Annual Report 2014

michael hill®

INTERNATIONAL LIMITED

The Directors are pleased to present the annual report of Michael Hill International Limited for the year ended 30 June 2014

What's inside


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

Company Profile

Michael Hill International Limited owns the brands "Michael Hill" and "Emma & Roe" and operates a retail jewellery chain of 278 Michael Hill stores and 6 Emma & Roe stores in Australia, New Zealand, Canada and the United States as at 30 June 2014.

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

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

In September 2008, the Group entered the United States market and now has 8 stores in Illinois, Ohio and Minnesota.

2014 saw the opening of the first Emma & Roe store, following a successful trial during the preceding 18 months in five South East Queensland outlets under the trading name 'Captured Moments'. These stores carry unique jewellery collections consisting of bracelets and charms along with matching jewellery. The two brands are viewed as being complementary within the jewellery sector, with the Michael Hill brand continuing to focus on diamonds, bridal and fine jewellery. The name Emma & Roe takes its inspiration from the Hill family; "Emma", Sir Michael's daughter, and "Roe", Christine Lady Hill's maiden name.

As at 30 June 2014, the Group operates 52 Michael Hill stores in New Zealand, 164 in Australia, 54 in Canada, and 8 stores in the USA. In addition, there are 6 Emma & Roe stores in Australia. Around the world, the Group employs approximately 2,400 permanent employees in retail sales, manufacturing and administration roles.

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

Performance highlights
for the 12 months

- Revenue increased 9.9% to $483.935m
- Same store sales up 5.0%
- EBIT of $42.151m up 4.7%
- Revenue collected from PCPs of $31.719m
- Canadian segment achieved 10.1% same store sales increase and EBIT of CA $3.794m, up 238.5%
- First Emma & Roe concept store opened in Mackay in April. There are now six stores trading.
- Michael Hill website relaunched in November
- New diamond bridal range tested in the US and selected Canadian stores
- 19 new Michael Hill stores opened
- 15 Michael Hill stores refurbished
- 278 Michael Hill stores open at 30 June 2014
- Dividend steady at NZ 6.5 cents per share
- Equity ratio at 53.3%
- Dispute with Australian Taxation Office resolved

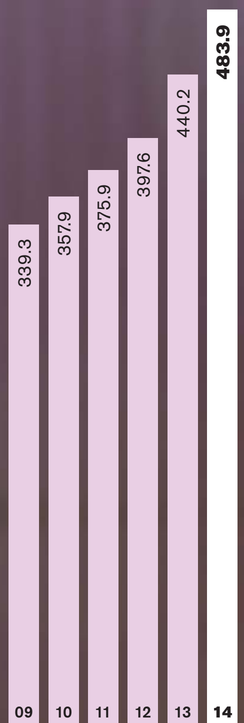
(all values stated in $AU unless stated otherwise)

Key facts

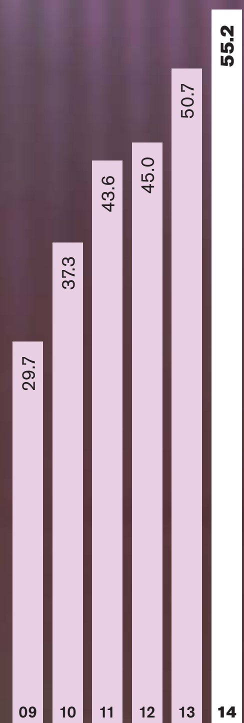
YEAR ENDED 30 JUNE / AU$000 unless stated	2014	2013	% change
TRADING RESULTS			
Group revenue	**483,935**	440,225	9.9%
Gross profit	**309,260**	280,357	10.3%
Earnings before interest and tax	**42,151**	40,259	4.7%
Group surplus after tax	**25,041**	32,099	-22.0%
- First half	**16,245**	22,032	-26.3%
- Second half	**8,796**	10,067	-12.6%
Net cash from operating activities	**14,689**	41,686	-64.8%
FINANCIAL POSITION AT YEAR END			
Contributed equity			
383,041,606 ordinary shares	**3,651**	3,424	6.6%
Total equity	**181,285**	173,685	4.4%
Total assets	**339,818**	292,335	16.2%
Net debt	**47,891**	17,539	173.1%
Capital expenditure	**23,227**	25,382	-8.5%
NUMBER OF STORES 30 JUNE			
New Zealand	**52**	52	
Australia	**164**	162	
Canada	**54**	45	
United States	**8**	8	
Michael Hill stores	**278**	267	
Emma & Roe stores	**6**	5	

YEAR ENDED 30 JUNE	2014	2013
DISTRIBUTION TO SHAREHOLDERS		
Dividends - including final dividend		
- Per ordinary share	**NZ6.5¢**	NZ6.5¢
- Times covered by surplus after tax	**1.08**	1.51
SHARE PRICE		
30 June	**NZ$1.24**	NZ$1.31
KEY DATA PER SHARE		
Basic earnings per share	**6.54¢**	8.38¢
Diluted earnings per share	**6.43¢**	8.24¢
KEY MEASURES		
Same store sales up (in local currency)		
- New Zealand	**-1.9%**	1.9%
- Australia	**0.8%**	4.3%
- Canada	**10.1%**	1.7%
- United States	**6.1%**	6.4%
Return on average shareholders' funds	**14.1%**	19.7%
Gross profit	**64.1%**	63.7%
Interest expense cover (times)	**7.8**	15.6
Equity ratio	**53.3%**	59.4%
Current ratio	**3.0:1**	3.0:1

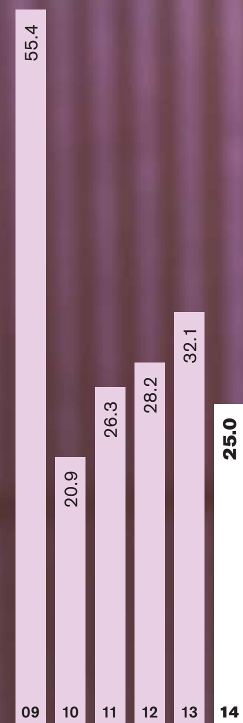
Key facts



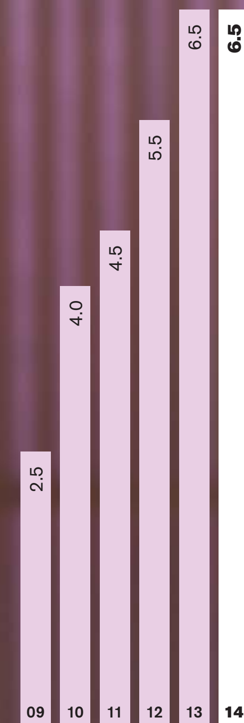
Group revenue up 9.9%
AU$ millions / year ended 30 June



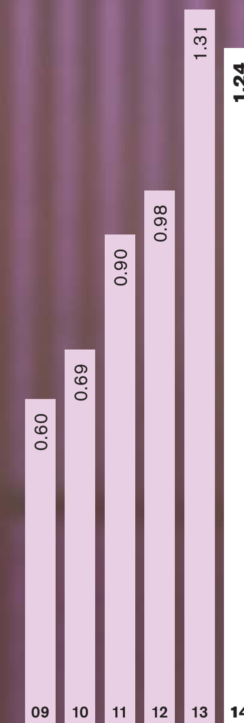
Earnings before interest, taxation, depreciation and amortisation (EBITDA) up 8.9%
AU$ millions / year ended 30 June



Net profit after tax down 22.0%
AU$ millions / year ended 30 June



Ordinary dividend
NZ cents per share / year ended 30 June



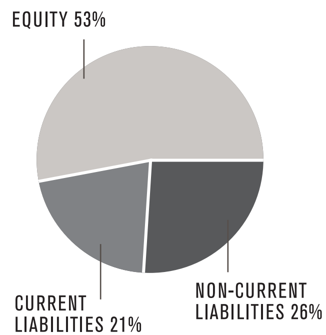
Share price performance
NZ$ / year ended 30 June

Return on average shareholders' funds 14%

% / year ended 30 June

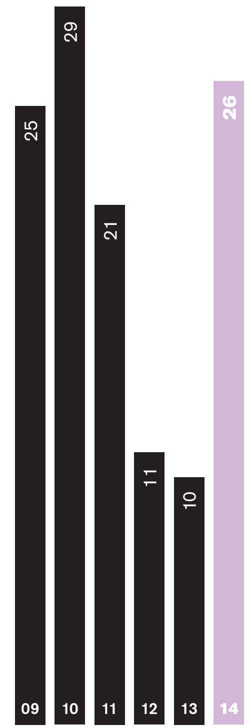
Return on average assets 8%

% / year ended 30 June



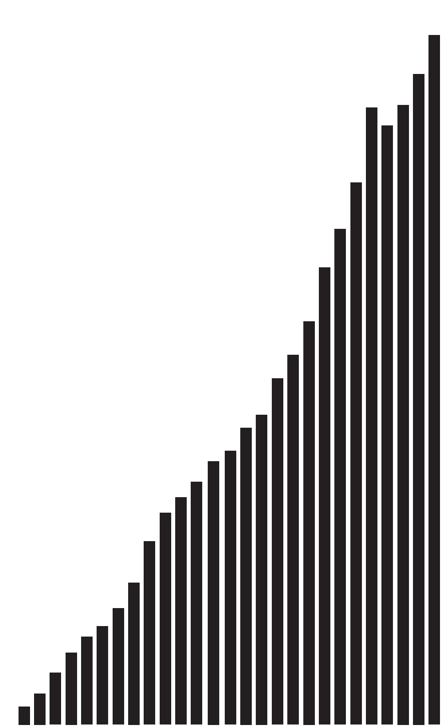
Source of funding

30 June 2014



Gearing ratio 26%

% / year ended 30 June



Total Michael Hill jewellery stores 278

1987-2014, year ended 30 June

“The Group will be focused on growing its e-commerce revenue and also refining the new Emma & Roe brand so it is positioned to provide growth opportunities in coming years...”

Chairman's Review

Dear Shareholders,

Our Group has reported a net profit after tax of $25.041m for the 2013-14 financial year and earnings before interest and tax of $42.151m, up 4.7% on the previous year. The Group's revenues of $483.935m were 9.9% up on the previous year. The net profit after tax was negatively impacted by the settlement of the dispute with the Australian Taxation Office (ATO) arising from the intellectual property transfer in 2008, resulting in a payment of income tax of $5.993m in the 2013-14 year. It should also be further noted that an amount of $2.313m is included in interest expense relating to the Group's participation in a New Zealand tax pool.

The Group continues to have a sound balance sheet with an equity ratio of 53.3% at 30 June 2014 (59.4% in 2013), and a working capital ratio of 3.0:1 (3.0:1 in 2013). Net operating cash flows were $14.689m compared to $41.686m the previous year. Net debt at 30 June 2014 was $47.891m compared to $17.539m at 30 June 2013. The drop in net operating cash flows and the increase in net debt have been driven to some extent by the respective tax payments, but was largely due to the increase in inventory from the decision to trial a new bridal range product in our US stores and selected Canadian stores. The Group remains in a good position to take advantage of growth opportunities as they arise.

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

For shareholders, the dividend for the year was 6.5 cents per share, with the final dividend of 4.0 cents per share being payable on 3 October 2014. The final dividend will have no imputation credits attached for New Zealand shareholders but full franking credits for Australian shareholders.

The Group is poised to take advantage of its maturing Australasian market which should see solid bottom line growth over the coming decade, as well as take advantage of the growth opportunities available in Canada. The Group is committed to continue testing of the potentially lucrative US market where we have made encouraging progress in recent years. In addition to these opportunities, the Group will be focussed on growing its e-commerce revenue and also refining the new Emma & Roe brand so it is positioned to provide growth opportunities in coming years. New store openings are being evaluated in all four markets however only the very best opportunities for the Group will be considered with an emphasis on growing same store profitability. It was especially pleasing to see the Australian segment lift profits during the period and to also witness the New Zealand business return to revenue growth in the second half of the period. Our Canadian segment performed strongly with good growth on both the sales line as well as profitability. As signalled in last year's review, two new stores in excellent quality malls were opened in the US during the period to test markets outside of Chicago and two stores in inferior locations were closed in Chicago. A new branded diamond bridal range was also trialled in both the US and Canada during the year with very pleasing results. These trials will continue with components rolled out across the Group in all markets.

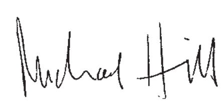
At the commencement of the year, the Group had two unresolved tax matters relating to the sale and financing of the intellectual property between New Zealand and Australian Group members in 2008, as previously reported.

The Group announced to the market on 1 April 2014 that its previously disclosed issues with the ATO arising from the transfer of the intellectual property (IP) from a New Zealand subsidiary to an Australian subsidiary had been fully resolved by way of the execution of a formal Deed of Settlement. Under that Deed, the Group agreed to pay an aggregate of $5.993m to the ATO. This amount is reflected in the income tax expense in the financial statements for the period ended 30 June 2014. The settlement acknowledged the Group's valuation of the IP and leaves in place the original deferred tax asset of NZ$50.197m and consequently all of the associated Australian income tax deductions for future years.

Discussions continue with the New Zealand Inland Revenue Department (IRD) within their dispute process framework, but it remains unclear when final resolution will be achieved in respect of this matter. As previously disclosed, they concern the tax treatment adopted by the Group in relation to the financing arrangements between New Zealand and Australian Group members for the 2009, 2010, 2011, 2012 and 2013 financial years. The aggregate amount of tax in respect of these years which is in dispute is NZ$31.042m. If the matter was determined against the Group, there is also a contingent liability for Use of Money Interest (UOMI) at the rates prescribed by the IRD in respect of those years. The Group has entered into a tax pooling arrangement to mitigate the impact of UOMI and this is reflected in the Group's interest expense at Note 7.

The Group continues to defend its position in relation to the relevant tax returns. The Board does not consider that this tax matter requires a provision in the Group's financial statements due to the uncertainty surrounding both the litigation being brought by the Inland Revenue and the inability to estimate any potential liability should it crystallise.

I would like to thank our Board for their wise advice and direction that gives us the confidence to pursue our goals and vision. In particular, I would like to extend my sincere thanks and appreciation to Wayne Peters who has made the decision to not stand for re-election this year. Wayne has been a director of MHI since 1999 and has been a great asset and significant contributor to the success of this business including being Chairman of the People Development / Remuneration Committee. The Board wish Wayne all the very best in his future endeavours.



Sir Michael Hill
Chairman

Chief Executive Officer’s Review of Operations

A review of priorities from last year

PRIORITIES	RESULTS
To drive same store sales and EBIT performance across the Group →	Group same store sales increased 5.0% and Group EBIT grew 4.7%
To open 20 new Michael Hill stores across the Group →	19 new stores were opened during the year.
To deliver a return on average shareholders' funds of 20% →	A return on average shareholders' funds of 18.4% was achieved excluding the one-off ATO tax settlement and the interest paid into the tax pool in New Zealand. Including these, return on average shareholders' funds was 14.1%.
To achieve further EBIT improvement in the Canadian operation →	Canadian segment EBIT improved 238.5% to CA$3.794m, an increase of CA$2.673m on the previous year.
To improve same store sales in the US operation through an increased focus on the bridal market →	Same store sales in the US increased 6.1% during the year.
To establish our e-commerce operation across all four countries →	The Group re-launched its website in all four countries in November 2013 with a much stronger focus on e-commerce.
To improve return on assets employed through increased efficiency in inventory management →	The Group selected and purchased two new inventory management systems. These are almost fully integrated and are expected to yield further efficiencies in coming years as the implementation is completed. Return on assets averaged 7.9% for the year vs last year of 11.7%

The Group has reported operating revenues of $483.935m, with earnings before interest and tax of $42.151m, up 4.7% on the previous year. After the one off settlement with the ATO, and interest paid into the tax pool in NZ, the Group reported a net profit after tax of $25.041m for the 2013-14 financial year.

A focus on growing same store sales and controlling costs across the Group resulted in same store sales growth of 5.0% and EBIT growth of 4.7%. There has also been an active strategy to reduce promotional events, which has resulted in margin improvement across all segments.

The continued growth in sales of our Professional Care Plans (PCP) has provided strong cash flow for the Group. The PCP program provides a comprehensive suite of services to our customers to ensure their jewellery is cared for in the years to come. Total sales of these plans grew by 19.6% this year to $31.719m.

This year we continued to build on our strategy to further establish Michael Hill as an international brand. This included the trial of an extensive range of new diamond bridal assortments, and exclusive branded collections in our US stores and selected Canadian stores. Whilst this trial boosted inventory levels initially, sales results have been very positive. We have also learnt a great deal and this has helped us build a global template to develop more proprietary brands and collections to further differentiate Michael Hill from our competitors. As a result of this trial the Group now plans to test these collections across all markets and stores. Our goal is to increase our branded collection sales each year going forward from this year's base of 13.9% of total sales. The objective of this initiative is to contribute to the continued growth in same store sales and gross profit margins.

The Group launched its new e-commerce platforms in November 2013, with the aim of increasing our share of online jewellery sales in all markets. Now these platforms are operational, we are also working through a plan to integrate our online and physical stores into a seamless omni-channel experience for our customers.

The Group opened 19 new Michael Hill stores during the year; one in New Zealand, six in Australia, ten in Canada and two in the United States. Eight stores were closed during the period, resulting in a total of 278 Michael Hill stores open across the Group at 30 June 2014.

Segment Results

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

Australia

OPERATING RESULTS (AU $000)	**2014**	**2013**	**2012**	**2011**	**2010**
Revenue	**302,024**	289,333	259,032	251,261	236,314
Operating surplus	**46,703**	42,225	36,798	38,650	38,105
As a % of revenue	**15.5%**	14.6%	14.2%	15.4%	16.1%
Average assets employed	**111,073**	102,041	90,160	81,020	79,931
Return on assets	**42.0%**	41.4%	40.8%	47.7%	47.7%
Number of stores	**164**	162	153	146	141

Total sales in Australian dollars increased 4.4% to AU$302.024m and same store sales increased by 0.8%. The operating surplus (EBIT) increased 10.6% to AU$46.703m and this represented 15.5% of sales (2013 – 14.6%). This was a solid year for the Australian business, especially given the current retail climate, and we feel confident we can build on this result further in the coming financial year.
Six new stores were opened in Australia during the period as follows:

- Craigieburn, Victoria
- Geraldton, Western Australia
- Hinkler, Queensland
- Ocean Keys, Western Australia
- Waurn Ponds, Victoria
- Woodgrove Melton, Victoria

Four stores were closed during the period.
There were 164 stores trading at 30 June 2014.

New Zealand

OPERATING RESULTS (NZ $000)	**2014**	**2013**	**2012**	**2011**	**2010**
Revenue	**109,693**	111,357	109,110	101,843	95,811
Operating surplus	**22,062**	22,128	21,550	18,484	16,050
As a % of revenue	**20.1%**	19.9%	19.8%	18.1%	16.8%
Average assets employed	**47,620**	45,249	40,979	37,946	39,454
Return on assets	**46.3%**	48.9%	52.6%	48.7%	40.7%
Number of stores	**52**	52	53	52	53
Exchange rate	**1.10**	1.25	1.28	1.30	1.23

Total sales decreased 1.5% to NZ$109.693m and same store sales decreased by 1.9%. The operating surplus (EBIT) remained steady at NZ$22.062m compared to NZ$22.128m for the previous corresponding period and represented 20.1% of sales (2013 – 19.9%).

The management changes within New Zealand at the commencement of the financial year included a restructure of the regional management team. As a result, the disruption caused in the first half was short lived, and during the course of the year the performance of the business improved accordingly. A focus on margin management and costs also assisted the segment's bottom line improvement over the course of the year.

One new store opened in Ashburton during the year and one store was closed. There were 52 stores trading at 30 June 2014.

Canada

OPERATING RESULTS (CA $000)	**2014**	**2013**	**2012**	**2011**	**2010**
Revenue	**69,025**	52,950	44,265	36,885	29,998
Operating surplus	**3,794**	1,121	518	(237)	(1,211)
As a % of revenue	**5.5%**	2.1%	1.2%	(0.6%)	(4.0%)
Average assets employed	**48,190**	36,101	27,583	22,837	17,593
Return on assets	**7.9%**	3.1%	1.9%	(1.0%)	(6.9%)
Number of stores	**54**	45	37	33	29
Exchange rate	**0.98**	1.03	1.03	0.99	0.94

Total sales in Canadian dollars grew by 30.4% to CA$69.025m and same store sales increased by 10.1%. The Canadian segment increased its operating surplus (EBIT) to CA$3.794m for the twelve months, up 238.5% from CA$1.121m for the previous corresponding period. This was a very pleasing result and reflects the efforts of the Canadian management team, the trial of new assortments, increased brand presence and marketing leverage as we grow towards a critical mass of stores. The brand is now well represented in British Columbia, Alberta, Saskatchewan and Manitoba. We are currently building our store base in Ontario, the largest market. We expect the business to continue to gain sales traction as we expand.
Ten new stores were opened in Canada during the period, as follows:

- Bayshore, Ontario
- Brentwood, British Columbia
- Dufferin, Ontario
- Guildford Town Centre, BC
- Hillcrest, Ontario
- Medicine Hat Mall, Alberta
- Niagara, Ontario
- Peter Pond, Alberta
- Place D'Orleans, Ontario
- Yonge Eglinton, Ontario

One store was closed during the period. There were 54 stores trading at 30 June 2014. The Group plans to open up to 10 new stores during the 2014-15 year subject to availability of suitable sites.

USA

OPERATING RESULTS (US $000)	2014	2013	2012	2011	2010
Revenue	**9,994**	10,265	9,576	8,133	10,574
Operating surplus	**(1,679)**	(2,359)	(2,650)	(3,410)	(6,264)
As a % of revenue	**(16.8%)**	(23.0%)	(27.7%)	(41.9%)	(59.2%)
Average assets employed	**10,864**	9,535	9,653	8,101	7,378
Return on assets	**(15.5%)**	(24.7%)	(27.5%)	(42.1%)	(84.9%)
Number of stores	**8**	8	9	9	9
Exchange rate	**0.92**	1.03	1.03	0.99	0.89

Same store sales in the eight US stores increased by 6.1%. The operating deficit (EBIT) reduced from US$2.359m to US$1.679m, a 29% improvement. Our focus remains on improving the performance of the existing stores over the coming twelve months. The Group's strategy moving forward is to continue refining our bridal assortments and our property portfolio. The Group tested new diamond bridal assortments and branded collections during the year and these certainly assisted in driving same store sales. Based on this success, the assortment will be refined and further testing of new branded collections will be continued in 2014-15. The Group also closed two stores in lower grade malls during the 2013-14 year and opened two new stores in triple "A" grade malls. These new stores are located in Columbus, Ohio, and Mall of America in Minneapolis.

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

There were 8 stores trading at 30 June 2014.

Emma & Roe

The Group announced the launch of the Emma & Roe brand in Australia on 16 April 2014. The concept for Emma & Roe was trialled during the preceding 18 months in five South East Queensland outlets under a different trading name (Captured Moments). A smaller range of the product had also been offered under this brand inside all Michael Hill stores.

After a successful trial period, the five trial stores were rebranded to Emma & Roe and a further store opened in Mackay, Queensland, in April 2014. There were six Emma & Roe stores trading at 30 June 2014. Going forward, Emma & Roe will be offered as a multi-channel offer, with a curated collection featured within Michael Hill stores (and e-commerce sites), as well as the full assortment and consumer experience offered in the dedicated Emma & Roe stores and e-commerce site. As we continue to test this business, the multi-channel strategy will assist us to build faster brand recognition across Australasia, and allow us to spearhead the brand name into North America through the Michael Hill stores.

North American Credit Program

The in-house credit program that launched in 2012 is now well established and starting to achieve many of the goals we set for this program. Our reliance on third party providers in North America had been a concern ever since the failure of our incumbent credit providers in our two North American markets to provide a consistent and reliable credit program to our customer base. The in-house credit strategy was not only designed to remove risks associated with utilising external providers, but also to create incremental revenue for our stores in Canada and the US. This function will involve significant capital over time, and to prove up this model the business will need to generate not only incremental revenue but also new revenue streams from interest and fees on the capital employed. Good progress has been made towards these objectives but there is still work to do to perfect this model.

Our Priorities

Our priorities for the 2014-15 financial year to build shareholder wealth are:

- To drive same store sales and EBIT performance across the Group
- To deliver 20% return on shareholder funds
- To open 20 new stores across the Group
- To open four Emma & Roe stores across Australasia, and prove up the model for further expansion
- To increase sales from our e-commerce operations and move towards implementing a customer focused omni-channel model
- To open at least ten new stores in Canada while delivering strong EBIT growth
- To continue the test of the US market and bring all eight stores to a cash positive position
- To continue to fine tune our in-house credit model in North America towards "best practice" within our industry
- To drive branded collection sales as a percentage of total business.

Our Thanks

It was pleasing to see strong progress made across all retail segments this year – especially the resurgence of our New Zealand segment and the strong performance of our Canadian segment. Our focus will continue on improving the existing business during 2014-15 through increased performance and controlling costs. We will also look for further growth through online and continued store openings for both the Michael Hill and Emma & Roe brands when suitable property opportunities arise.

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

Mike Parsell
Chief Executive Officer

Financial Review: discussion and analysis

Financial Performance

The Group's net profit after tax was $25.041m, down 22% on last year's net profit after tax of $32.099m. The result was impacted by the settlement of the dispute with the Australian Taxation Office arising from the intellectual property transfer in 2008, which resulted in a payment of income tax of $5.993m in the 2013-14 year. It should be further noted that an amount of $2.313m is included in interest expense relating to the Group's participation in a New Zealand tax pool, as detailed in notes 7 and 35 in the annual accounts.

Total operating revenue increased from $440.225m to $483.935m, a 9.9% increase.

The Australian retail segment achieved a same store sales increase of 0.8% and a segment result of $46.703m, an increase of 10.6% on the previous year's result of $42.225m.

The New Zealand retail segment returned a same store sales decrease of 1.9%, with the segment result marginally down on the prior year at NZ $22.062m.

The Canadian retail segment delivered a 10.1% same store sales increase and a record segment result of CA $3.794m, up 238.5% on CA $1.121m the previous year.

The US retail segment completed its fifth full year of trade and produced an improved segment loss of US $1.679m compared to a loss of US $2.359m the previous year. Same store sales increased 6.1% for the period.

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

Cash Flow

The Group has reported net operating cash inflows of $14.689m for the twelve months, down from $41.686m reported for the previous year. This reduction in operating cash flow has resulted primarily from the decision to trial a new bridal range of product in our US stores and selected Canadian stores last December. In addition, the Group settled the tax dispute with the Australian Taxation Office ($5.993m) and funds were paid ($2.313m) into a tax pool in New Zealand in relation to the ongoing dispute with the Inland Revenue. In-house customer finance receivables increased $4.908m during the period.

Net cash outflow relating to investing activities was $23.125m. 19 new stores were opened during the period.

Net cash inflow from financing activities was $5.868m compared to a net outflow of $16.426m last year, which was a result of increased borrowings during the 13-14 financial year.

Balance Sheet

Net assets increased from $173.685m at the end of the previous year to $181.285m. Total assets increased from $292.335m to $339.818m.

Net debt now stands at $47.891m with total borrowings increasing to $56m, from $28m. Total borrowings have increased due to the same reasons listed above that impacted net operating cashflows.

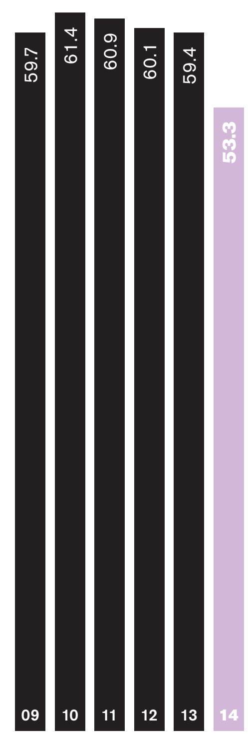
The equity ratio at year end was 53.3%, down from 59.4% last year. The current ratio was steady at 3.0:1 at 30 June 2014.

Events after Balance Date

There were no events after balance sheet date requiring disclosure.

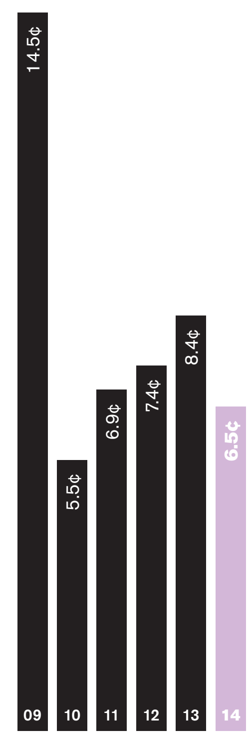
Shareholders Return

- Declared dividends total 6.5 cents per share, in line with 2012-13.
- Shares traded between a high of \$1.60 and a low of \$1.22, ending the year at \$1.24.
- Return on average equity was 14.1% compared to 19.7% last year.
- Return on average total assets was 7.9% compared to 11.7% last year.
- Both return on average equity and total assets were impacted by the ATO tax settlement and the Group's participation in a tax pool.



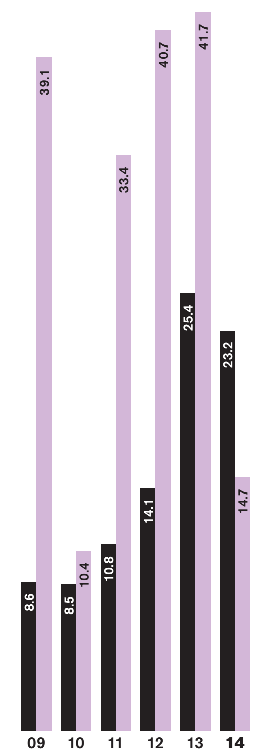
Equity ratio 53%

% / year ended 30 June



Earnings

Cents per share / year ended 30 June



Capital expenditure and net operating cash flow

AU\$ millions / year ended 30 June

■ CAPEX ■ Cash flow

Trend Statement

FINANCIAL PERFORMANCE	2014 $000	2013 $000	2012 $000	2011 $000	2010 $000	2009 $000
Group revenue	**483,935**	440,225	397,633	375,850	357,858	339,250
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**55,221**	50,711	45,023	43,640	37,302	29,683
Depreciation and amortisation	**13,070**	10,452	9,611	8,814	8,712	8,058
Earnings before interest and tax (EBIT)	**42,151**	40,259	35,412	34,826	28,590	21,625
Net interest paid	**5,376**	2,522	3,002	4,359	4,278	4,980
Net profit before tax (NPBT)	**36,775**	37,737	32,410	30,467	24,312	16,645
Income tax	**11,734**	5,638	4,200	4,161	3,413	(38,777)
Net profit after tax (NPAT)	**25,041**	32,099	28,210	26,306	20,899	55,422
Net operating cash flow	**14,689**	41,686	40,662	33,386	10,426	39,067
Ordinary dividends paid	**22,336**	18,482	15,021	11,689	9,203	9,869

FINANCIAL POSITION	2014 $000	2013 $000	2012 $000	2011 $000	2010 $000	2009 $000
Cash	**8,109**	10,461	9,488	6,580	5,178	19,217
Inventories	**179,280**	154,293	147,089	133,374	119,535	97,273
Other current assets	**25,204**	15,653	9,319	6,590	7,857	7,207
Total current assets	**212,593**	180,407	165,896	146,544	132,570	123,697
Other non-current assets	**58,488**	52,232	36,739	32,532	32,251	28,813
Deferred tax assets	**62,324**	56,064	50,403	46,703	48,184	47,851
Total tangible assets	**333,405**	288,703	253,038	225,779	213,005	200,361
Intangible assets	**6,413**	3,632	1,511	117	231	384
Total assets	**339,818**	292,335	254,549	225,896	213,236	200,745
Total current liabilities	**71,005**	60,977	54,101	44,078	38,173	30,463
Non-current borrowings	**56,000**	28,000	26,000	35,000	42,700	49,400
Other long term liabilities	**31,528**	29,673	21,586	9,347	1,436	1,042
Total liabilities	**158,533**	118,650	101,687	88,425	82,309	80,905
Net assets	**181,285**	173,685	152,862	137,471	130,927	119,840
Reserves and retained profits	**177,634**	170,261	149,500	134,187	127,748	116,661
Paid up capital	**3,702**	3,515	3,482	3,448	3,419	3,419
Treasury stock	**(51)**	(91)	(120)	(164)	(240)	(240)
Total shareholder equity	**181,285**	173,685	152,862	137,471	130,927	119,840

	2014	2013	2012	2011	2010	2009
Per ordinary share						
Basic earnings per share	**6.54¢**	8.38¢	7.37¢	6.88¢	5.46¢	14.49¢
Diluted earnings per share	**6.43¢**	8.24¢	7.34¢	6.85¢	5.45¢	14.47¢
Dividends declared per share - interim	**NZ2.5¢**	NZ2.5¢	NZ2.0¢	NZ1.5¢	NZ1.5¢	NZ1.0¢
- final	**NZ4.0¢**	NZ4.0¢	NZ3.5¢	NZ3.0¢	NZ2.5¢	NZ1.5¢
Net Tangible asset backing	**$0.46**	$0.44	$0.40	$0.36	$0.34	$0.31

ANALYTICAL INFORMATION	2014	2013	2012	2011	2010	2009
EBITDA to sales	**11.4%**	11.5%	11.3%	11.6%	10.4%	8.7%
EBIT to sales	**8.7%**	9.1%	8.9%	9.3%	8.0%	6.4%
Profit after tax to sales	**5.2%**	7.3%	7.1%	7.0%	5.8%	16.3%
EBIT to total assets	**12.4%**	13.8%	13.9%	15.4%	13.4%	10.8%
Return on average shareholders' funds	**14.1%**	19.7%	19.4%	19.6%	16.7%	57.7%
Return on average total assets	**7.9%**	11.7%	11.7%	12.0%	10.1%	30.5%
Current ratio	**3.0**	3.0	3.1	3.3	3.5	4.1
EBIT interest expense cover	**7.8**	15.6	11.2	7.8	6.4	4.1
Effective tax rate	**31.9%**	14.9%	13.0%	13.7%	14.0%	(233.0%)
Gearing						
Net borrowings to equity	**26.4%**	10.1%	10.8%	20.7%	28.7%	25.2%
Equity ratio	**53.3%**	59.4%	60.1%	60.9%	61.4%	59.7%
Other						
Shares issued at year end excl Treasury	**383,041,606**	382,849,544	382,775,586	382,664,473	382,468,900	382,468,900
Treasury stock at year end	**111,584**	203,646	277,604	388,717	584,290	584,290
Exchange rate for translating New Zealand results	**1.10**	1.25	1.28	1.30	1.23	1.22
Exchange rate for translating Canadian results	**0.98**	1.03	1.03	0.99	0.94	0.85
Exchange rate for translating United States results	**0.92**	1.03	1.03	0.99	0.89	0.71
Number of stores - New Zealand	**52**	52	53	52	53	53
- Australia	**164**	162	153	146	141	143
- Canada	**54**	45	37	33	29	26
- USA	**8**	8	9	9	9	17
Number of Michael Hill stores	**278**	267	252	240	232	239
Number of Emma & Roe stores	**6**	5	-	-	-	-

Community Spirit

Michael Hill takes pride in giving back to the communities surrounding its 284 stores. This year sponsorships and donations of products, gift vouchers and cash amounted to $622,000.

Emma & Roe has signed a five year sponsorship agreement with the Pink Hope Foundation

Krystal Barter, founder of Pink Hope was born with the BRACA 1 gene, a hereditary curse that has run through generation after generation of her family members, claiming up to twenty of her close relatives.

Pink Hope was set up to support families facing the trauma of hereditary ovarian and breast cancer. There are approximately 240,000 men and women in Australia who are at risk of carrying the hereditary gene fault putting them at high risk of breast, ovarian, prostrate and other cancers. Pink Hope provides information and tools to all Australian families to help them navigate their journey.

Emma & Roe by Michael Hill has partnered with Pink Hope to launch the Emma & Roe Pink Hope Collection, which is exclusive to Michael Hill and Emma & Roe stores. The collection consists of a beautiful pink leather bracelet, along with a collection of six exquisite charms.

15% of the gross profits from the sales of the Emma & Roe Pink Hope Collection will go to the Pink Hope Foundation, with a minimum commitment of $1.1 million over five years. We believe that with our customers' support, through the sales of this amazing collection we can triple this commitment and provide even greater support for the Pink Hope charity efforts.

The Emma & Roe Pink Hope Collection will be launched through all Michael Hill stores in September 2014 and Emma & Roe stores in October 2014.

www.pinkhope.org.au


Joseph Lin


Jacinta Campbell

The New Zealand Golf Open In 2014

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

This year, as a major sponsor, Michael Hill aligned with highly established brands BMW, Hilton, Callaway, and New Zealand Tourism to create opportunities around the competition and develop future relationships.

The new brand look was unveiled at this year's Michael Hill "store marquee". The layout allowed us to display the Designer Bridal collection for the first time in New Zealand, which received an overwhelmingly positive response from people attending the event. We also displayed our men's & women's watch range, charms from Captured Moments and the Infinitas collection.

We ran an engaging competition on the course called "Diamond in the Rough". Using an IPad with a digital flyover of the course, people selected the patch of rough where they thought the hidden diamond was located. We had 2,000 entries, with an excited, young, local couple from Arrowtown winning the prize.

We took over the tenth hole with a 3m x 5m billboard at the tee, advertising our hole in one prize of a stunning 2.51 carat ring from the Designer Bridal collection, valued at NZ$70,000.

The 2014 professional field attracted 132 professional golfers, including Rocco Mediate, Michael Hendry & Yuki Kono. The Michael Hill team included New Zealand chef Josh Emett, ex Silver Fern Julie Cooney and our long time business associate Sam Johnston. An Australian golfer was selected as part of a competition to raise awareness of the tournament across the Tasman.

Michael Hill International Violin Competition

This biennial competition, which is now recognised as being in the top four violin competitions in the world, will be held again in June 2015 and is already attracting world wide interest. The competition recognises and encourages young violinists between 18 and 28 years of age, and in 2013 attracted world class violinists from 27 countries.

Michael Hill is a proud naming right sponsor of the Michael Hill Series, part of the Harris Theatre's 2013/2014 season in Chicago. The series included three concert performances featuring the Chamber Music Society of Lincoln Centre.

The first concert, Brandenburg Concertos, was a festive holiday performance in December featuring Joseph Lin, winner of the first Michael Hill International Violin competition in 2001.

The second concert, French Revelations, saw performances of music from early 20th Century France.

The third and final concert was held in April and featured Cello Sonatas, a program of Beethoven's milestone works for the cello.

We look forward to continuing the sponsorship with the Harris Theatre in the 2014/15 season.

30 Days Of Fashion & Beauty 2013

Michael Hill was a diamond sponsor of the 2013 Thirty Days of Fashion & Beauty event. This is an Australian month-long fashion event in September with VIP events, celebrity ambassadors & fashion weekends. The sponsorship gave us an opportunity, with our advertising partner Bauer Media, to leverage the use of celebrities Georgia May Jagger and Jacinta Campbell. Jacinta attended our VIP events in Melbourne, Sydney and Brisbane, drawing a crowd at each. We also featured her on our Monthly point-of-sale in our Australian stores. Our jewellery was featured on models in the Michael Hill fashion show at Sydney's Town Hall on Fashion Weekend.

Celebrating our success

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

Macau 2013 Managers' Conference

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

Mike Parsell
Chief Executive Officer

Phil Taylor
Chief Financial Officer

Ross McKinnon
Chief Information Officer

Joe Talcott
Chief Marketing Officer

OUR SENIOR EXECUTIVE TEAM

Lindsay Corfield
Group Strategy and Distribution Executive

Tony Van Der Ark
Group Property Executive

Galina Hirtzel
Group Merchandising and Manufacturing Executive

Stewart Silk
Group Human Resources Executive

Kevin Stock
Retail General Manager, Australasia

Brett Halliday
Retail General Manager, Canada

Darcy Harkins
Retail General Manager, United States

Micah Walker
General Manager Emma & Roe

Our values and guiding principles

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

Internal strengths	+ Customer Needs	Values
A passion for customer satisfaction	+ Tailored, personal service	**People-focused** Delight the customer and our employees first, always, and often
Product orientation, value, occasion, and fashion	+ High quality, accessible, and attainable products	**Precision** Be the leader with high quality, attainable jewellery
Honesty, reputation, company history, and ethics	+ Trust and credibility	**Integrity** Build credibility with our honesty and ethics
Innovation and common sense	+ An empowering experience	**Adaptability** Embrace flexibility and customise every experience
A passion for brand and business success	+ Consistent, impactful brand experiences	**Driven** Take ownership of our business

Corporate governance

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

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

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

The Board is accountable for the performance of the Group

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

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

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

Board membership

The Constitution sets the size of the Board at a minimum of three and at least two Directors must be resident in New Zealand. The Board currently comprises eight Directors, including a Chairman, a Chief Executive Officer, and six non-executive Directors. During the year, the following change occurred in Board membership. Rob Fyfe was appointed by the Board on 6 January 2014 as an independent non-executive Director. The Board convened on five occasions in the financial year ended 30 June 2014. Profiles of the current Directors appear on pages 34-35 of this report. Under the Company's constitution, and the NZX Main Board listing rules ("listing rules"), one third of all Directors must retire every year, but can be re-elected at an annual meeting if eligible. Newly appointed Directors must seek re-election at the first annual meeting of shareholders following their appointment.

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

Gender composition of Directors and officers

As at 30 June 2014, two of the eight Directors of Michael Hill International Limited are female (2013: 2 females out of 7), and one of the twelve Group Executives are female (2013: 2 females out of 11).

Independent Directors

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

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

The Company has determined that Wayne Peters, Gary Gwynne, Gary Smith and Rob Fyfe are independent Directors under the listing rules.

Directors' meetings

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

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

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

	Board of Directors		Audit Sub-committee		People Development and Remuneration Sub-committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
Sir Michael Hill	5	4	-	-	-	-
M.R. Parsell	5	5	2	2	3	3
L.W. Peters	5	4	2	2	3	3
G.J. Gwynne	5	5	-	-	-	-
A.C. Hill	5	4	-	-	-	-
E.J. Hill	5	5	2	2	3	3
G.W. Smith	5	5	2	2	3	3
R.I. Fyfe	3	3	-	-	1	1

Board review

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

Chief Executive Officer performance review

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

Board Sub-committees

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

Audit Sub-committee

The Audit sub-committee, comprising Gary Smith as Chairman, Wayne Peters, and Emma Hill, met twice during the year.

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

People Development and Remuneration Sub-committee

This sub-committee comprises Wayne Peters as Chairman, Emma Hill, Gary Smith and Rob Fyfe. Mike Parsell attends in an advisory capacity. The main purpose of the sub-committee is to;

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

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

Nominations Sub-committee

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

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

Share Trading by Directors

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

The Director named below has disclosed to the Board under Section 148 of the Companies Act 1993, particulars of the following acquisition of relevant interests in the ordinary shares of the Company during the year.

Gary Smith acquired 30,000 shares on 19 and 20 March 2014 for AU$40,116.

Non-Executive Directors' Fees

Fees for non-executive Directors are based on the nature of their work and their responsibilities. The Group is now truly global with 82% of the Group's stores in Australia, Canada and the USA. Shareholders at the Annual Meeting in October 2013 approved a maximum amount of AU$650,000 to be paid to Directors.

Each NZ resident Director is currently paid NZ $95,000 per annum and our Australian resident Directors AU $95,000 per annum. An additional fee of 10% of the base fee is also paid to the chairs of the Audit sub-committee and the People Development and Remuneration sub-committee and an additional 33% of the base fee is also paid to the Deputy Chair to reflect increased responsibilities. No equity incentives are offered to non-executive Directors. Under the Company's constitution, shareholders are required to approve all retirement benefits for Directors, other than for Directors who were in office on or before 1 May 2004 and who have continued to hold office. It is not the intention to pay any such retirement allowances.

Employee Share Scheme

The Company has an Employee Share Scheme in operation for management. The scheme was designed to encourage store managers, regional managers and other senior employees of the Group to purchase shares in the Company. In order to provide a pool of shares for eligible employees to purchase, the Company from time to time will buy MHI shares on the New Zealand Stock Exchange. The rules of the scheme provide for the Company to on sell shares to purchasing Group employees at a 10% discount to the weighted average price for the ordinary shares during the 10 working day period ending 2 working days immediately prior to the date on which the Company offers shares to the Group's employees. The discount is deemed to be "financial assistance" under the Companies Act 1993. The Trustees of the scheme hold the shares for a restrictive period of one year, which is to promote the concept of encouraging long-term investing in the Company. In the year ended 30 June 2014, 92,062 shares were issued to staff at a price of NZ $1.26 in September 2013. The Company holds a further 111,584 shares which are held as "Treasury Stock" and will be used for the next issue of shares under the scheme in September 2014.

Share Options

During the year, a total of 5,900,000 options to purchase fully paid shares in the Company were issued to executive management of the Group. 300,000 options were cancelled and 100,000 were exercised during the year. There are currently 12,750,000 options outstanding to employees as at 30 June 2014. Further information on options outstanding to employees is included in note 32 to the financial statements on page 73.

Communication with Shareholders

MHI places high importance on communication with shareholders.

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

A half-year and annual report are published each year and posted on the website as are copies of presentations for analysts and investors which are prepared in conjunction with the release of the half-year and annual results.

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

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

Continuous disclosure policy

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

1. At each Board meeting, a standard agenda item is now considered – "Does the Group have anything to disclose?" The Board considers the information in its possession and decides appropriately whether any information needs to be disclosed to the market.
2. Between Board meetings, management will bring to the attention of the Directors any information they believe should be disclosed to the market for their consideration.
3. The Company normally releases a trading update for each quarter within 10 working days of the end of the quarter. This update gives a breakdown of year to date sales by country and an update on the trading conditions experienced in the last quarter and any other relevant information. For the second and fourth quarters, this update will be given in advance of the full earnings announcement made to the NZX.
4. For the 12 months ended 30 June 2014, all the announcements and disclosures made by the Company under the continuous disclosure rules can be viewed on the Company's investor website **investor.michaelhill.com**

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

External audit independence policy

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

The policy covers the following areas:

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

Provision of non-audit services by the external auditing firm

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

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

Valuations
Prohibited.

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

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

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

Litigation Support Services
Permitted with safeguards.

Legal Services
Permitted where immaterial to the financial statements.

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

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

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

Fees and billings

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

For the 2013/14 financial year, audit fees amounting to AU$317,302 (2012/13 – AU$254,649) and fees for other advisory services amounting to AU$27,036 (2012/13 - AU$60,382) were paid to Ernst & Young.

Hiring of staff from the external auditing firm

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


EMMA & ROE
ALWAYS BE INSPIRED

Risk Management Report

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

Risk Management Process

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

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

A formal risk management workshop is conducted annually by our risk consultants in conjunction with the company's executive team to review and update the risk register which is included in the Audit sub-committee agenda for consideration.

Insurance Program

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

Internal Audit

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

Code of Ethics

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

Corporate code of ethics

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

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

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

Our Employees

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

Our Customers

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

Our Business Partners

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

Our Shareholders

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

Our Communities

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

Group Property and Assets

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

Governments

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

Share trading by Directors and Officers in MHI shares

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

  Material Information is information that:
  - Is not generally available to the market; and
  - If it were generally available to the market, would have a material effect on the price of MHI's listed securities. Information is generally available to the market if it has been released as an NZX announcement.
- There are additional restrictions for Directors and all other senior executives who report to the Chief Executive Officer (CEO), as well as anyone else who has been advised by the Company that they are a "restricted" person. These individuals are subject to "black-out" periods during which they may not trade in MHI securities unless the board of MHI provides a specific exemption.

  These 'black-out' periods are
  - 1 December, until after the half year results are released to NZX.
  - 1 June, until after the full year results are released to NZX.
- Before trading in MHI shares, Directors and officers must, in writing
  i) Notify MHI's Company Secretary of their intention to trade in securities and seek consent to do so.
  ii) Confirm that they do not hold material information.
  iii) Confirm that there is no known reason to prohibit trading in MHI securities.
- From 3 May 2004, all officers of the Company (as defined by the Securities Amendment Act 2003) must also disclose to the Company and to the NZX within 5 days, any dealings in MHI shares.

The full insider trading policy of the Company is posted on the Company's website.

Conflicts of Interests

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

Speaking up

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

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

Director Profiles

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

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

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

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

Wayne Peters

Non-executive and Independent Director. Wayne, who is based in Sydney, has 30 years of retailing and investment management experience. He is Chairman and Chief Investment Officer of Peters MacGregor Capital Management Ltd.

Member of the Audit and Nominations sub-committees and Chairman of the People Development / Remuneration sub-committee. Wayne joined the Board in February 1999.

Ann Christine Lady Hill

Non-executive Director. Christine has been associated with the Company since its original formation in 1979 and has been closely involved with the artistic direction of the Group's store design and interior layouts over the years. She joined the Board in 2001.

Gary Smith

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

Rob Fyfe

Non-executive and Independent Director. Rob was appointed to the Board in January 2014. He is currently a director and CEO of New Zealand merino wool clothing company Icebreaker and a board Director of Antarctica New Zealand. Rob served as CEO of Air New Zealand between 2005 and 2012, a period that saw a resurgence in Air New Zealand to become one of the most recognized and awarded airlines in the world and one of the best financial performers in a tough industry.

Rob is Chairman of the Nominations sub-committee and a member of the People Development / Remuneration sub-committee.

The Group has recorded a tax paid surplus of $25.041m for the year ended 30 June 2014

Statutory Report of the Directors

The Directors have pleasure in submitting to shareholders the 27th Annual Report and audited accounts of the Company for the year ended 30 June 2014.

Business Activities

The Group's primary business activities during the 2013/14 financial year continued to be jewellery retailing and manufacturing.

Consolidated Financial Results

The Group has recorded a tax paid surplus of $25.041m for the year ended 30 June 2014 (2013 - $32.099m). This surplus was achieved on total operating revenue of $483.935m (2013 - $440.225m).

The accounts for the year ended 30 June 2014 have been presented in accordance with the accounting principles and policies detailed on pages 46 to 51 of this report.

	2014 $000	**2013** $000
Total operating revenue	483,935	440,225
Surplus before tax	36,775	37,737
Taxation	(11,734)	(5,638)
Surplus after tax	25,041	32,099
Dividends paid	(22,336)	(18,482)
Net surplus retained	2,705	13,617

Shareholders' Funds/Reserves

Total shareholders' funds of the Group now stand at $181.285m. Contributed equity increased to $3.651m due to shares issued under the employee share scheme and options exercised.

The Group's reserves at 30 June 2014 totalled $177.634m.

	$000
The Group's reserves at 30 June 2013 were	**170,261**
To which was added:	
Operating surplus after tax for the year	25,041
Exchange differences on translation of foreign operations	4,239
Option reserve movement	706
Cash flow hedges	(277)
From which was deducted:	
Ordinary dividends paid	(22,336)
Leaving reserves at 30 June 2014 at	**177,634**
These comprise:	
Retained earnings	171,838
Other reserves	5,796
	177,634

Accounting Policies

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

Dividends

Your Directors paid an interim dividend of NZ2.5 cents per share, with nil imputation credits and full franking credits attached on 1 April 2014. On 14 August 2014, your Directors declared a final dividend of NZ4.0 cents per share payable on 3 October 2014. The share register will close at 5:00pm on 26 September 2014 for the purpose of determining entitlement to the final dividend.

The total ordinary dividend for the year is NZ6.5 cents (not imputed), (2013 – NZ6.5 cents not imputed). The payout represents 92.5% (2013 – 66.3%) of the tax paid profit of the Group.

Directors

Sir Michael Hill retires by rotation and being eligible offers himself for re-election at the next annual meeting of shareholders on 29 October 2014. Wayne Peters will be retiring from the board at the annual meeting on 29 October 2014. Rob Fyfe, having been appointed a Director by the Board on 6 January 2014, must offer himself for election at the annual meeting of shareholders on 29 October 2014.

Directors' Remuneration

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

	2014 $000	2013 $000	
Sir Michael Hill*	NZ$190	NZ$170	
M.R. Parsell*	$1,744	$1,347	
E.J. Hill	NZ$126.35	NZ$85	
Ann Christine Lady Hill	NZ$95	NZ$85	
G.J. Gwynne	NZ$95	NZ$85	
R.I. Fyfe	NZ$47.5	-	*Appointed 6 Jan 2014
L.W. Peters	$104.5	$85	
G.W. Smith	$104.5	$56	
M.R. Doyle	-	NZ$29	*Resigned 2 Nov 2012
D.W. McGeoch (Colvin)	-	$77	*Resigned 10 May 2013

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

Mike Parsell's annual bonus for the year is based on a percentage of the Group's net profit after tax, in excess of a hurdle rate of return on capital employed in the Group. Mike Parsell has the following share options outstanding as at 30 June 2014:

Number	Exercise Price	Exercise Period
2,000,000	NZ$1.25	20/8/12 – 30/9/17
400,000	NZ$0.94	20/8/14 – 30/9/19
400,000	NZ$0.88	20/8/15 – 30/9/20
400,000	NZ$1.16	20/8/16 – 30/9/21
400,000	NZ$1.41	20/8/17 – 30/9/22
400,000	NZ$1.82	20/8/18 – 30/9/23
2,000,000	NZ$1.82	20/8/18 – 30/9/23

Remuneration of Employees

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

$000	2014	2013
100-110	18	16
110-120	20	15
120-130	22	14
130-140	10	12
140-150	4	6
150-160	10	7
160-170	4	5
170-180	4	3
180-190	3	1
190-200	1	-
210-220	2	1
230-240	1	-
240-250	-	1
250-260	-	1
260-270	-	1
270-280	-	2
280-290	-	1
290-300	1	-
310-320	1	1
320-330	1	-
350-360	1	1
360-370	2	-
370-380	-	1
410-420	1	-
440-450	1	-
570-580	-	1
720-730	1	-

New Zealand remuneration has been converted into Australian dollars at the exchange rate used for translating the Australian results into New Zealand dollars, 1.10 (2013 – 1.25). Canadian remuneration on the same basis at 0.98 (2013 – 1.03) and USA remuneration on the same basis at 0.92 (2013 – 1.03).

Information on Directors

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

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

The Company appoints independent chartered accountants to audit the financial statements prepared by the Directors and to express an opinion on these financial statements. The independent auditor's report, which sets out their opinion and the basis of that opinion, is set out on page 40 of this report.

Donations

The total of donations made during the year amounted to $27,000.

Interests register

In accordance with the Company's constitution and the Companies Act 1993, the Company has provided insurance for and indemnities to Directors of the Company. Rob Fyfe has disclosed that he is a Director of Icebreaker Limited and a Director of Antarctica New Zealand.

On behalf of the Directors,

Sir Michael Hill Mike Parsell

111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

T +61 7 3011 3333
F +61 7 3011 3100
ey.com/au

Building a better working world

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

Report on the Financial Statements

We have audited the financial statements of Michael Hill International Limited and its subsidiaries on pages 42 to 78, which comprise the statement of financial position of Michael Hill International Limited and the Group as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Company and Group, and a summary of significant accounting policies and other explanatory information.

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

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

Opinion

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

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Michael Hill International Limited and the group as at 30 June 2014 and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

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

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

Ernst + Young

Ernst & Young
14 August 2014
Brisbane

Financial statements

The Directors are pleased to present the financial statements of Michael Hill International Limited for the year ended 30 June 2014. The Board of Directors of Michael Hill International Limited authorised these financial statements for issue on 14 August 2014.

Sir Michael Hill
Chairman of Directors

Mike Parsell
Chief Executive Officer/Director

michael hill
INTERNATIONAL LIMITED

Statements of comprehensive income for the year ended 30 June 2014

	NOTES	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Revenue from continuing operations	5	**483,935**	440,225	32,037	18,399
Other income	6	**764**	332	-	6
Cost of goods sold		**(173,504)**	(159,681)	-	-
Employee benefits expense		**(127,010)**	(112,707)	(54)	(80)
Occupancy costs	7	**(47,287)**	(41,761)	-	-
Selling expenses		**(23,203)**	(24,707)	(3)	-
Marketing expenses		**(26,818)**	(24,360)	-	-
Depreciation and amortisation expense	7	**(13,070)**	(10,452)	(25)	(21)
Loss on disposal of property, plant and equipment	7	**(1,133)**	(100)	-	-
Other expenses		**(30,463)**	(26,464)	(2,948)	(2,309)
Finance costs	7	**(5,436)**	(2,588)	-	-
Profit before income tax		**36,775**	37,737	29,007	15,995
Income tax (expense) / benefit	8	**(11,734)**	(5,638)	828	642
Profit for the year		**25,041**	32,099	29,835	16,637
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Cash flow hedges		**(277)**	-	-	-
Currency translation differences arising during the year		**4,239**	7,030	28,585	16,060
Other comprehensive income for the year, net of tax		**3,962**	7,030	28,585	16,060
Total comprehensive income for the year		**29,003**	39,129	58,420	32,697
Total comprehensive income for the year is attributable to:					
Owners of Michael Hill International Limited		**29,003**	39,129		
Earnings per share attributable to the ordinary equity holders of the Company during the year, attributable to continuing operations:					
Basic earnings per share	29	**6.54¢**	8.38¢		
Diluted earnings per share	29	**6.43¢**	8.24¢		

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

Statements of financial position as at 30 June 2014

	NOTES	GROUP 2014 $000	GROUP 2013 $000	GROUP 1 July 2012 $000	PARENT 2014 $000	PARENT 2013 $000	PARENT 1 July 2012 $000
ASSETS							
Current assets							
Cash and cash equivalents	9	**8,109**	10,461	9,488	(2)	15	28
Trade and other receivables	10	**25,143**	15,653	9,319	8,576	735	2,998
Inventories	11	**179,280**	154,293	147,089	-	-	-
Current tax receivables	12	**61**	-	-	-	-	1
Total current assets		**212,593**	180,407	165,896	8,574	750	3,027
Non-current assets							
Trade and other receivables	13	**480**	1,092	-	-	-	-
Property, plant and equipment	14	**55,400**	49,140	35,600	45	62	76
Intangible assets	16	**6,413**	3,632	1,511	-	-	-
Deferred tax assets	15	**62,324**	56,064	50,403	(4)	(7)	(3)
Other non-current assets	17	**2,608**	2,000	1,139	-	-	-
Investments in subsidiaries	18	**-**	-	-	293,557	264,364	247,644
Total non-current assets		**127,225**	111,928	88,653	293,598	264,419	247,717
Total assets		**339,818**	292,335	254,549	302,172	265,169	250,744
LIABILITIES							
Current liabilities							
Trade and other payables	19	**42,034**	41,286	40,316	77	91	57
Current tax liabilities	20	**-**	2,706	4,189	-	-	-
Provisions	21	**4,235**	3,844	3,044	-	-	-
Deferred revenue	22	**24,736**	13,141	6,552	-	-	-
Total current liabilities		**71,005**	60,977	54,101	77	91	57
Non-current liabilities							
Borrowings	23	**56,000**	28,000	26,000	-	-	-
Provisions	24	**1,740**	1,680	1,622	-	-	-
Deferred revenue	25	**29,788**	27,993	19,964	-	-	-
Total non-current liabilities		**87,528**	57,673	47,586	-	-	-
Total liabilities		**158,533**	118,650	101,687	77	91	57
Net assets		**181,285**	173,685	152,862	302,095	265,078	250,687
EQUITY							
Contributed equity	26	**3,651**	3,424	3,362	3,651	3,424	3,362
Reserves	27	**5,796**	1,128	(6,016)	35,045	5,754	(10,420)
Retained profits	27	**171,838**	169,133	155,516	263,399	255,900	257,745
Total equity		**181,285**	173,685	152,862	302,095	265,078	250,687

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

Statements of changes in equity for the year ended 30 June 2014

Attributable to members of Michael Hill International Limited	Notes	GROUP						PARENT				
		Contributed equity	Options reserve	Foreign currency translation reserve	Cash flow hedge reserve	Retained profits	Total equity	Contributed equity	Options reserve	Foreign currency translation reserve	Retained profits	Total equity
		$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 July 2012		3,362	1,098	(7,114)	-	155,516	152,862	3,362	1,098	(11,518)	257,745	250,687
Profit for the year		-	-	-	-	32,099	32,099	-	-	-	16,637	16,637
Currency translation differences		-	-	7,030	-	-	7,030	-	-	16,060	-	16,060
Total comprehensive income		-	-	7,030	-	32,099	39,129	-	-	16,060	16,637	32,697
Transactions with owners in their capacity as owners:												
Dividends paid	28	-	-	-	-	(18,482)	(18,482)	-	-	-	(18,482)	(18,482)
Employee shares issued	32(b)	62	-	-	-	-	62	62	-	-	-	62
Option expense through share based payments reserve	32(c)	-	114	-	-	-	114	-	114	-	-	114
		62	114	-	-	(18,482)	(18,306)	62	114	-	(18,482)	(18,306)
Balance at 30 June 2013		3,424	1,212	(84)	-	169,133	173,685	3,424	1,212	4,542	255,900	265,078
Profit for the year		-	-	-	-	25,041	25,041	-	-	-	29,835	29,835
Currency translation differences		-	-	4,239	-	-	4,239	-	-	28,585	-	28,585
Currency forward contracts		-	-	-	(17)	-	(17)	-	-	-	-	-
Interest rate swaps		-	-	-	(260)	-	(260)	-	-	-	-	-
Total comprehensive income		-	-	4,239	(277)	25,041	29,003	-	-	28,585	29,835	58,420
Transactions with owners in their capacity as owners:												
Dividends paid	28	-	-	-	-	(22,336)	(22,336)	-	-	-	(22,336)	(22,336)
Issue of share capital - exercise of options	32(a)	102	-	-	-	-	102	102	-	-	-	102
Employee shares issued	32(b)	113	-	-	-	-	113	113	-	-	-	113
Option expense through share based payments reserve	32(c)	-	758	-	-	-	758	-	758	-	-	758
Cancellation of issued options	32(c)	-	(40)	-	-	-	(40)	-	(40)	-	-	(40)
Transfer option reserve to contributed equity on exercise of options		12	(12)	-	-	-	-	12	(12)	-	-	-
		227	706	-	-	(22,336)	(21,403)	227	706	-	(22,336)	(21,403)
Balance at 30 June 2014		3,651	1,918	4,155	(277)	171,838	181,285	3,651	1,918	33,127	263,399	302,095

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

Cash flow statements for the year ended 30 June 2014

	NOTES	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		**540,581**	496,232	-	-
Payments to suppliers and employees (inclusive of goods and services tax)		**(472,170)**	(410,727)	(3)	(2)
		68,411	85,505	(3)	(2)
Interest received		**60**	66	-	-
Other revenue		**765**	348	-	-
Interest paid		**(5,357)**	(2,225)	-	-
Income tax paid		**(15,542)**	(9,442)	-	-
Net goods and services tax paid		**(33,648)**	(32,566)	-	-
Net cash inflow / (outflow) from operating activities	33	**14,689**	41,686	(3)	(2)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**102**	415	-	-
Payments for property, plant and equipment		**(19,687)**	(24,691)	(2)	(3)
Payments for intangible assets		**(3,540)**	(691)	-	-
Net cash inflow / (outflow) from investing activities		**(23,125)**	(24,967)	(2)	(3)
Cash flows from financing activities					
Proceeds from borrowings		**90,000**	71,000	-	-
Repayment of borrowings		**(62,000)**	(69,000)	-	-
Proceeds from sale of treasury stock		**102**	56	-	-
Payments from share options exercised		**102**	-	102	-
Dividends paid to Company's shareholders	28	**(22,336)**	(18,482)	(22,336)	(18,482)
Intercompany advance		**-**	-	22,222	18,475
Net cash inflow / (outflow) from financing activities		**5,868**	(16,426)	(12)	(7)
Net increase / (decrease) in cash and cash equivalents		**(2,568)**	293	(17)	(12)
Cash and cash equivalents at the beginning of the financial year		**10,461**	9,488	15	28
Effects of exchange rate changes on cash and cash equivalents		**216**	680	-	(1)
Cash and cash equivalents at end of year	9	**8,109**	10,461	(2)	15

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

Notes to the financial statements cont. for the year ended 30 June 2014

NOTE 1 Summary of significant accounting policies

(a) BASIS OF PREPARATION

The financial statements for the year ended 30 June 2014 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities.

Compliance with IFRS

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

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

Entities reporting

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

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

Statutory base

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 14 August 2014.

The reporting currency used in the preparation of these consolidated financial statements is Australian dollars, rounded to the nearest thousand.

Historical cost convention

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

(b) PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Michael Hill International Limited ('Company' or 'Parent Entity') as at 30 June 2014 and the results of all subsidiaries for the year then ended. Michael Hill International Limited and its subsidiaries together are referred to in these financial statements as the Group or the Consolidated Entity.

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

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

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

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

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

(c) SEGMENT REPORTING

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

(d) FOREIGN CURRENCY TRANSLATION

(i) **Functional and presentation currency**

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

(ii) **Transactions and balances**

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

(iii) **Group companies**

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

- assets and liabilities for each statements of financial position presented are translated at the closing rate at the date of the statements of financial position;

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

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

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

(iv) **Presentation currency - change in accounting policy**

The Group's revenues, profits and cash flows are primarily generated in Australian dollars (AUD) and are expected to remain principally denominated in Australian dollars in the future. During the year, the Group changed the currency in which it presents its consolidated financial statements from New Zealand dollars to Australian dollars, in order to better reflect the underlying performance of the Group.

A change in presentation currency is a change in accounting policy which is accounted for retrospectively. Statutory financial information included in the Group's annual report for the year ended 30 June 2013, previously reported in New Zealand dollars, has been restated into Australian dollars using the procedures outlined below:

- Assets and liabilities denominated in currencies other than AUD were translated into AUD at the closing rates of exchange on the last day of the relevant accounting period.
- Revenues and expenses in currencies other than AUD were translated into AUD at the monthly average rate of exchange over the relevant accounting period.
- The cumulative translation reserves were set to nil at 30 June 2010, the date the current accounting system was implemented, and these reserves have been restated on the basis that the Group has reported in AUD since that date.
- Share capital, treasury stock and reserves were translated at the historic rates prevailing at 30 June 2010, and subsequent rates prevailing on the date of each transaction.
- In each case, the rates of exchange were consistent with those used by the Group in the relevant accounting period.

(e) REVENUE RECOGNITION

(i) **Sales of goods - retail**

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

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

(ii) **Rendering of services - deferred service revenue**

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

(iii) **Rendering of services - repairs**

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

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

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

(v) **Interest income**

Interest income is recognised using the effective interest method.

(f) INCOME TAX

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

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

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

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

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

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

Notes to the financial statements cont. for the year ended 30 June 2014

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

(g) LEASES

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

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

(h) IMPAIRMENT OF ASSETS

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

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

The discount rates used in determining the recoverable amount ranged between 10.5% and 12.0% (2013: 10.0% and 11.5%).

(i) CASH AND CASH EQUIVALENTS

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

(j) TRADE AND OTHER RECEIVABLES

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

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

(k) DEFERRED EXPENDITURE

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

(l) INVENTORIES

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

(m) INVESTMENTS AND OTHER FINANCIAL ASSETS

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

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

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

(ii) **Loans and receivables**

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

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

(n) DERIVATIVES

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

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

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

(i) **Fair value hedge**

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

(ii) **Cash flow hedge**

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

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

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

(o) FAIR VALUE ESTIMATION

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

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

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

(p) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

(q) INTANGIBLE ASSETS

Computer software

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

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

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

(r) TRADE AND OTHER PAYABLES

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

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

(s) BORROWINGS

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

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

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

Notes to the financial statements cont. for the year ended 30 June 2014

(t) PROVISIONS

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

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

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

(u) EMPLOYEE BENEFITS

(i) **Short-term obligations**

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

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

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

(iii) **Retirement benefit obligations**

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

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

(iv) **Share-based payments**

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

The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date for the options issued during 2014 were independently determined using a Binomial option pricing model, which is an iterative model for options that can be exercised at times prior to expiry. The model takes into account the grant date, exercise price, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. It also assumes the options will be exercised at the mid-point of the exercise period.

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

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

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

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

(v) CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

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

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

(w) DIVIDENDS

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

(x) EARNINGS PER SHARE

(i) **Basic earnings per share**

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

(ii) **Diluted earnings per share**

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

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

Certain new standards, amendments and interpretations of existing standards have been published that are not mandatory for 30 June 2014 reporting periods.

- **NZ IFRS 9 'Financial Instruments: Classification and measurement'**

(effective 1 January 2015). NZ IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. The Group has not yet assessed the potential impact of this change.

- **NZ IFRS 15 Revenue from Contracts with Customers**

(effective 1 January 2017). NZ IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. NZ IFRS 15 supersedes:

(a) NZ IAS 11 Construction Contracts
(b) NZ IAS 18 Revenue
(c) NZ IFRIC 13 Customer Loyalty Programmes
(d) NZ IFRIC 15 Agreements for the Construction of Real Estate
(e) NZ IFRIC 18 Transfers of Assets from Customers
(f) NZ SIC-31 Revenue – Barter transactions Involving Advertising Services.

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

The standard is not applicable until 1 January 2017 but is available for early adoption. The Group has not yet assessed the potential impact of this change.

NOTE 2 Financial risk management

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

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

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

(a) MARKET RISK

(i) **Foreign exchange risk**

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

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

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

The cash flow hedges of the expected future purchases were assessed to be highly effective and a net unrealised loss of $17,000 (2013: $0) is included in Other comprehensive income. The fair value liability is included in Trade and other payables.

Forward exchange contracts - cash flow hedges

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

	Sell Australian Dollars		Average Exchange Rate	
	2014	**2013**	**2014**	**2013**
	US$000	US$000		
Buy US Dollars				
Maturity 0 - 3 months	**9,000**	-	0.9382	-

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

Notes to the financial statements cont. for the year ended 30 June 2014

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

	30 June 2014			30 June 2013		
	USD $000	**NZD** $000	**CAD** $000	**USD** $000	**NZD** $000	**CAD** $000
Cash and cash equivalents	654	2,683	1,928	677	3,430	2,172
Trade receivables	1,590	1,652	8,834	450	1,343	4,434
Trade payables	2,167	1,128	206	2,357	787	798

Group sensitivity

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

Based on the USD trade payables due for payment at 30 June 2014, had the Australian dollar weakened/strengthened by 10% against the USD with all other variables held constant, the Group's equity for the year would have been $256,000 lower / $209,000 higher (2013: $281,000 lower / $230,000 higher).

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

Based on the CAD receivables at 30 June 2014, had the Australian dollar weakened/strengthened by 10% against the Canadian dollar with all other variables held constant, the Group's equity for the year would have been $975,000 higher / $798,000 lower (2013: $507,000 higher / $415,000 lower).

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

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

The Group's main interest rate risk arises from long-term borrowings and cash. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain between 10% and 50% in fixed rate instruments.

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

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

	30 June 2014		30 June 2013	
	Weighted average interest rate %	**Balance** $000	**Weighted average interest rate** %	**Balance** $000
Variable rate fully drawn down advance facility	**3.31%**	**56,000**	3.72%	23,000
Commercial bills	**-**	**-**	6.10%	5,000
		56,000		28,000

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

In order to reduce the variability of the future cash flows in relation to the interest bearing loans, the Group has entered into Australian Dollar interest rate swap contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates. Swaps in place cover approximately 26.8% (2013: 21.7%) of the variable rate principal outstanding.

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

The cash flow hedges were assessed to be highly effective and a net realised loss of $260,000 (2013: $0) is included in Other comprehensive income. The fair value liability is included in Trade and other payables.

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

GROUP	**Rate** %	**2014** $000	**2013** $000
Swap terminating 1 July 2016	3.29	5,000	-
Swap terminating 1 September 2017	3.46	5,000	5,000
Swap terminating 1 May 2018	3.58	5,000	-
		15,000	5,000

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

Group sensitivity

At 30 June 2014, if interest rates had changed by -/+ 100 basis points from the year end rates with all other variables held constant, the Group's pre tax profit for the year would have been $560,000 higher / lower (2013: $280,000 higher / lower), mainly as a result of lower / higher interest expense on variable borrowings. All other non-direct financial liabilities have a contractual maturity of less than 6 months.

(b) CREDIT RISK

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

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

An impairment analysis is performed at each reporting date. The maximum exposure to credit risk is the carrying value of in-house customer finance program as disclosed in note 10. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low.

(c) LIQUIDITY RISK

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

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

(d) CAPITAL RISK MANAGEMENT

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

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

NOTE 3 Critical accounting estimates and assumptions

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

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

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with the assistance of an external valuer using both the Binomial model and the Black-Scholes formula. The related assumptions are detailed in note 32. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Binomial formula taking into account the terms and conditions upon which the instruments were granted (see note 32).

Make good provisions

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

Estimation of useful lives of assets

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

CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

Revenue recognition

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

Due to management reviews conducted during the year, an adjustment to the revenue recognition pattern has been deemed necessary. As a result of this, an additional $1,652,000 has been recognised as revenue in the current financial year. Of this, $437,000 relates to the current financial year, and $1,215,000 relates to prior financial years.

Taxation and recovery of deferred tax assets

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

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

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

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

Notes to the financial statements cont.

for the year ended 30 June 2014

NOTE 4 Segment information

Identification and description of segments

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

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

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

Types of products and services

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

Major customers

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

Accounting policies and inter-segment transactions

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

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

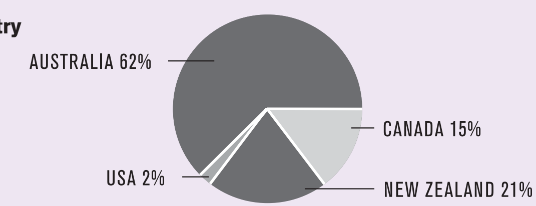
Unallocated expenses include all expenses that do not relate directly to the relevant segment and include: manufacturing activities, warehouse and distribution, general corporate expenses, interest and company tax. Inter-segment pricing is at arm's length or market value.

Statement of segmented results for the year ended 30 June 2014

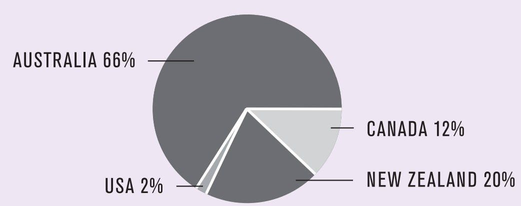
NOTE 4 cont.	AUSTRALIA			NEW ZEALAND			CANADA			USA			GROUP		
	2014 $000	2013 $000	+/- %	2014 $000	2013 $000	+/- %	2014 $000	2013 $000	+/- %	2014 $000	2013 $000	+/- %	2014 $000	2013 $000	+/- %
Operating revenue															
Sales to customers	**302,024**	289,333	4.4%	**99,496**	89,204	11.5%	**70,454**	51,438	37.0%	**10,899**	10,007	8.9%	**482,873**	439,982	9.7%
Unallocated revenue													**1,062**	243	337.0%
Total operating revenue													**483,935**	440,225	9.9%
Segment results															
Operating surplus / (loss)	**46,703**	42,225	10.6%	**20,083**	17,748	13.2%	**3,890**	1,098	254.3%	**(1,898)**	(2,282)	16.8%	**68,778**	58,789	17.0%
Unallocated revenue less unallocated expenses													**(32,003)**	(21,052)	(52.0%)
Profit before income tax													**36,775**	37,737	(2.5%)
Income tax expense													**(11,734)**	(5,638)	(108.1%)
Profit for the year													**25,041**	32,099	(22.0%)
Segment assets	**112,575**	109,571	2.7%	**44,273**	40,094	10.4%	**53,502**	43,765	22.2%	**13,275**	9,910	34.0%	**223,625**	203,340	10.0%
Unallocated													**116,193**	88,995	30.6%
Total													**339,818**	292,335	16.2%
Segment liabilities	**59,249**	50,185	18.1%	**18,326**	14,185	29.2%	**11,851**	9,978	18.8%	**2,962**	2,373	24.8%	**92,388**	76,721	20.4%
Unallocated													**66,145**	41,929	57.8%
Total													**158,533**	118,650	33.6%
Segment acquisitions of property, plant & equipment and intangibles	**6,865**	13,885	(50.6%)	**3,860**	1,455	165.3%	**6,999**	5,300	32.1%	**1,761**	204	763.2%	**19,485**	20,844	(6.5%)
Unallocated													**3,742**	4,538	(17.5%)
Total													**23,227**	25,382	(8.5%)
Segment depreciation and amortisation expense	**6,132**	5,473	12.0%	**2,037**	1,589	28.2%	**2,357**	1,641	43.6%	**531**	461	15.2%	**11,057**	9,164	20.7%
Unallocated													**2,013**	1,288	56.3%
Total													**13,070**	10,452	25.0%

* Please note that costs of A$565k relating to the closure of 2 US stores during the 2013-14 financial year are not included in the US retail segment. These costs are included as unallocated costs.

Operating revenue by country



2014



2013

Notes to the financial statements cont. for the year ended 30 June 2014

NOTE 5 Revenue

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
From continuing operations:				
Sales revenue				
Revenue from sale of goods and repair services	**462,808**	426,853	-	-
Revenue from professional care plans	**19,956**	13,185	-	-
Interest and other revenue from in-house customer finance program	**1,111**	106	-	-
	483,875	440,144	-	-
Other revenue				
Interest income	**60**	66	100	99
Rent income	**-**	15	-	-
Intercompany dividends	**-**	-	31,937	18,300
	483,935	440,225	32,037	18,399

NOTE 6 Other income

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Net foreign exchange gains	**-**	-	-	6
Other income	**764**	332	-	-
	764	332	-	6

NOTE 7 Expenses

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Profit before income tax includes the following specific expenses:				
Depreciation				
Plant and equipment	**2,831**	2,170	3	2
Furniture and fittings	**2,556**	2,000	-	-
Motor vehicles	**221**	196	22	19
Leasehold improvements	**5,258**	4,498	-	-
Display material	**981**	947	-	-
Total depreciation	**11,847**	9,811	25	21
Amortisation – software	**1,223**	641	-	-
Total depreciation and amortisation	**13,070**	10,452	25	21
Bank and interest charges	**3,123**	2,588	-	-
Interest from tax pooling arrangement (see note 35)	**2,313**	-	-	-
Total finance costs	**5,436**	2,588	-	-
Rental expense relating to operating leases	**47,287**	41,761	-	-
Superannuation contributions	**8,070**	7,037	-	-
Net loss on disposal of property, plant and equipment	**1,133**	100	-	-
Impairment of property, plant and equipment	**9**	(33)	-	-
Net foreign exchange losses	**351**	143	-	-
Donations	**27**	25	-	-

Remuneration of auditors

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

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
(a) Assurance services - audit services				
Ernst & Young Australian firm audit and review of financial reports	**317**	255	-	-
Grant Thornton New Zealand firm audit of ordinary shares register	**2**	1	2	1
Total remuneration for assurance services	**319**	256	2	1
(b) Advisory services				
Ernst & Young Australian firm consulting fees	**27**	60	-	-
	346	316	2	1

Notes to the financial statements cont. for the year ended 30 June 2014

NOTE 8 Income tax expense

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
(a) Income tax expense				
Current tax	**7,789**	8,413	(825)	(645)
Deferred tax	**(1,136)**	(2,864)	(3)	3
Under / (over) provided in prior years	**(912)**	89	-	-
ATO settlement payment	**5,993**	-	-	-
Income tax expense / (benefit)	**11,734**	5,638	(828)	(642)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	**36,775**	37,737	29,007	15,995
Tax at the New Zealand tax rate of 28%	**10,297**	10,566	8,122	4,479
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non deductible entertainment expenditure	**103**	147	-	2
Non deductible legal expenditure	**122**	45	-	-
Share of partnership	**(4,492)**	(5,372)	-	-
Dividends not assessable	**-**	-	(8,942)	(5,124)
Unrealised foreign exchange loss not included in accounting profit	**(1,384)**	258	-	-
Sundry items	**109**	(413)	(8)	1
	4,755	5,231	(828)	(642)
Difference in overseas tax rates	**356**	318	-	-
Under / (over) provision in prior years	**(912)**	89	-	-
ATO settlement payment	**5,993**	-	-	-
Tax losses not recognised	**1,542**	-	-	-
Income tax expense / (benefit)	**11,734**	5,638	(828)	(642)
(c) Tax losses				
Unused tax losses for which no deferred tax has been recognised	**6,156**	3,201	-	-
Potential tax benefit @ 40%	**2,463**	1,281	-	-

All unused tax losses were incurred by the USA entity.

NOTE 9 Current assets - Cash and cash equivalents

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Cash at bank and on hand	**8,109**	10,461	(2)	15

Interest rates for the bank accounts have been between 0.00% and 2.55% during the year (2013: between 0.00% and 2.10%).

NOTE 10 Current assets - Trade and other receivables

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Trade receivables	**5,436**	5,444	-	-
Provision for impaired receivables	**(731)**	(645)	-	-
	4,705	4,799	-	-
In-house customer finance	**11,106**	5,336	-	-
Provision for impaired receivables	**(658)**	(373)	-	-
	10,448	4,963	-	-
Other receivables	**6,099**	2,256	-	-
Prepayments	**2,639**	2,707	-	-
Deferred expenditure	**1,252**	928	-	-
Related party receivables	**-**	-	8,576	735
	25,143	15,653	8,576	735

(a) Impaired trade receivables

Trade receivables from sales made to customers through third party credit providers are non-interest bearing and are generally on 0-30 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $422,000 (2013: $433,000) has been recognised by the Group. All trade receivables related to third party credit providers past 90 days have been impaired.

At 30 June 2014, the ageing analysis of trade receivables related to third party credit providers is as follows:

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
0 - 30 days	**4,050**	4,410	-	-
31 - 60 days	**392**	359	-	-
61 - 90 days	**137**	71	-	-
91 + days	**857**	604	-	-
	5,436	5,444	-	-

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

Opening balance	**645**	545	-	-
Amounts written off	**(422)**	(433)	-	-
Additional provisions recognised	**499**	520	-	-
Exchange differences	**9**	13	-	-
	731	645	-	-

Notes to the financial statements cont. for the year ended 30 June 2014

(b) In-house customer finance

In October 2012, Michael Hill launched an in-house customer finance program in the Canadian and United States markets. The terms available to customers range from a revolving line of credit through to 24 months, although 12 to 18 months is the typical financing period, and the majority of the products are offered as non-interest bearing.

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

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

	GROUP		PARENT	
	2014 $000	**2013** $000	**2014** $000	**2013** $000
Performing:				
Current, aged 0 - 30 days	**10,929**	6,256	-	-
Past due, aged 31 - 90 days	**255**	126	-	-
Non performing:				
Past due, aged more than 90 days	**208**	102	-	-
	11,392	6,484	-	-

Ageing has been calculated with reference to payment due dates.

	GROUP		PARENT	
This has been disclosed as:				
Current receivables	**11,106**	5,336	-	-
Non-current receivables	**286**	1,148	-	-
	11,392	6,484	-	-

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

	GROUP		PARENT	
	2014 $000	**2013** $000	**2014** $000	**2013** $000
Opening balance	**453**	-	-	-
Amounts written off	**(615)**	-	-	-
Additional provisions recognised	**869**	426	-	-
Exchange differences	**(32)**	27	-	-
	675	453	-	-

	GROUP		PARENT	
This has been disclosed as:				
Current receivables	**658**	373	-	-
Non-current receivables	**17**	80	-	-
	675	453	-	-

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

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

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

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

NOTE 11 Current assets - Inventories

	GROUP		PARENT	
	2014 $000	**2013** $000	**2014** $000	**2013** $000
Raw materials	**6,280**	4,687	-	-
Finished goods	**171,765**	148,195	-	-
Packaging and other consumables	**1,235**	1,411	-	-
	179,280	154,293	-	-

All inventories are held at cost.

NOTE 12 Current assets - Current tax receivables

	GROUP		PARENT	
	2014 $000	**2013** $000	**2014** $000	**2013** $000
Income tax (Current tax payable in 2013)	**61**	-	-	-

NOTE 13 Non-current assets - Trade and other receivables

	GROUP		PARENT	
	2014 $000	**2013** $000	**2014** $000	**2013** $000
In-house customer finance	**286**	1,148	-	-
Provision for impaired receivables	**(17)**	(80)	-	-
	269	1,068	-	-
Prepayments	**211**	24	-	-
	480	1,092	-	-

Notes to the financial statements cont. for the year ended 30 June 2014

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

	Plant and equipment $000	Fixtures and fittings $000	Motor vehicles $000	Leasehold improvements $000	Display material $000	Total $000
GROUP						
At 1 July 2012						
Cost	17,524	15,582	854	43,662	6,507	84,129
Accumulated depreciation	(11,083)	(8,337)	(365)	(25,765)	(2,979)	(48,529)
Net book amount	6,441	7,245	489	17,897	3,528	35,600
Year ended 30 June 2013						
Opening net book amount	6,441	7,245	489	17,897	3,528	35,600
Exchange differences	180	195	16	738	116	1,245
Additions	5,719	4,960	314	11,906	1,792	24,691
Additions - make good asset	-	-	-	(33)	-	(33)
Disposals	(91)	(80)	(65)	(211)	(68)	(515)
Reclassification to intangible assets	-	-	-	(2,070)	-	(2,070)
Depreciation charge	(2,170)	(2,000)	(196)	(4,498)	(947)	(9,811)
Impairment charge	23	(1)	-	11	-	33
Closing net book amount	10,102	10,319	558	23,740	4,421	49,140
At 30 June 2013						
Cost	22,867	20,445	954	53,772	8,223	106,261
Accumulated depreciation	(12,765)	(10,126)	(396)	(30,032)	(3,802)	(57,121)
Net book amount	10,102	10,319	558	23,740	4,421	49,140

	Plant and equipment $000	Fixtures and fittings $000	Motor vehicles $000	Leasehold improvements $000	Display material $000	Total $000
GROUP						
Year ended 30 June 2014						
Opening net book amount	10,102	10,319	558	23,740	4,421	49,140
Exchange differences	37	96	16	(28)	8	129
Additions	2,828	3,135	140	11,561	2,023	19,687
Disposals	(212)	(291)	(46)	(688)	5	(1,232)
Reclassification to intangible assets	204	-	-	(672)	-	(468)
Depreciation charge	(2,831)	(2,556)	(221)	(5,258)	(981)	(11,847)
Impairment charge	(6)	(3)	-	-	-	(9)
Closing net book amount	10,122	10,700	447	28,655	5,476	55,400
At 30 June 2014						
Cost	24,587	21,092	1,000	55,665	10,076	112,420
Accumulated depreciation	(14,465)	(10,392)	(553)	(27,010)	(4,600)	(57,020)
Net book amount	10,122	10,700	447	28,655	5,476	55,400

NOTE 15 Non-current assets - Deferred tax assets

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
The balance comprises temporary differences attributable to:				
Doubtful debts	**364**	293	-	-
Fixed assets and intangibles	**3,493**	4,726	(4)	(7)
Intangible assets from intellectual property transfer	**37,437**	34,506	-	-
Deferred expenditure	**(1,089)**	(824)	-	-
Prepayments	**(5)**	(1)	-	-
Deferred service revenue	**13,905**	10,454	-	-
Unearned income	**762**	381	-	-
Employee benefits	**2,728**	2,418	-	-
Retirement benefit obligations	**245**	365	-	-
Provision for warranties and legal costs	**652**	752	-	-
Straight-line lease provision	**1,339**	1,058	-	-
Other provisions	**1,456**	920	-	-
Unrealised foreign exchange losses	**(37)**	62	-	-
Tax losses	**1,074**	954	-	-
Net deferred tax assets	**62,324**	56,064	(4)	(7)
Movements:				
Opening balance at 1 July	**56,064**	50,403	(7)	(3)
Credited / (charged) to the income statement (note 8)	**1,136**	2,864	3	(3)
Prior year adjustment	**(72)**	(30)	-	(1)
Losses utilised	**152**	(169)	-	-
Foreign exchange differences	**5,044**	2,996	-	-
Closing balance at 30 June	**62,324**	56,064	(4)	(7)
Expected settlement:				
Within 12 months	**11,702**	7,234	-	-
In excess of 12 months	**50,622**	48,830	(4)	(7)
	62,324	56,064	(4)	(7)

Notes to the financial statements cont. for the year ended 30 June 2014

NOTE 16 Non-current assets - Intangible assets

	Patents, trademarks and other rights $000	Computer software $000	Total $000
GROUP			
At 1 July 2012			
Cost	12	6,673	6,685
Accumulated amortisation	-	(5,174)	(5,174)
Net book amount	12	1,499	1,511
Year ended 30 June 2013			
Opening net book amount	12	1,499	1,511
Exchange differences	-	1	1
Additions	13	678	691
Reclassification from property, plant and equipment	(1)	2,071	2,070
Amortisation charge*	-	(641)	(641)
Closing net book amount	24	3,608	3,632
At 30 June 2013			
Cost	24	9,423	9,447
Accumulated amortisation	-	(5,815)	(5,815)
Net book amount	24	3,608	3,632
Year ended 30 June 2014			
Opening net book amount	24	3,608	3,632
Exchange differences	-	(1)	(1)
Additions	-	3,540	3,540
Disposals	-	(3)	(3)
Reclassification from property, plant and equipment	-	468	468
Amortisation charge*	-	(1,223)	(1,223)
Closing net book amount	24	6,389	6,413
At 30 June 2014			
Cost	24	13,206	13,230
Accumulated amortisation	-	(6,817)	(6,817)
Net book amount	24	6,389	6,413

*Amortisation of $1,223,000 (2013: $641,000) is included in depreciation and amortisation expense in the statement of comprehensive income.
The Parent has no intangible assets.

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

	GROUP		PARENT	
	2014 $000	**2013** $000	**2014** $000	**2013** $000
Deferred expenditure	**2,608**	2,000	-	-

NOTE 18 Non-current assets - Investments in subsidiaries

	GROUP		PARENT	
	2014 $000	**2013** $000	**2014** $000	**2013** $000
Shares in subsidiaries	**-**	-	293,557	264,364

The subsidiaries of Michael Hill International Limited are set out in note 31. All investments in subsidiary companies are eliminated on consolidation.

NOTE 19 Current liabilities - Trade and other payables

	GROUP		PARENT	
	2014 $000	**2013** $000	**2014** $000	**2013** $000
Trade payables	**22,957**	23,955	-	3
Annual leave liability	**6,988**	6,461	-	-
Accrued expenses	**6,386**	5,152	-	24
Other payables	**5,703**	5,718	77	64
	42,034	41,286	77	91

NOTE 20 Current liabilities - Current tax liabilities

	GROUP		PARENT	
	2014 $000	**2013** $000	**2014** $000	**2013** $000
Income tax (Current tax receivable in 2014)	**-**	2,706	-	-

Notes to the financial statements cont. for the year ended 30 June 2014

NOTE 21 Current liabilities - Provisions

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Employee benefits - long service leave	**1,584**	1,568	-	-
Returns provision	**2,519**	2,261	-	-
Make good provision	**132**	15	-	-
	4,235	3,844	-	-

(a) Employee benefits - long service leave

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

(b) Returns provision

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

(c) Make good provision

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

(d) Movements in provisions

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

	Employee benefits $000	Returns provision $000	Make good provision $000	Total $000
Carrying amount at start of year	1,568	2,261	15	3,844
Additional provisions recognised	30	2,513	116	2,659
Amounts incurred and charged	(18)	(2,274)	-	(2,292)
Exchange differences	4	19	1	24
Carrying amount at end of the year	1,584	2,519	132	4,235

NOTE 22 Current liabilities - Deferred revenue

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Deferred service revenue	**23,674**	12,437	-	-
Lease incentive income	**560**	363	-	-
Deferred interest free revenue	**502**	341	-	-
	24,736	13,141	-	-

NOTE 23 Non-current liabilities - Borrowings

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Secured				
Bank loans	**56,000**	28,000	-	-
Total non-current borrowings	**56,000**	28,000	-	-

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

(a) Financing arrangements

The Group's objectives when managing capital are to ensure sufficient liquidity to support its financial obligations and execute the Group's operational and strategic plans. The Group continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. Accordingly, the Group entered into an agreement with ANZ on 31 March 2014 that provides for a $100,000,000 multi option borrowing facility, the availability of which is adjusted throughout the year in line with business requirements.

The Group also has access to various uncommitted credit facility lines serving working capital needs that, at balance date, totalled $3,797,000. No amounts were drawn under these credit facility lines as at balance date.

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

(b) Interest rate risk exposures

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

Exposures arise predominantly from liabilities bearing variable interest rates. To manage this exposure the Group has taken out interest rate swaps, as described in note 2(a)(ii). The carrying amount of the commercial bills and fully drawn advance facilities reflect fair value.

		Fixed interest rate				
	Floating interest rate $000	Less than 6 months $000	6 - 12 months $000	Over 1 year less than 5 years $000	Over 5 years $000	Total $000
2014						
Variable rate fully drawn advance facility	56,000	-	-	-	-	56,000
Weighted average interest rate	3.31%	-	-	-	-	
2013						
Commercial bill facility	-	5,000	-	-	-	5,000
Variable rate fully drawn advance facility	23,000	-	-	-	-	23,000
	23,000	5,000	-	-	-	28,000
Weighted average interest rate	3.72%	6.10%	-	-	-	

The Group retains the discretion to maintain the required borrowing levels under the fully drawn advance facility until the borrowing facility terminates on 1 April 2016, so long as the facility limit has not been reached.

Notes to the financial statements cont. for the year ended 30 June 2014

NOTE 24 Non-current liabilities - Provisions

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Employee benefits - long service leave	**1,381**	1,188	-	-
Make good provision	**359**	492	-	-
	1,740	1,680	-	-

(a) Employee benefits - long service leave

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

(b) Make good provision

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

(c) Movements in provisions

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

	Employee benefits $000	Make good provision $000	Total $000
Carrying amount at the start of the year	1,188	492	1,680
Additional provisions recognised	273	68	341
Amounts incurred and charged	(83)	(200)	(283)
Exchange differences	3	(1)	2
Carrying amount at end of year	1,381	359	1,740

NOTE 25 Non-current liabilities - Deferred revenue

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Deferred service revenue	**27,914**	26,722	-	-
Lease incentive income	**1,861**	1,271	-	-
Deferred interest free revenue	**13**	-	-	-
	29,788	27,993	-	-

NOTE 26 Contributed equity

	GROUP		PARENT	
	2014 Shares	**2013** Shares	**2014** $000	**2013** $000
(a) Share capital: Ordinary shares				
- Fully paid (b)	**383,153,190**	383,053,190	3,702	3,515
- Treasury stock held for Employee Share Scheme (c)	**(111,584)**	(203,646)	(51)	(91)
	382,041,606	382,849,544	3,651	3,424

(b) Fully paid ordinary share capital

	GROUP 2014 Shares	GROUP 2013 Shares	PARENT 2014 $000	PARENT 2013 $000
Opening balance of ordinary shares issued	**383,053,190**	383,053,190	3,515	3,482
Issues of ordinary shares during the year				
Exercise of options	**100,000**	-	102	-
Transfer from option reserve on exercise of options	**-**	-	12	-
Employee Share Scheme issue	**92,062**	73,958	113	62
Transfer from treasury stock	**(92,062)**	(73,958)	(40)	(29)
Closing balance of ordinary shares issued	**383,153,190**	383,053,190	3,702	3,515

(c) Treasury stock

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

	GROUP		PARENT	
	2014 Shares	**2013** Shares	**2014** $000	**2013** $000
Opening balance of treasury stock shares issued	**203,646**	277,604	91	120
Allocated to Employee Share Scheme	**(92,062)**	(73,958)	(40)	(29)
Closing balance of treasury stock shares issued	**111,584**	203,646	51	91

(d) Ordinary shares

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

(e) Employee Share Scheme

Information relating to the Michael Hill International Limited Employee Share Scheme, including details of shares issued under the scheme, is set out in note 32.

(f) Options

Information relating to the Michael Hill International Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 32.

Notes to the financial statements cont. for the year ended 30 June 2014

NOTE 27 Reserves and retained profits

Nature and purpose of reserves

(i) **Hedging reserve - cash flow hedges**

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge. The amounts are recognised in the profit and loss component of the statement of comprehensive income when the associated hedged transactions affect profit or loss, as described in note 1(n).

(ii) **Options reserve**

The share-based payments reserve is used to recognise the fair value of options issued but not exercised. Refer to note 32(a) for further details.

(iii) **Foreign currency translation reserve**

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d).

NOTE 28 Dividends

	Parent 2014 $000	Parent 2013 $000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2013 of NZ4.0¢ (2012 - NZ3.5¢) per fully paid share paid on 4 October 2013 (2012 - 5 October 2012).	**13,462**	10,678
Interim dividend for the year ended 30 June 2014 of NZ2.5¢ (2013 - NZ2.5¢) per fully paid share paid on 1 April 2014 (2013 - 3 April 2013).	**8,874**	7,804
	22,336	18,482
(b) Dividends not recognised at year end		
Since year end, the Directors have declared the payment of a final dividend of NZ4.0¢ per fully paid share (2013 - NZ4.0¢). No imputation credits are attached to the final dividend. The aggregate amount of the proposed dividend expected to be paid on 3 October 2014 out of retained profits at 30 June 2014, but not recognised as a liability at year end, is:	**14,285**	12,858

(c) Imputed dividends

The dividends paid during the current financial period and corresponding previous financial period are not imputed.
Imputation credits available for subsequent financial years based on a 28% tax rate for the Group are NZ$2,191k (2013: NZ$1,736k).
Imputation credits available for subsequent financial years based on a 28% tax rate for the Parent are NZ$634k (2013: NZ$634k).

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

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

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

NOTE 29 Earnings per share

	GROUP 2014 Cents	GROUP 2013 Cents
(a) Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company	**6.54**	8.38
(b) Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company	**6.43**	8.24

(c) Reconciliation of earnings used in calculating earnings per share	GROUP 2014 $000	GROUP 2013 $000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**25,041**	32,099
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**25,041**	32,099

(d) Weighted average number of shares used as the denominator	GROUP 2014 Number	GROUP 2013 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**383,003,446**	382,831,308
Adjustments for calculation of diluted earnings per share:		
Options	**6,200,000**	6,500,000
Treasury stock	**111,584**	203,646
Weighted average number of ordinary shares for diluted earnings per share	**389,315,030**	389,534,954

(e) Information concerning the classification of securities

(i) Options

Options granted to employees under the Michael Hill International Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 32.

(ii) Treasury stock

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

Notes to the financial statements cont. for the year ended 30 June 2014

NOTE 30 Related party transactions

(a) Directors

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

(b) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2014 and 2013 is set out below. The key management personnel are all the Directors of the Company and the Group Executive team responsible for the strategic direction and management of the Group.

	SHORT-TERM BENEFITS	POST-EMPLOYMENT BENEFITS	SHARE-BASED PAYMENTS	TOTAL
	$000	$000	$000	$000
2014	**5,457**	**531**	**754**	**6,742**
2013	5,005	226	115	5,346

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

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

	GROUP		PARENT	
	2014 $000	**2013** $000	**2014** $000	**2013** $000
Unsecured loans to key management personnel	**-**	46	-	-

Employee share scheme

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

(d) Subsidiaries

The ultimate parent and controlling entity of the Group is Michael Hill International Limited. Interests in subsidiaries are set out in note 31.

(e) Transactions with related parties

The following transactions occurred with related parties:

	GROUP		PARENT	
	2014 $000	**2013** $000	**2014** $000	**2013** $000
Purchase of goods				
Services rendered for typing and editing the annual and half year reports by a related party of board members	**9**	9	9	9
Travel purchased through an ASX listed travel company, which is a related entity of a board member	**437**	505	-	-
Other transactions				
Annual sponsorship of the New Zealand PGA	**90**	100	90	100
Annual sponsorship of the Michael Hill Violin Charitable Trust	**54**	46	54	46
Store occupancy costs paid to a related party of a board member	**91**	-	-	-

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

NOTE 31 Investments in subsidiaries

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

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING 2014 %	EQUITY HOLDING 2013 %
Michael Hill Jeweller Limited	New Zealand	Ordinary	100	100
Michael Hill Trustee Company Limited	New Zealand	Ordinary	100	100
Michael Hill Finance (NZ) Limited	New Zealand	Ordinary	100	100
Michael Hill Franchise Holdings Limited	New Zealand	Ordinary	100	100
MHJ (US) Limited	New Zealand	Ordinary	100	100
Emma & Roe NZ Limited	New Zealand	Ordinary	100	-
Michael Hill Online Holdings Limited	New Zealand	Ordinary	100	-
Michael Hill Jeweller (Australia) Pty Limited	Australia	Ordinary	100	100
Michael Hill Wholesale Pty Limited	Australia	Ordinary	100	100
Michael Hill Manufacturing Pty Limited	Australia	Ordinary	100	100
Michael Hill Franchise Pty Limited	Australia	Ordinary	100	100
Michael Hill Franchise Services Pty Limited	Australia	Ordinary	100	100
Michael Hill Finance (Limited Partnership)	Australia	-	100	100
Michael Hill Group Services Pty Limited	Australia	Ordinary	100	100
Michael Hill Charms Pty Limited	Australia	Ordinary	100	-
Michael Hill Online Pty Limited	Australia	Ordinary	100	-
Emma & Roe Pty Limited	Australia	Ordinary	100	-
Emma & Roe Online Pty Limited	Australia	Ordinary	100	-
Michael Hill Jeweller (Canada) Limited	Canada	Ordinary	100	100
Michael Hill LLC	United States	Ordinary	100	100

NOTE 32 Share-based payments

(a) Employee Option Plan

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

Options are granted under the plan for no consideration. Options are granted for a ten year period and are exercisable at any time during the final five years. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

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

Notes to the financial statements cont. for the year ended 30 June 2014

NOTE 32 cont.

Set out below are summaries of options granted under the plans:	**2014 Weighted average exercise price in NZ$ per share**	**2014 Number of options**	2013 Weighted average exercise price in NZ$ per share	2013 Number of options
Outstanding at the beginning of the year	1.19	7,250,000	1.16	6,500,000
Granted during the year	1.82	5,900,000	1.41	750,000
Cancelled during the year	1.08	(300,000)	-	-
Exercised during the year	1.16	(100,000)	-	-
Outstanding at the end of the year	1.48	12,750,000	1.19	7,250,000

Share options outstanding at the end of the year have the following expiry date and exercise prices:	**Exercise price in NZ$ per share**	**2014 Number of options**	2013 Number of options
30 September 2017	**1.25**	**4,250,000**	4,250,000
30 September 2019	**0.94**	**650,000**	750,000
30 September 2020	**0.88**	**650,000**	750,000
30 September 2021	**1.16**	**650,000**	750,000
30 September 2022	**1.41**	**650,000**	750,000
30 September 2023	**1.82**	**5,900,000**	-
		12,750,000	7,250,000

The weighted average remaining contractual life of share options outstanding at the end of the period was 6.7 years (2013: 5.7 years).
The range of exercise prices for options outstanding at the end of the year was NZ$0.88 - NZ$1.82. Refer to the table above for detailed information on each issue.

Option pricing model

The fair value at grant date for the options issued during 2014 was independently determined using a Binomial option pricing model, which is an iterative model for options that can be exercised at times prior to expiry. The model takes into account the grant date, exercise price, the expected life, the expiry date, the share price at grant date, expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The expected life assumes the option is exercised at the mid-point of the exercise period, and reflects the ability to exercise early and the non-transferability of the option.

Options have previously been valued using a Black-Scholes option pricing model, which takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

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

The following table lists the inputs to the models used for the options issued during the years ended 30 June 2014 and 30 June 2013:

	June 2014 18 Sept 2013	**June 2014 29 Nov 2013**	**June 2013 19 Sept 2012**
Number of options	**650,000**	**5,250,000**	**750,000**
Required return	5.60%	5.60%	-
Dividend yield	-	-	5.00%
Expected volatility	25%	25%	30%
Risk free interest rate	4.80%	4.80%	3.70%
Expected life of option (years)	7.5	7.5	10
Option exercise price (NZ$)	$1.82	$1.82	$1.41
Share price at grant date (NZ$)	$1.47	$1.46	-
Weighted average share price at measurement date (NZ$)	-	-	$1.09

(b) Employee Share Scheme

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

	GROUP		PARENT	
	2014 Number	2013 Number	2014 Number	2013 Number
The plan held the following ordinary shares at the end of the year:				
Shares issued to participating employees (fully paid)	**92,062**	73,958	92,062	73,958
Not yet allocated to employees	**111,584**	203,646	111,584	203,646
	203,646	277,604	203,646	277,604

During the year, 92,062 (2013: 73,958) shares were issued to the Michael Hill Employee Share Scheme at an average price of NZ$1.39 (2013 - NZ$1.07). Michael Hill International Limited acquired no shares through on-market purchases on the New Zealand Stock Exchange during the year that related to the Employee Share Scheme.

(c) Expenses arising from share-based payment transactions

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

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Options issued under employee option plan	**718**	114	(41)	-
Shares issued under Employee Share Scheme	**11**	6	11	6
	729	120	(30)	6

NOTE 33 Reconciliation of profit after income tax to net cash inflow from operating activities

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Profit for the year	**25,041**	32,099	29,835	16,637
Depreciation	**11,847**	9,811	25	21
Amortisation	**1,223**	641	-	-
Non-cash employee benefits expense - share-based payments	**729**	120	(30)	6
Other non-cash expenses	**(9)**	(1)	(21,345)	(18,962)
Net loss on sale of non-current assets	**1,133**	100	-	-
Deferred taxation	**(3,123)**	(3,679)	(2)	4
Net exchange differences	**188**	184	(3)	(6)
(Increase) / decrease in trade and other receivables	**(6,156)**	(5,965)	(8,524)	2,264
(Increase) in inventories	**(23,818)**	(4,740)	-	-
(Increase) in other non current assets	**(601)**	(842)	-	-
(Decrease) in tax payables	**(2,731)**	(1,389)	-	-
(Decrease) / increase in trade and other payables	**(2,437)**	549	41	34
Increase in deferred revenue	**12,970**	13,977	-	-
Increase in provisions	**433**	821	-	-
Net cash inflow / (outflow) from operating activities	**14,689**	41,686	(3)	(2)

Notes to the financial statements cont. for the year ended 30 June 2014

NOTE 34 Commitments

Operating leases

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

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

	GROUP		PARENT	
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	**2014** $000	**2013** $000	**2014** $000	**2013** $000
Within one year	**35,262**	28,862	-	-
Later than one year but not later than five years	**98,338**	77,266	-	-
Later than five years	**20,347**	15,510	-	-
	153,947	121,638	-	-

NOTE 35 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities in respect of guarantees to bankers and other financial institutions in respect of overdraft facilities and fixed assets at 30 June 2014 of $398,000 (30 June 2013 - $394,000).

The Parent Entity had contingent liabilities in respect of guarantees to bankers and other financial institutions in respect of overdraft facilities and fixed assets at 30 June 2014 of $70,000 (30 June 2013 - $63,000).

In respect of previous financial years, the Group has disclosed contingent liabilities arising from disputes with both the New Zealand Inland Revenue (IRD) and the Australian Taxation Office (ATO).

The issues with the ATO were resolved during the year and are reflected in the current year's financial statements. See note 8 for further details.

The issues with the IRD remain unresolved. As previously disclosed, they concern the tax treatment adopted by the Group in relation to the financing arrangements between New Zealand and Australian group members for the 2009, 2010, 2011, 2012 and 2013 financial years.

The aggregate amount of tax deductions claimed by the Group in respect of these years and which is in dispute is NZ$31,042,000. The tax effect of deductions for the 2014 year is NZ$5,356,000 (Note 8). If the matter were determined against the Group, there is also a contingent liability for Use Of Money Interest (UOMI) at the rates prescribed by the IRD in respect of those years. The Group has entered into a tax pooling arrangement to mitigate the impact of UOMI and this is reflected in the Group's interest expense at note 7. The Group continues to defend its position in relation to the relevant tax returns.
The Group has no other material contingent liabilities as at balance date.

(b) Contingent assets

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

NOTE 36 Events occurring after the reporting period

There were no significant events occurring after 30 June 2014.

NOTE 37 Deed of cross guarantee

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

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

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

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

Statement of comprehensive income

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

	2014 $000	2013 $000
Revenue from sale of goods and services	**421,781**	398,170
Sales to Group companies not in Closed Group	**43,083**	24,111
Other income	**739**	312
Cost of goods sold	**(184,071)**	(158,949)
Employee benefits expense	**(109,593)**	(100,683)
Occupancy costs	**(38,826)**	(35,450)
Selling expenses	**(20,937)**	(21,933)
Marketing expenses	**(19,742)**	(17,753)
Depreciation and amortisation expense	**(10,170)**	(8,342)
Loss on disposal of property, plant and equipment	**(633)**	(180)
Other expenses	**(18,066)**	(18,850)
Finance costs	**(5,991)**	(2,958)
Profit before income tax	**57,574**	57,495
Income tax expense	**(16,995)**	(11,439)
Profit for the year	**40,579**	46,056
Other comprehensive income		
Currency translation differences arising during the year	**14,597**	8,039
Total comprehensive income for the year	**55,176**	54,095
Statement of changes in equity		
Balance at 1 July	**391,181**	373,695
Total comprehensive income	**55,176**	54,095
Issue of share capital - exercise of options	**102**	-
Issue of preference share capital	**59,000**	-
Employee shares issued	**113**	62
Option expense through share based payments reserve	**718**	114
Dividend paid	**(39,787)**	(36,785)
Balance at 30 June	**466,503**	391,181

Notes to the financial statements cont. for the year ended 30 June 2014

NOTE 37 Deed of cross guarantee cont.

Statement of financial position

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

	2014 $000	2013 $000
Current assets		
Cash and cash equivalents	**3,360**	5,746
Trade and other receivables	**9,879**	8,248
Inventories	**138,011**	126,995
Loans to related parties	**161,542**	124,598
Current tax receivables	**61**	-
Total current assets	**312,853**	265,587
Non-current assets		
Trade and other receivables	**13**	24
Property, plant and equipment	**36,670**	36,425
Deferred tax assets	**59,502**	53,244
Intangible assets	**6,368**	2,377
Investments in subsidiaries	**132,764**	109,788
Other non-current assets	**2,278**	1,753
Total non-current assets	**237,595**	203,611
Total assets	**550,448**	469,198
Current liabilities		
Trade and other payables	**33,265**	35,732
Current tax liabilities	**-**	2,735
Provisions	**3,807**	3,589
Deferred revenue	**19,961**	10,701
Total current liabilities	**57,033**	52,757
Non-current liabilities		
Provisions	**1,765**	1,572
Deferred revenue	**25,147**	23,688
Total non-current liabilities	**26,912**	25,260
Total liabilities	**83,945**	78,017
Net assets	**466,503**	391,181
Equity		
Contributed equity	**302,749**	232,861
Reserves	**5,014**	375
Retained profits	**158,740**	157,945
Total equity	**466,503**	391,181

Share price performance

Prices for shares traded during the year	HIGH	LOW	as at 30/6/14
	$1.60	$1.22	$1.24

Seven year comparative review of share prices as at 30 June

2014	2013	2012	2011	2010	2009	2008
$1.24	$1.31	$0.98	$0.90	$0.69	$0.60	$0.72

Shareholder information

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

It includes our latest share price and historical share prices over the last six years. It also includes all announcements and powerpoint presentations made to analysts and the press at the time of the release of our half year and annual financial results to the New Zealand Stock Exchange each year.

A copy of the Company's constitution, minutes of the last annual meeting and the Company's Insider trading policy are also available on the website.

Shareholders can also manage their shareholdings on the website including changing addresses, etc.

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

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

Financial calendar

ANNUAL MEETING

Wednesday 29 October 2014 at 10.30am
Stamford Plaza Hotel
Albert St, Auckland

DIVIDENDS PAYABLE

Interim - April Final - October

FINANCIAL RESULTS ANNOUNCED

Half year - February Annual - August

Analysis of Shareholding

TWENTY LARGEST SHAREHOLDERS AS AT 31 JULY 2014

	ORDINARY SHARES	% OF SHARES
Durante Holdings Pty Limited	202,644,452	52.89
Accident Compensation Corporation - NZCSD	26,764,126	6.99
Tea Custodians Limited	22,886,342	5.97
J P Morgan Chase Bank NA - NZCSD	9,882,997	2.58
Peters MacGregor PTY Limited	7,000,000	1.83
M.R. Parsell	6,459,114	1.69
New Zealand Superannuation Fund Nominees Limited	3,814,210	1.00
BNP Paribas Nominees (NZ) Limited	3,649,929	0.95
R.L Parsell	3,560,250	0.93
Citibank Nominees (NZ) Limited	3,171,299	0.83
National Nominees New Zealand Limited	2,643,290	0.69
NZPT Custodians (Grosvenor) Limited	2,520,774	0.66
Double Dragon Superannuation Pty Limited	2,370,000	0.62
P.R. Taylor	2,000,000	0.52
G.J. Gwyyne, P.A. Gwynne & D.H. Rishworth	1,922,000	0.50
W.K. Butler, C.A.Butler & R.M.J. Urlich	1,823,640	0.48
HSBC Nominees (New Zealand) Limited	1,559,402	0.41
BNP Paribas Nominees (NZ) Limited	1,556,727	0.41
Heffalump Holdings Limited	1,524,750	0.40
Custodial Services Limited	1,414,519	0.37
Total	309,167,821	80.72

SHAREHOLDING BY RANGE OF SHARES AS AT 31 JULY 2014

	NO. OF HOLDERS	% OF HOLDERS	NO. OF SHARES
1 - 9,999	1,895	53.0	7,220,145
10,000 - 49,999	1,388	38.8	26,916,008
50,000 - 99,999	179	5.0	11,414,991
100,000 & over	116	3.2	337,602,046
Total	3,578	100	383,153,190

SUBSTANTIAL SECURITY HOLDERS

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

	NO. OF ORDINARY SHARES
Durante Holdings Pty Limited	202,644,452
Accident Compensation Corporation	26,764,126

Total number of issued voting securities of the Company as at 31 July 2014 is 383,041,606.
An additional 111,584 shares are held as Treasury stock for the Company's Employee Share Scheme.

DIRECTORS' & ASSOCIATED INTERESTS' SHARE HOLDINGS

The table below sets out the relevant interests in equity securities and securities which may convert to equity securities of Directors and Associated Persons of Directors at 30 June 2014, in terms of Listing Rule 10.4.5 (c) of the New Zealand Exchange Listing Rules.

DIRECTOR	EQUITY SECURITIES	SECURITIES WHICH MAY CONVERT TO EQUITY SECURITIES	ASSOCIATED PERSON(S)*
Sir Michael Hill and Ann Christine Lady Hill	202,644,452		
M.R. Parsell	6,459,114	6,000,000	3,700,400
G.J. Gwynne	1,972,000		
L.W. Peters	18,521,000		
E.J. Hill**	204,169,202		
G.W. Smith	30,000		

* No associated person holds securities which may convert to equity securities.

** Emma Hill became a trustee of the trust which owns all the shares in Durante Holdings Pty Limited, and her relevant interest now includes the shares held by that company.

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Corporate directory

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

Company Secretary
W.K. Butler B.Com., F.C.I.S.

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

Corporate Head Office
Metroplex on Gateway
7 Smallwood Place
Murarrie, Qld 4172
GPO Box 2922
Brisbane, QLD 4001, Australia
Telephone 617 3114 3500
Fax 617 3399 0222

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

Solicitors
Kensington Swan
PO Box 10246
Wellington
New Zealand

Auditors
Ernst & Young
Level 51
One One One
111 Eagle Street
Brisbane, QLD 4000
Australia

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

Website
www.michaelhill.com
www.emmaandroe.com.au
http://investor.michaelhill.com

email
inquiry@michaelhill.com.au

michael hill®

INTERNATIONAL LIMITED

michaelhill.com