\$ 14,578)	(\$ 5,708)
Net (decrease) / increase in cash held		2,026	336	27	(15)
Effect of exchange rate changes on cash	(417)	(288)	0	0	0
Add cash at beginning of year	685	637	(31)	(16)	(16)
Cash at end of year		\$ 2,294	\$ 685	(\$ 4)	(\$ 31)

These statements are to be read in conjunction with the Notes on pages 38 - 46 and the Audit Report on page 32.

notes to the financial statements

I STATEMENT OF ACCOUNTING POLICIES

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

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

General Accounting Policies

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

Accounting Policies

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

a) Sales

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

b) Principles of Consolidation

The consolidated financial statements are prepared from the audited accounts of the Parent Company and its Subsidiaries as at 30 June 2003 using the purchase method. All significant transactions between Group Companies are eliminated on consolidation.

c) Fixed Assets

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

d) Depreciation

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

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

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

e) Keymoney

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

f) Goodwill

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

g) Inventories

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

h) Debtors

Debtors are stated at expected realisable value after providing for an estimate of income on layby sales which may not be realised due to cancellation of layby contracts in subsequent accounting periods. Debtors are stated at expected realisable value after providing for an estimate of income on layby sales which may not be realised due to cancellation of layby contracts in subsequent accounting periods. Imputed interest has been deducted from Australian credit sales and will be recognised on a time proportional basis.

i) Tax

The tax expense recognised for the year is based on the accounting surplus, adjusted for permanent differences between accounting and tax rules. The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method. A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

j) Statement of Cash Flows

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

- i) Cash means coins and notes, demand deposits and other highly liquid investments in which the Group has invested as part of its day-to-day cash management. Cash includes liabilities which are the negative form of the above, such as the bank overdraft. Cash does not include accounts receivable or payable, or any borrowing subject to a term facility.
- ii) Operating activities includes all transactions and other events that are not investing or financing activities.
- iii) Investing activities are those activities relating to the acquisition holding and disposal of fixed assets and of investments. Investments can include securities not falling within the definition of cash.

notes to the financial statements

Continued

- iv) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.

k) Foreign Currency Transactions

Transactions in foreign currencies are converted to New Zealand dollars at the rates of exchange ruling on the dates of the transactions. Amounts receivable and payable in foreign currencies are translated to New Zealand dollars at the rates of exchange ruling at balance date or, where forward exchange cover has been obtained, at the settlement rate. Realised and unrealised gains and losses arising from exchange rate fluctuations in foreign currencies are included in the Statements of Financial Performance. Revenues and expenses of independent foreign operations are translated to New Zealand dollars at the exchange rates in effect at the time of the transaction, or at rates approximating them. Assets and liabilities are converted to New Zealand dollars at the rates of exchange ruling at balance date.

Exchange differences arising from the translation of independent foreign operations are recognised in the foreign currency translation reserve.

l) Leased Assets

Operating lease payments and revenue are representative

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

m) Financial Instruments

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

n) Investments

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

In 2002 the property intended for sale (Australian Head Office building) was recorded at carrying amount at date of change of intention.

Changes in Accounting Policies and Recently Issued Accounting Standards

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

There have been no other changes in accounting policies.

2 OPERATING REVENUE

	GROUP		PARENT	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Trading revenue	224,802	214,105	0	0
Other income:				
Interest	457	54	0	512
Rental Income	4	0	0	0
Gain on sale of fixed assets	1,541	0	0	40
Gain on sale of investment property	0	508	0	0
Dividends received from subsidiaries	0	0	15,000	6,000

notes to the financial statements

Continued

3 OPERATING EXPENSES

	GROUP		PARENT	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Fees paid to PricewaterhouseCoopers				
Audit fees	176	138	8	0
Other assurance fees	5	81	1	0
Taxation compliance fees	315	33	51	33
Depreciation	5,070	4,855	22	20
Buildings	0	157	0	0
Plant	340	329	1	1
Equipment	1,219	1,182	3	3
Furniture & fittings	934	923	0	0
Motor vehicles	275	261	18	16
Leasehold improvements	2,302	2,003	0	0
Directors' fees	210	214	210	214
Expenditure carried forward written off	23	39	0	0
Goodwill on consolidation written off	72	71	0	0
Interest - Fixed loans	2,457	1,923	0	0
- Other	220	91	1	1
Increase / (decrease) in laybys provision	117	(7)	0	0
Rental and operating lease costs	14,637	13,274	0	0
Net foreign exchange loss / (gain)	293	24	0	0
Donations	34	2	31	0
Loss on sale of fixed assets	142	169	0	0

4 INCOME TAX EXPENSE

	GROUP		PARENT	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
The taxation provision has been calculated as follows				
Surplus for the year	\$ 16,637	\$ 18,698	\$ 14,194	\$ 5,851
Taxation on surplus for the year at 33%	5,490	6,170	4,684	1,931
Plus / (less)				
Non-assessable income	(555)	0	(4,950)	(1,980)
Non-deductible expenditure	303	(14)	5	9
Under / (over) provision in prior years	(80)	(2)	0	0
Losses not recognised	25	0	0	0
Effect of difference in Australian tax rate (33% to 30%)	(117)	(162)	0	0
	\$ 5,066	\$ 5,992	(\$ 261)	(\$ 40)
The taxation charge is represented by:				
Tax payable in respect of current year	5,509	6,653	(260)	(30)
Underestimation in prior year	(80)	(2)	0	0
Deferred taxation	(363)	(659)	(1)	(10)
	\$ 5,066	\$ 5,992	(\$ 261)	(\$ 40)

5 SHARE CAPITAL

	PARENT	
	2003 \$000	2002 \$000
Issued and paid in capital - 38,558,600 ordinary shares	\$ 7,712	\$ 7,712

There were no shares issued during the year ended 30 June 2003.

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

Share Options

On the 9th October 2000, the Directors authorised the issue of 750,000 options to subscribe for Ordinary shares in the Company to five senior management personnel in the Company, including 300,000 to Mike Parsell in his capacity of CEO of the Company. The issue of options for Mike Parsell was subject to the approval of shareholders at the Annual meeting on the 17th November 2000, in accordance with the Company's constitution. The motion to issue options to Mike Parsell was passed at the Annual meeting.

The exercise price of \$3.66 for all 750,000 options was set at 15% above the average weighted price of the Company's ordinary shares over the calendar month following the announcement by the Company to the New Zealand Stock Exchange of its results for the year ended 30 June 2000.

notes to the financial statements

Continued

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

- 1) In the period 1 July 2003 to 30 June 2004, the option holder may not exercise more than 25% of the entitlement.
- 2) In the period 1 July 2004 to 30 June 2005, the option holder may exercise the aggregate of 25% of his entitlement and any part of his entitlement not exercised in the previous period, so that not more than 50% of the option holder's entitlement is exercised prior to 30 June 2005.
- 3) In the period 1 July 2005 to 30 June 2006, the option holder may exercise such of his entitlement as has not previously been exercised.

The value of the options was calculated using the Black-Scholes Option valuation model and the value of the options at the time of granting was NZ\$36,450 for the options available to Mike Parsell and NZ\$40,800 collectively for the other four option holders.

On the 22nd August 2002, the Directors authorised the issue of a further 200,000 options to two senior management personnel in the company, including 100,000 to Emma Hill in her capacity of General Manager Canada. The issue of options for Emma Hill was subject to the approval of shareholders at the Annual meeting on the 28th November 2002, in accordance with the Company's constitution. The motion to issue options to Emma Hill was passed at the Annual meeting.

The exercise price for these options was set at \$6.15 which was 15% above the weighted average price of the Company's ordinary shares over the calendar month following the announcement by the Company to the New Zealand Stock Exchange of its results for the year ended 30 June 2002.

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

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

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

6 TREASURY STOCK

	GROUP		PARENT	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Treasury stock at beginning of year	415	0	415	0
Treasury stock acquired through the year	424	737	424	737
Allocated to employee share ownership plan including discount	(139)	(322)	(139)	(322)
Treasury stock at end of year	\$ 700	\$ 415	\$ 700	\$ 415

Michael Hill International Limited acquired 80,000 shares through on-market purchases on the New Zealand Stock Exchange during the year. The total amount paid to acquire the shares was \$424,000, this being an average purchase price of \$5.30 per share.

During the year 27,810 shares were issued to the Michael Hill Employee Share Ownership Plan at an average price of \$4.04.

7 EMPLOYEE SHARE OWNERSHIP PLAN

The Plan

The Michael Hill International Limited Employee Share Scheme was established by Michael Hill International Limited in 2001 to assist employees to become shareholders of the Company. In order to provide a pool of shares for eligible employees to purchase through the scheme, the Company will from time to time buy Michael Hill International shares on the N.Z. Stock Exchange. These shares are only purchased during the window periods available for Directors to deal in shares of Michael Hill International. Employees are able to purchase shares in MHI at a 10% discount to average market price over the two weeks prior to the invitation to purchase. The shares will be held by a Trustee for a one year period during which time any dividends derived will be paid to the employee.

Shares held by the Plan

	2003	2002
The Plan held the following ordinary shares at the end of the year:		
Allocated to employees (fully paid)	27,810	67,752
Not yet allocated to employees	139,438	87,248
	167,248	155,000

Control of the Scheme

The Trustees are Mike Parsell and Murray Doyle, both Directors of Michael Hill International Limited and Wayne Butler, Company Secretary. The Trustees are appointed by the Company's Board of Directors.

notes to the financial statements

Continued

8 RESERVES

	GROUP		PARENT	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Balances				
Share premium reserve	3,650	3,650	3,650	3,650
Foreign currency translation reserve	(2,439)	(2,167)	0	0
	\$ 1,211	\$ 1,483	\$ 3,650	\$ 3,650
Movements in reserves during the year were as follows:				
Share premium reserve				
Opening and closing balance	\$ 3,650	\$ 3,650	\$ 3,650	\$ 3,650
Foreign Currency translation reserve				
Balance at beginning of year	(2,167)	(192)	0	0
Foreign exchange gain / (loss) on translation of net assets of Australian and Canadian Subsidiaries	(272)	(1,975)	0	0
Balance at end of year	(\$ 2,439)	(\$ 2,167)	\$ 0	\$ 0
Investment property revaluation reserve				
Balance at beginning of year	0	561	0	0
Revaluation during the year	0	(561)	0	0
Balance at end of year	\$ 0	\$ 0	\$ 0	\$ 0

9 RETAINED EARNINGS

	GROUP		PARENT	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Balance at beginning of year	44,548	37,841	1,640	1,748
Surplus for the year	11,570	12,706	14,455	5,891
Dividends	(14,266)	(5,978)	(14,266)	(5,978)
Discount on sale of Treasury Stock	(27)	(21)	(27)	(21)
Balance at end of year	\$ 41,825	\$ 44,548	\$ 1,802	\$ 1,640

10 DIVIDENDS PAID AND DECLARED

	GROUP & PARENT COMPANY	
	2003	2002
	\$000	\$000
Interim: Cash paid on 31 March 2003	2,694	3,286
Final dividend 2002, paid 14 October 2002	3,862	2,692
Special dividend paid 14 October 2002	7,710	0
	\$ 14,266	\$ 5,978

The Directors have declared a final dividend post year end of 10.0 cents per share to be paid for the year ended 30 June 2003 out of tax paid profits, on 20 October 2003. An interim dividend of 7.0 cents per share was paid on 31 March 2003. Full imputation credits attach to both dividends. Non-resident Shareholders also receive supplementary dividends. The Company receives a tax credit equal to the amount of these supplementary dividends.

11 IMPUTATION CREDIT ACCOUNT

	GROUP & PARENT COMPANY	
	2003	2002
	\$000	\$000
Balance at beginning of year	1,204	1,046
Plus - Income tax paid	(333)	86
- Imputation credits attached to dividends received	7,388	2,955
Less - Imputation credits attached to dividends paid to shareholders	(6,861)	(2,883)
Balance at end of year	\$ 1,398	\$ 1,204
Imputation credits directly and indirectly available to members as at 30 June 2003		
Parent	1,398	1,204
Subsidiaries	305	3,861
	\$ 1,703	\$ 5,065

notes to the financial statements

Continued

12 FUTURE INCOME TAX BENEFIT / (DEFERRED TAXATION)

	GROUP		PARENT	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Opening Balance	1,061	417	(6)	4
Plus / (less) - Movement in current year	363	659	(1)	(10)
Plus / (less) - Prior period adjustment	185	0	3	0
Plus / (less) - Effect of exchange rate change on Australian opening balance	(11)	(15)	0	0
	\$ 1,598	\$ 1,061	(\$ 4)	(\$ 6)

13 TERM LIABILITIES

	GROUP		PARENT	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Non-current borrowings				
Secured bank loans	42,299	27,965	0	0
Borrowings due within 12 months				
Secured bank loans	172	174	0	0
	\$ 42,471	\$ 28,139	\$ 0	\$ 0

These advances, together with the bank overdraft, are secured by floating charges over all the Group's assets. The Group utilises bank bills for financing the operations of the business. The ANZ Bank regards this finance as long term, subject to satisfactory annual reviews of the Group's operations. Interest rates applying 2003 - 4.9% to 7.0% (2002 - 4.8% to 7.0%).

14 ACCRUALS AND PROVISIONS

	GROUP		PARENT	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Employee entitlements	4,940	4,691	0	0
Other accruals	4,411	4,640	44	38
	\$ 9,351	\$ 9,331	\$ 44	\$ 38

15 FIXED ASSETS

	2003			2002		
	COST	ACCUM DEPREC	BOOK VALUE	COST	ACCUM DEPREC	BOOK VALUE
	\$000	\$000	\$000	\$000	\$000	\$000
Group						
Plant	3,245	1,953	1,292	2,851	1,679	1,172
Equipment	11,633	7,879	3,754	10,215	6,908	3,307
Furniture and fittings	9,433	5,445	3,988	7,870	4,783	3,087
Motor vehicles	1,794	457	1,337	1,592	325	1,267
Leasehold improvements	21,168	9,662	11,506	15,725	8,109	7,616
	\$ 47,273	\$ 25,396	\$ 21,877	\$ 38,253	\$ 21,804	\$ 16,449
Parent Company						
Plant	5	4	1	5	3	2
Equipment	16	11	5	16	8	8
Motor vehicles	89	31	58	89	13	76
	\$ 110	\$ 46	\$ 64	\$ 110	\$ 24	\$ 86

The above assets provide a floating security for bank loans, as well as mortgage security over term loans. (Refer note 13)
In 2002 the Australian land and buildings were reclassified as Property Intended for Sale in current assets.

notes to the financial statements

Continued

16 INVESTMENTS IN SUBSIDIARIES

	GROUP		PARENT	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Subsidiary companies				
Shares at cost	0	0	2,800	2,800
Plus advance to subsidiaries	0	0	9,559	9,611
	\$ 0	\$ 0	\$ 12,359	\$ 12,411

The subsidiary companies are:

	ACTIVITY	COUNTRY OF INCORPORATION	SHAREHOLDING
Michael Hill Jeweller Limited	Jewellery Retailer and Manufacturer	NZ	100%
Michael & Company Limited (formerly Michael Hill Shoes Limited)	Dormant Company	NZ	100%
Michael Hill Jeweller (Australia) Pty Limited	Jewellery Retailer	Australia	100%
Michael Hill (Wholesale) Pty Limited	Jewellery Wholesaler	Australia	100%
Michael Hill Manufacturing Pty Limited	Jewellery Manufacturer	Australia	100%
Michael Hill Trustee Company Limited	Trustee for staff share purchase scheme	NZ	100%
Michael Hill Jeweller Limited	Jewellery Retailer	Canada	100%

There were no subsidiary companies purchased or sold during the year ended 30 June 2003.

All subsidiaries have a 30 June balance date.

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

17 EXPENDITURE CARRIED FORWARD

	GROUP		PARENT	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Key money	12	36	0	0
	\$ 12	\$ 36	\$ 0	\$ 0

18 TRADE DEBTORS

	GROUP		PARENT	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Trade debtors	17,413	13,621	0	0
Less laybys provision	(700)	(581)	0	0
Less provision for unearned income	(465)	0	0	0
	\$ 16,248	\$ 13,040	\$ 0	\$ 0

Trade debtors include an amount of \$8,305,000 which is guaranteed under a financing arrangement by a third party.

19 INVENTORIES

	GROUP		PARENT	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Raw materials	3,596	4,273	0	0
Work in progress	0	9	0	0
Finished goods	55,886	50,971	0	0
Consumables	4,212	3,763	0	0
	\$ 63,694	\$ 59,016	\$ 0	\$ 0

20 CAPITAL COMMITMENTS

The Group and the Parent Company have no capital commitments at 30 June 2003 (2002 - Nil).

notes to the financial statements

Continued

21 CONTINGENT LIABILITIES

	GROUP		PARENT	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Guarantees to bankers and other financial institutions of subsidiary companies overdraft facilities and fixed assets	\$ 45,419	\$ 95	\$ 45,392	\$ 75

The Group and Parent Company have no other material contingent liabilities as at 30 June 2003 (2002 - nil).

22 OPERATING LEASE OBLIGATIONS

	GROUP		PARENT	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	12,248	11,471	0	0
One to two years	11,022	9,047	0	0
Two to five years	22,200	17,402	0	0
Over five years	7,606	3,322	0	0
	\$ 53,076	\$ 41,242	\$ 0	\$ 0

23 RELATED PARTY TRANSACTIONS

Executive Directors are remunerated in their capacity as full-time employees of the Company. Directors' interests in the Company's shares are disclosed on page 47 of the Annual Report. Directors' received dividends on their holdings on the same terms as other shareholders. Emma Hill, daughter of Michael and Christine Hill, is remunerated as a full time manager of the company. The parent has received dividends from its subsidiaries as disclosed in note 2. Michael Hill Jeweller Ltd received dividends and interest from its subsidiaries during the year.

24 FINANCIAL INSTRUMENTS

(a) Currency and interest rate risk

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

(i) Currency

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

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

Contracts outstanding at 30 June 2003 are \$ Nil (2002 - \$ Nil).

(ii) Interest rate

The Group has a long term borrowing facility utilising three to six months bank bills. Forward rate agreements are utilised from time to time to hedge against interest rate fluctuations. The principal amount of Forward Rate Agreements outstanding at balance date was \$19,195,000 (2002 - \$ 10,610,000). The cash settlement requirements of Forward Rate Agreements have a market value of \$ 576,686 (2002 - \$ 713).

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

(iii) Repricing analysis

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

Group repricing maturities - 2003

		\$000	\$000	\$000	\$000	\$000
	EFFECTIVE INTEREST RATES	LESS THAN 6 MONTHS	6 TO 12 MONTHS	1 TO 2 YEARS	2 TO 5 YEARS	TOTAL
Liabilities						
Term liabilities	5.33%	8,333	3,448	10,575	20,115	42,471
Total liabilities		8,333	3,448	10,575	20,115	42,471
Off Balance Sheet forward rate agreements		0	0	0	(19,195)	(19,195)
Repricing gap		8,333	3,448	10,575	920	23,276

notes to the financial statements

Continued

Group repricing maturities - 2002

		\$000	\$000	\$000	\$000	\$000
	EFFECTIVE INTEREST RATES	LESS THAN 6 MONTHS	6 TO 12 MONTHS	1 TO 2 YEARS	2 TO 5 YEARS	TOTAL
Liabilities						
Term liabilities	5.61%	8,721	17,907	1,511	0	28,139
Total liabilities		8,721	17,907	1,511	0	28,139
Off Balance Sheet forward rate agreements		0	0	0	(10,610)	(10,610)
Repricing gap		8,721	17,907	1,511	(10,610)	17,529

Parent Company financial assets and liabilities comprise investments, creditors and dividends payable which are not interest rate sensitive. The bank overdraft at 30 June 2003 is \$3,671 (2002 - \$31,057). Commercial bill facilities are currently utilised by the Group on 90 day terms, but are regarded by the bank as long term arrangements.

(iv) Credit

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

(b) Fair Values

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

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

	GROUP		PARENT	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Reported surplus after taxation as per Statement of Financial Performance	11,570	12,706	14,455	5,891
Add / (less) items classified as investing or financial activities				
Loss / (gain) on sale of fixed assets	142	208	0	(40)
Gain on sale of property intended for sale	(1,541)	(508)	0	0
Add / (less) non cash items				
Depreciation	5,070	4,855	22	20
Foreign currency movement	712	(753)	0	0
Deferred taxation	328	(130)	(2)	10
Amortisation of goodwill	72	71	0	0
Amortisation of expenditure carried forward	22	39	0	0
Add / (less) movements in working capital items				
Taxation payable	(984)	(38)	73	(135)
Debtors and prepayments	(5,086)	(7,212)	0	0
Creditors and accruals	(5,104)	2,550	52	3
Inventories	1,588	(2,917)	5	0
Net cash flows from operating activities	\$ 6,789	\$ 8,871	\$ 14,605	\$ 5,749

26 EVENTS OCCURRING AFTER BALANCE DATE

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

There were no significant events occurring after 30 June 2003.

analysis of shareholding

TWENTY LARGEST SHAREHOLDERS AS AT 21 AUGUST 2003

	ORDINARY SHARES	% OF SHARES
R.M. Hill, A.C. Hill, R.M.J. Urlich (as trustees)	10,116,260	26.23
D.W. Hewitt, R.M.J. Urlich (as trustees)	8,446,636	21.90
Accident Compensation Corporation	2,024,086	5.24
The Trustees, Executors and Agency Co. of N.Z.	1,425,831	3.69
AMP Investments Strategic Equity Growth Fund	1,116,843	2.89
Citibank Nominees (NZ) Ltd.	991,246	2.57
Forbar Custodians Ltd.	760,014	1.97
Peters MacGregor Pty. Ltd.	736,700	1.91
Forbar Custodians Ltd.	446,300	1.15
NZGT Nominees Ltd.	431,767	1.12
R.M. Hill, A.C. Hill, R.M.J. Urlich (as trustees)	356,630	0.92
R.L. Parsell	356,025	0.92
Cogent Nominees Ltd.	266,476	0.69
AMP Life Ltd.	261,461	0.67
Votraint No. 1019 Pty. Ltd.	220,000	0.57
Guardian Trust Investment Nominees Ltd.	211,108	0.54
Westpac Banking Corporation - Client Assets No.2	165,024	0.42
Michael Hill International - Treasury Stock	139,438	0.36
Hubbard Churcher Trust Management Ltd.	135,000	0.35
Eltub Nominees Ltd.	130,000	0.33
Total	28,736,845	74.44

SHAREHOLDING BY RANGE OF SHARES AS AT 21 AUGUST 2003

	No. OF HOLDERS	% OF HOLDERS	No. OF SHARES
1 - 999	1,054	31	513,319
1,000 - 4,999	1,918	56	3,800,326
5,000 - 9,999	283	8	1,759,616
10,000 & over	181	5	32,485,339
Total	3,436	100%	38,558,600

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
R.M. Hill, A.C. Hill, R.M.J. Urlich (as trustees)	10,116,260
D.W. Hewitt, R.M.J. Urlich (as trustees)	8,446,636
Accident Compensation Corporation	2,024,086

Total number of ordinary shares on issue as at 21 August 2003 is 38,558,600.

DIRECTORS' & ASSOCIATED INTERESTS' SHARE HOLDINGS

The table below sets out the relevant interests in equity securities of Directors and Associated Persons of Directors at 30 June 2003, in terms of Listing Rule 10.5.3 of the New Zealand Exchange Listing rules.

	RELEVANT INTEREST OF DIRECTOR	RELEVANT INTEREST OF ASSOCIATED PERSON
R.M. Hill & A.C. Hill	18,919,526	81,915
M.R. Parsell	326,089*	370,040
G.J. Gwynne	105,000	
L.W. Peters	1,252,535†	
M.R. Doyle		100,000

* includes 300,000 options.

† includes 502,535 ordinary shares in which Mr Peters does not have beneficial interest.



shareholder information

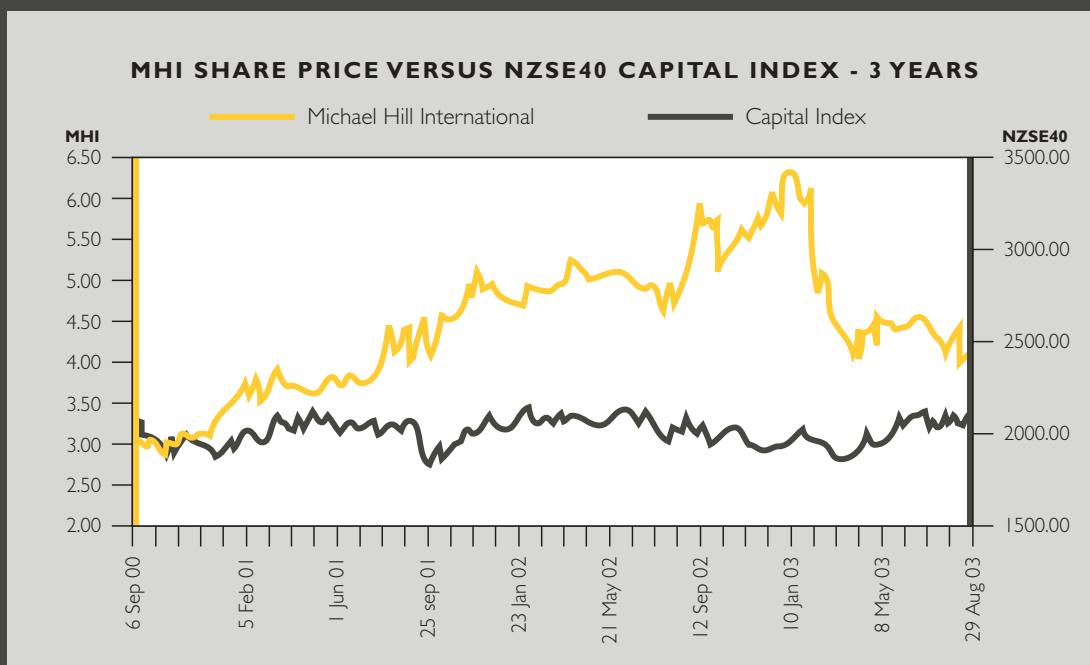
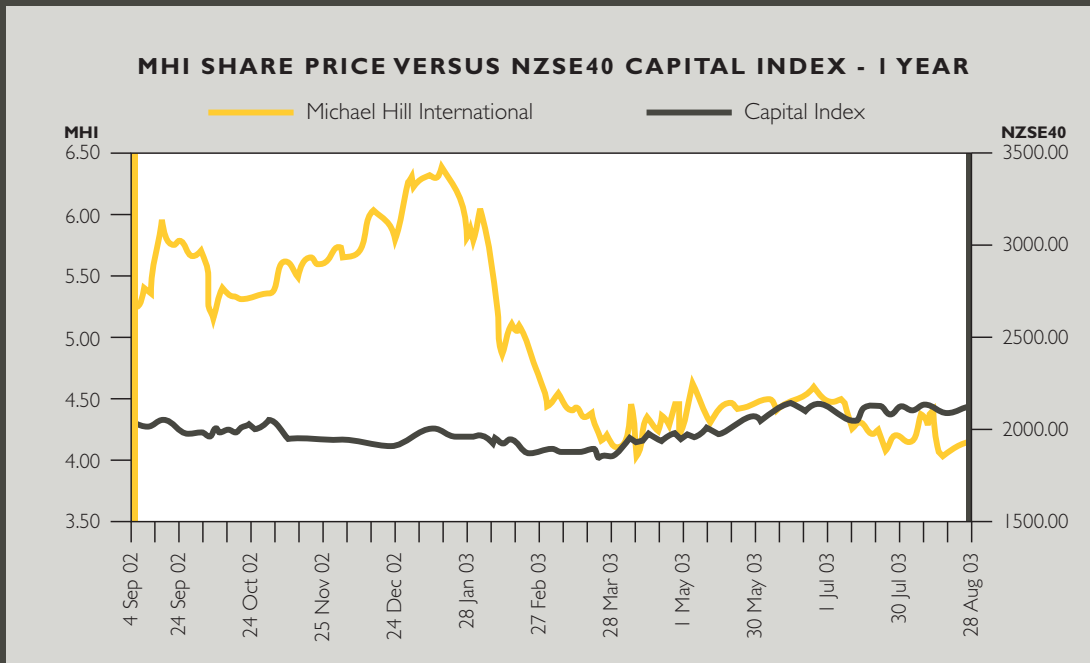
Information specifically for investors and shareholders is featured on our Website www.michaelhill.com. It includes our latest shareprice and historical share prices over the last six years, together with charts of our share price in comparison to the NZSE40 over the last 12 months and 3 years. It also includes any announcements and powerpoint presentations made to Analysts and the Press at the time of the release of our half year and annual financial results to the New Zealand Stock Exchange each year:

Any shareholders with queries relating to their shareholding or dividend payments, etc., should direct their enquiries to
Computershare Investor Services Limited
Private Bag 92119
Auckland 1020
Phone 09 488 8777

financial calendar

Annual Meeting:	Friday 7th November 2003, at 2pm, ASB Lounge, Eden Park, Walters Rd, Kingsland, Auckland
Dividends payable:	Interim - March Final - October
Financial Results announced:	Half year - February Annual - August

share price performance



	HIGH	LOW	as at 30/6/03
PRICES FOR SHARES TRADED DURING THE YEAR	\$ 6.45	\$ 4.00	\$ 4.60

	2003	2002	2001	2000	1999	1998	1997	1996
EIGHT YEAR COMPARATIVE REVIEW OF PRICES FOR SHARES AS AT 30 JUNE	\$ 4.60	\$ 5.00	\$ 3.80	\$ 2.85	\$ 3.00	\$ 1.82	\$ 1.63	\$ 1.23



store outlets - Australia

QUEENSLAND

Loganholme	Phil Dawson, Logan Hyperdome, Loganholme, Brisbane
Robina	Jan Ingham, Robina Town Centre, Robina, Gold Coast
Toowoomba	Jasmine Harrison, Clifford Gardens Shopping Centre, Toowoomba
Cairns	Julie Tsakissiris, Earlville Shopping Centre, Cairns
Mt Ommaney	Richard Price, Mt Ommaney Shopping Centre, Mt Ommaney, Brisbane
Brisbane City	Cindy Salmon, Myer Centre, Queen Street Mall, Brisbane
Toombul	Clare Pell, Westfield Shoppingtown Toombul, Nundah, Brisbane
Chermside	Karen Pukulas, Westfield Shoppingtown, Chermside, Brisbane
Upper Mt Gravatt	Lynne Alexander, Garden City Shopping Centre, Upper Mt Gravatt, Brisbane
Ipswich	Rachael Wright, Ipswich City Square, Ipswich
Indooroopilly	Olga Golenkova, Westfield Shoppingtown, Indooroopilly, Brisbane
Capalaba Park	Tracey Phillips, Capalaba Park Shopping Centre, Capalaba, Brisbane
Strathpine	Kellie Ann Bowman, Westfield Shoppingtown, Strathpine, Brisbane
Southport	Mark Walshaw, Australia Fair Shopping Centre, Southport, Gold Coast
Broadbeach	Gerald Adam, Pacific Fair Shopping Centre, Broadbeach, Gold Coast
Mackay	Scott Murray, Caneland Central Shopping Centre, Mackay
Browns Plains	Kaylene Grey, Grand Plaza Shopping Centre, Browns Plains, Brisbane
Townsville	Greg Nel, The Willows Shopping Centre, Townsville
Maroochydore	Bronwyn Taylor, Sunshine Plaza Shopping Centre, Maroochydore, Sunshine Coast
Rockhampton	Kerry Anne Windle, Rockhampton Shopping Fair, Rockhampton
Kawana Waters	Adrienne Brandon, Kawana Shopping World, Kawana, Sunshine Coast
Bundaberg	Sandi Wallace, Sugarland Shopping Centre, Bundaberg
Townsville	Warwick Nicholson, Stockland Shopping Centre, Aitkenvale, Townsville
Cairns Central	Sharnie Stewart, Cairns Central, Cairns
Morayfield	Paul Aruldoss, Morayfield Shopping Centre, Morayfield, Brisbane
Brookside	Kerry Camilleri, Brookside Shopping Centre, Mitchelton, Brisbane
Carindale	Jim Colley, Westfield Shoppingtown, Carindale, Brisbane
Mango Hill	Michael Van Egdome, Westfield Shoppingtown Northlakes, Mango Hill

AUSTRALIAN CAPITAL TERRITORY

Woden	Andrew Warwick, Woden Plaza, Woden
Canberra Centre	Danica Spasenoska, City Walk, Canberra
Belconnen	Jennifer Johnson, Belconnen Mall, Belconnen

NEW SOUTH WALES

Parramatta	Nadine Kolinac, Westfield Shoppingtown, Parramatta, Sydney
Miranda	Tracy Henry, Westfield Shoppingtown, Miranda, Sydney
Roselands	Michael Bateman, Roselands Shopping Centre, Roselands, Sydney
Liverpool	Peta McClure, Westfield Shoppingtown, Liverpool, Sydney
North Ryde	Romel Santos, Macquarie Centre, North Ryde, Sydney
Penrith	Tim Spreadborough, Penrith Plaza, Penrith, Sydney
Castle Hill	Raj Nair, Castle Towers Shopping Centre, Castle Hill, Sydney
Blacktown	Leonie Johnston, Westpoint Shopping Centre, Blacktown, Sydney
Warringah	Tiffany Sharp, Warringah Mall Shopping Centre, Brookvale, Sydney
Campbelltown	Jody Cremona, The Mall Queen Street, Campbelltown, Sydney
Erina	Adam Cranstone, Erina Fair, Erina, Central Coast
Fairfield	Mandy Croft, Fairfield Forum Shopping Centre, Fairfield, Sydney
Port Macquarie	Penny Rebecchi, Settlement City Shopping Centre, Port Macquarie, Central Coast
Jesmond	James Elliott, Stockland Mall, Jesmond, Newcastle
Tuggerah	Melissa Stewart, Westfield Shoppingtown, Tuggerah, Central Coast
Mt Druitt	Michelle Le Breton, Markettown, Mt Druitt, Sydney
Charlestown	Anthony Matthews, Charlestown Square, Charlestown, Newcastle
Coffs Harbour	Ron Roma, Park Beach Plaza, Coffs Harbour, Central Coast
Warrawong	Cheryle Delandre, Westfield Shoppingtown, Warrawong, Wollongong
Tweed Heads	Mark Elford, Tweed City Shopping Centre, Tweed Heads
Bankstown	Rose Lee, Bankstown Square, Bankstown, Sydney
Shell Harbour	Samantha Darling, Shell Harbour Square, Shell Harbour, Wollongong
Wagga Wagga	Chris Richardson, Sturt Mall, Wagga Wagga
Campbelltown	Christina Blachnig, Macarthur Square Shopping Centre, Campbelltown, Sydney
Dubbo	Marilyn Buttsworth, Macquarie Street, Dubbo
Warriewood	Paul Rooker, Warriewood Shopping Centre, Warriewood, Sydney
Burwood	Craig Flam, Westfield Shoppingtown, Burwood, Sydney
Chatswood	Egidio Givliani, Westfield Shoppingtown, Chatswood, Sydney
Wollongong	Jeanette Underwood, Crown Central, Wollongong, South Coast
Hornsby	Scott Covington, Westfield Shoppingtown Northgate, Hornsby, Sydney
Albury/Wodonga	Ian Henderson, West End Plaza, Albury
Tamworth	Kylie Davidson, Tamworth Shoppingworld, Tamworth
Hurstville	Suzu Panetta, Westfield Shoppingtown, Hurstville, Sydney
Eastgardens	Josie Montalto, Westfield Shoppingtown, Eastgardens, Sydney
Lismore	Kate Willman, Lismore Shopping Centre, Lismore
Maitland	Jo-Anne Nielsen, Green Hills Shopping Centre, Maitland

VICTORIA

Ringwood	Simon Coutts-Bain, Eastlands Shopping Centre, Ringwood, Melbourne
Greensborough	Lisa Giardina, Greensborough Plaza, Greensborough, Melbourne
Maribyrnong	Dianne Peters, Highpoint Shopping Centre, Maribyrnong, Melbourne
Chirnside	Leasa Siacolas, Chirnside Park Shopping Centre, Chirnside, Melbourne
Airport West	Liz Gellie, Westfield Shoppingtown, Airport West, Melbourne
Geelong	Zoran Blazevski, Corio Village, Corio, Geelong
Fountain Gate	Janet Morice, Westfield Shoppingtown, Fountain Gate, Melbourne
Glen Waverley	Nicole Beckerley, The Glen Shopping Centre, Glen Waverley, Melbourne
Dandenong	Cheryl Butler, Dandenong Plaza, Dandenong, Melbourne
Forest Hill	George Kerasiotis, Forest Hill Chase, Forest Hill, Melbourne
Wantirna South	Kathleen Kelly, Knox City Shopping Centre, Wantirna South, Melbourne
Richmond	Sonia Fazio, Victoria Gardens Shopping Centre, Richmond, Melbourne

Werribee Kylie Ayre, Werribee Plaza Shopping Centre, Werribee

NORTHERN TERRITORY

Darwin Julie Pickup, Casuarina Square Shopping Centre, Darwin

WESTERN AUSTRALIA

Morley Kristy Robinson, Westfield Shoppingtown Galleria, Morley, Perth
Cannington Wendy Maben, Westfield Shoppingtown Carousel, Cannington, Perth
Booragoon Patricia Jones, Garden City Shopping Centre, Booragoon, Perth
Rockingham Nicole Gericevich, Rockingham Shopping Centre, Rockingham
Karrinyup Zorica Tolj, Karrinyup Shopping Centre, W.A. 6018

TASMANIA

Glenorchy John Hansell, Northgate Shopping Centre, Glenorchy, Hobart



store outlets - Canada

Sevensoaks Leah James, 336/32900 South Fraser Way, Abbotsford, B.C.
Lougheed Terese Biermann, Austin Rd, Burnaby, B.C.
Metrotown Adam Biermann, Metropolis at Metrotown, Burnaby, B.C.
Mayfair Jodi Warner, 362-3147 Douglas Highway, Victoria, B.C.



store outlets - New Zealand

NORTH ISLAND

Whangarei Althena Flavell-Birch, 24 Cameron Street, Whangarei
Browns Bay Patrick Sauter, 26 Clyde Road, Browns Bay, Auckland
Albany Sally Every, Albany Mega Centre, Auckland
Takapuna Carrie James, 3 Hurstmere Road, Auckland
Queen Street Kirk Robinson, 44 Queen Street, Auckland
Newmarket Vicki Cato, 218 Broadway, Auckland
St Lukes Wayne Bullock, Westfield Shoppingtown St Lukes, Auckland
Lynnmall Amber Eyre, Lynnmall Shopping Centre, Auckland
Pakuranga Tony Ho, Westfield Shoppingtown Pakuranga, Auckland
Mt Wellington Kathryn Scott, Harvey Norman Centre, Mt Wellington Highway, Auckland
Botany Jillian Gubb, 24 Town Centre Drive, Botany Town Centre, Auckland
Manukau Shane Dance, Westfield Shoppingtown Manukau, Auckland
Henderson Coralie De Andrad, Westfield Shoppingtown West City, Auckland
Westgate Raneer Bowden, Westgate Shopping Centre, Auckland
Papakura Belinda Holroyd, Crossroads Retail Centre, Papakura, Auckland
Chartwell Lane Hannah, Westfield Shoppingtown Chartwell, Hamilton
Hamilton Graeme MacDonald, Cnr Victoria & Ward Street, Hamilton
Tauranga Chris Teague, 61 Devonport Road, Tauranga
Rotorua Greg Lilley, Rotorua Central, Amohau Street, Rotorua
Bayfair Anita Annan, Shop 601, Bayfair Plaza, Mt Maunganui
Taupo Claire Hale, 25 Horomatangi St, Taupo
Gisborne Angela Mana, 118 Gladstone Rd, Gisborne
New Plymouth Pru Webber, 32-36 Currie Street, New Plymouth
Hastings Corey Potter, 225 West Heretaunga Street, Hastings
Napier Gillian Russell, Ocean Boulevard Mall, Napier
Wanganui Abbie Carse, 99 Victoria Avenue, Wanganui
Palmerston North Bronwyn Butler, 102 The Square, Palmerston North
Coastlands Karl Jenner, Coastlands Shopping Centre, Paraparaumu
Porirua Toni Roberts, North City Shopping Centre, Porirua, Wellington
Lower Hutt Lynda Singleton, Westfield Shoppingtown Queensgate, Lower Hutt
Johnsonville Odette McDonald, Johnsonville Shopping Centre, Wellington
Cuba Mall Lois Law, 70 Cuba Mall, Manner Street, Wellington
Lambton Quay Trish Longstaff, 342 Lambton Quay, Wellington
Specialist Antique and Estate Outlet
Newmarket Peter Downey, 218 Broadway, Auckland

SOUTH ISLAND

Blenheim Karyn Schrafft, 80 Market Street, Blenheim
Nelson Martine Robertson, 174 Trafalgar Street, Nelson
Cashel Street Matthew Reeves, Cnr Shades Arcade & Cashel Street, Christchurch
Merivale Nadine Cameron, Merivale Mall, 189 Papanui Road, Christchurch
Riccarton Brent Hutchinson, Westfield Shoppingtown Riccarton, Christchurch
Eastgate Janet Greenwood, Eastgate Shopping Centre, Christchurch
Northlands Donald Barr, Northlands Shopping Centre, 55 Main North Rd, Christchurch
Palms Michelle Clark, The Palms Mall, Cnr New Brighton & Marshlands Rds, Christchurch
Hornby Joanne James, Hornby Shopping Centre, Hornby
Timaru Wendy Anderson, 202 Stafford Street, Timaru
Dunedin Sonya Chalmers, 250 George Street, Dunedin
Invercargill Nicky Toshach, 66 Esk Street, Invercargill
Queenstown Marilyn Spinks, 23 Rees Street, Queenstown



notice of annual meeting

Notice is hereby given that the Annual Meeting of Shareholders of Michael Hill International Limited ("the Company") will be held at the ASB Lounge, Eden Park, Walters Ave entrance, Kingsland, Auckland; on Friday 7th November, 2003 at 2pm.

Business

The business of the meeting will be:

I. FINANCIAL STATEMENTS AND REPORTS

To receive and consider the Annual Report including the Financial Statements and the Auditor's Report for the period ended 30 June 2003.

2. RE-ELECTION OF ANN CHRISTINE HILL, MICHAEL ROBIN PARSELL AND LESLIE WAYNE PETERS AS DIRECTORS

To consider, and if thought fit, to re-elect Ann Christine Hill, Michael Robin Parsell, and Leslie Wayne Peters as Directors of the Company by passing the following Ordinary Resolutions:

- a. "That Ann Christine Hill be re-elected as a Director of the Company;"
- b. "That Michael Robin Parsell be re-elected as a Director of the Company;"
- c. "That Leslie Wayne Peters be re-elected as a Director of the Company;"

See *Explanatory Note*.

3. AUDITORS

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

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

4. REMOVAL OF CLAUSE 36.6 OF THE COMPANY'S CONSTITUTION

To consider, and if thought fit, to pass the following special resolution:

"That clause 36.6 of the Company's Constitution be revoked."

See *Explanatory Note*.

5. OTHER BUSINESS

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

PROXIES

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

CORPORATE REPRESENTATIVES

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

By order of the Board of Directors



WK Butler
Secretary

30 September 2003

Explanatory Note

RESOLUTION 2 – RE-ELECTION OF ANN CHRISTINE HILL, MICHAEL ROBIN PARSELL, AND LESLIE WAYNE PETERS AS DIRECTORS

Ann Christine Hill, Michael Robin Parsell, and Leslie Wayne Peters are currently Directors of the Company and retire by rotation in accordance with clause 33.5 of the Company's Constitution. Each, being eligible, offers themselves for re-election.

RESOLUTION 4 – REMOVAL OF CLAUSE 36.6 OF THE COMPANY'S CONSTITUTION

Clause 36.6 of the Company's Constitution currently reads:

Retirement benefits: *The Company may make a payment to a Director or former Director, or to his or her dependants, by way of a lump sum or pension, upon or in connection with the retirement or cessation of office of that Director, only if:*

- (a) *the total amount of the payment (or the base for the pension) does not exceed the total remuneration of the Director in his or her capacity as a Director in any three years chosen by the Company; or*
- (b) *the payment is authorised by an Ordinary Resolution; but nothing in this clause shall affect any amount paid to an executive Director upon or in connection with the termination of his or her employment with the Company, or the payment of any amount attributable to the contribution (or any normal subsidy related thereto) made by a Director to a superannuation scheme.*

RATIONALE FOR THE PROPOSAL

The Company has reviewed the directors' remuneration provisions in its constitution in the wake of the debate within the business community as to appropriate corporate governance policies.

As a result of this review, the Company and its directors have taken the view that it is appropriate to remove clause 36.6 to make it clear that the directors have no intention of taking any benefits on retirement from or cessation of office.

Removing clause 36.6 has the effect of removing the right of directors to make any such payments without first obtaining the approval of shareholders by way of an Ordinary Resolution.

EXCHANGE APPROVAL

On 30th July 2003, New Zealand Exchange Limited approved the text of resolution 4 and granted the Company a waiver from the requirement to obtain an independent solicitor's opinion on the proposed amendment to the Company's Constitution.

corporate directory

DIRECTORS

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

COMPANY SECRETARY

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

REGISTERED OFFICE

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

AUSTRALIAN HEAD OFFICE

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

SHARE REGISTRAR

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

SOLICITORS

Kensington Swan
PO Box 10246
Wellington
New Zealand

AUDITORS

Pricewaterhouse Coopers
188 Quay Street
Private Bag 92162
Auckland
New Zealand

PricewaterhouseCoopers
Waterfront Place
1 Eagle Street
Brisbane
Australia

BANKERS

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

WEBSITE

www.michaelhill.com



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Congratulations - Over 10 Years Service with MHJ

This year we would like to recognise those people who have dedicated many years of service to help Michael Hill Jeweller be the success we are today. Their long tenure illustrates their long term commitment to the success of the company. 5% of our employees have been with Michael Hill Jeweller over ten years.

Mike Parsell 21 years, **Suzanne McGrath** 19 years, **Mark Johnston** 18 years, **Graeme MacDonald** 18 years, **Sheila Flaws** 18 years, **Alf Wendt** 17 years, **Wayne Butler** 17 years, **Diane Potter** 17 years, **Wayne Bullock** 17 years, **Pamela Beckett** 17 years, **Yvonne Hunt** 17 years, **Chris Mayrseidl** 17 years, **Cheryl Johanson** 17 years, **Paul Williams** 16 years, **Donalda Barr** 16 years, **Judith Arrow** 16 years, **Kathryn Scott** 16 years, **Peter Downey** 16 years, **Kevin Phillips** 16 years, **Gillian Russell** 16 years, **Margaret Travers** 16 years, **Kirk Robinson** 16 years, **Gerald Adam** 16 years, **Phil Taylor** 16 years, **Claire Evelyn** 15 years, **Karin Teague** 15 years, **Wayne Edmonds** 15 years, **Aaron Duff** 15 years, **Brent Hutchinson** 15 years, **Ian Henderson** 15 years, **Ruth Brooks** 15 years, **Maureen Austin** 15 years, **Lyn Carr** 14 years, **Denise Henderson** 14 years, **Leon Whiting** 14 years, **Karyn Schrafft** 14 years, **Jackie Stapp** 14 years, **Shelley Henderson** 14 years, **Judith Robison** 13 years, **Dorothea Pouloupoulos** 13 years, **Colleen Walker** 13 years, **Lesley Tucker** 13 years, **Andrew Hutton** 13 years, **Colleen Toohill** 13 years, **Sue Freeman** 13 years, **Margaret Edwards** 13 years, **Steve Haywood** 13 years, **Grant Caldwell** 12 years, **Warwick Nicholson** 12 years, **Paul Little** 12 years, **Cliff Mason** 12 years, **Angie Hardy** 12 years, **Alyson Petrowski** 12 years, **Vanessa Bardet** 12 years, **Trish Priddis** 11 years, **David Laing** 11 years, **Joe de Aizpurua** 11 years, **Sue Klink** 11 years, **Brenda Watson** 11 years, **Darcy Harkins** 11 years, **Dona McEwen** 11 years, **Steven Gillespie** 11 years, **Greg Lilly** 11 years, **Sue Geraghty** 11 years, **Vivienne Hill** 11 years, **Shane Dance** 11 years, **Lynda Singleton** 11 years, **Greg Smith** 11 years, **Galina Hirtzel** 11 years, **Adrienne Brandon** 10 years, **Margaret Dun** 10 years, **Bronwyn Taylor** 10 years, **Elaine McKee** 10 years, **Robyn Mavin** 10 years, **Tom Lima** 10 years, **Roslyn Paola** 10 years, **Denise South** 10 years, **Rona Tomlinson** 10 years, **Ray Tester** 10 years, **Lisa Schrader** 10 years, **Susan Gill** 10 years, **Connie Lanfranco** 10 years, **Raj Nair** 10 years, **Janet McKenzie** 10 years, **Robyn Lee** 10 years, **Justin MacKinnon** 10 years, **Kim Smith** 10 years, **Avril Storey** 10 years, **Jacqueline Dance** 10 years