

Michael Hill International Limited	
Results for announcement to the market	
Reporting Period	6 months to 31 December 2012
Previous Reporting Period	6 months to 31 December 2011

	Amount \$NZ'000	Percentage Change %
Revenue from ordinary activities	312,866	8.3%
Profit from ordinary activities after tax attributable to members	27,839	5.9%
Net profit for the period attributable to members	27,839	5.9%

	Amount per security	Imputed amount per security
Interim dividend for half-year ended 31 December 2012	2.5 cents	nil
Record date	25 March 2013	
Dividend payment date	3 April 2013	

Michael Hill International Limited's accounts attached to this report have been reviewed and are not subject to any qualification.

CHAIRMAN'S STATEMENT

Profit Announcement

Michael Hill International Limited today announced an after tax profit of \$27.839m for the six months ended 31 December 2012, up 5.9% on the corresponding period last year.

Summary of Key Points (all values stated in NZD unless stated otherwise)

- Operating revenue of \$312.866m up 8.3% on same period last year
- Same store sales were 2.3% up on same period last year
- EBIT of \$35.970m up 3.4% on same period last year
- Net profit before tax of \$34.210m up 5.8% on same period last year
- Net profit after tax of \$27.839m up 5.9% on same period last year
- Revenue collected from professional care plans of \$18.063m for the period
- Net debt of \$20.688m at 31 December 2012
- Operating cash flow of \$28.114m
- 12 new stores opened and 1 closed during the period
- Total of 263 stores open at 31 December 2012
- Interim dividend of 2.5 cents per share up 25.0%

New Zealand Retail Operations

The New Zealand retail segment revenue increased by 3.6% to \$63.117m for the six months, with an operating surplus of \$12.945m, an increase of 6.2% on the corresponding period last year.

Same store sales during the twelve months increased by 3.0% (9.2% last year).

The operating surplus as a percentage of revenue increased to 20.5% (20.0% last year).

One store closed in New Zealand during the period at Fashion Island (Papamoa), giving a total of 52 stores operating in New Zealand as at 31 December 2012.

Australian Retail Operations

The Australian retail segment increased its revenue by 10.6% to AU\$162.712m for the six months with an operating surplus of AU\$27.986m, compared to AU\$24.363m for the previous corresponding period, an increase of 14.9%. Same store sales in local currency increased 3.8% for the six months (1.5% decrease last year).

The operating surplus as a percentage of revenue was 17.2% (16.6% last year).

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

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

No stores were closed during the period, giving a total of 160 stores operating in Australia as at 31 December 2012.

Canadian Retail Operations

The Canadian retail segment increased its revenue by 21.5% for the six months to CA\$29.463m and there was an operating surplus of CA\$1.555m, up 31.7% on CA\$1.181m for the previous corresponding period. Same stores sales in local currency increased 3.8% for the six months (5.2% last year).

Five new stores were opened during the period, as follows:

- Cambridge, Ontario
- Georgian Mall, Ontario
- Lambton Mall, Ontario
- Markville, Ontario
- St Laurent, Ontario

No stores were closed during the period, giving a total of 42 stores operating in Canada as at 31 December 2012.

US Retail Operations

The US retail segment increased its revenue by 4.2% for the six months to US\$5.493m for the six months and there was an operating loss of US\$1.266m for the same period (US\$1.431m loss last year). Same stores sales in local currency increased 4.2% for the six months.

The board is satisfied with the progress of the US operation over the past six months but acknowledges there is still a long way to go before the business is proven up in the US market. Focus remains on improving both the top line sales and the margins in order to grow the bottom line of the nine stores over the coming twelve months.

There were nine stores open as at 31 December 2012.

Professional Care Plan (PCP)

PCP sales for the half year were \$18.063m. An amount of \$5.060m has been included as revenue in the segment figures stated above from the current and prior periods.

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

The following table summarises the revenue treatment of the PCP business.

The following figures are in NZ Dollars	Last Year	This Year
PCP sales collected for the half year	\$14,411,408	\$18,063,228
PCP revenue brought to income for the half year	\$1,466,312	\$5,059,516
Deferred revenue held on balance sheet	\$24,337,672	\$44,468,278

Outstanding Tax Issues from Group Restructuring in 2008

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

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

In New Zealand, the amount in dispute is \$24,636,000, being the tax effect of deductions claimed by the New Zealand Group from the date of the sale through to 30 June 2012. The tax effect of deductions for the December 2012 half year is \$3,469,000. In the event any tax liability was payable, the Group would also incur an interest expense.

In respect of Australia, the value at which the intellectual property was transferred was originally determined by reference to an independent valuation carried out by an internationally recognised firm and a deferred tax asset was raised in 2009 based on that valuation. The deferred tax asset balance at 31 December 2012 was \$41,591,000 as a result of depreciation of components of the intellectual property and a previously announced adjustment in value. The ATO has signalled that it has issues with aspects of that valuation which, if correct, would reduce the amount of depreciation able to be deducted by the Group. As noted, the Group does not accept the ATO's position and believes the ATO's views are based on a number of factual, legal and technical valuation errors.

Both matters are capable of being resolved by agreement, but if the Group is unable to find common ground with either the IR or ATO then further formal legal processes may be needed to achieve resolution. As is the case with almost all legal processes there is inherent uncertainty as to the outcome and the Group does not believe that the outcome of either process can be predicted or the range of possible implications quantified. The board does not consider that either of the above ongoing tax matters require a provision in the Group's financial statements for the six months ended 31 December 2012.

Dividend

The Directors are pleased to announce a final dividend of 2.5¢ per share (2011 – 2.0¢), with no imputation credits attached for New Zealand shareholders and full franking credits for Australian shareholders. The dividend will be paid on Wednesday, 3 April 2013 with the record date being Monday, 25 March 2013.

Due to the internal restructuring of the Group in December 2008, the company is unlikely to be in a position to impute dividends for New Zealand shareholders for some years, however this will depend on the performance of the segment in the coming years and also on the level of dividend to be paid in future periods.

Whilst the 2012-13 interim dividend is fully franked to Australian resident shareholders, it is possible that future dividends will only be partially franked due to the likelihood of future dividend payout exceeding the level of tax liability in Australia. However, this position can change over time depending on a number of variables and the company will keep the market informed each time a dividend is declared.

Cash Flows / Balance Sheets

The Group has reported net operating cash flows of \$28.114m for the six months, compared to \$46.800m for the previous year.

The surplus from operations is a result of:

• Profit excluding non-cash items	\$34.935m
• Increase in trade and other receivables	(\$10.324)m
• Increase in inventory levels	(\$28.035)m
• Increase in trade and other payables	\$20.107m
• Increase in deferred revenues from professional care plan	\$12.902m
• Other miscellaneous items	(\$1.471)m
Net cash inflow from operations surplus for the half year	\$28.114m

The Group's balance sheet continues to be sound with an equity ratio of 55.9% as at 31 December 2012 (56.2% in 2011) and a working capital ratio of 2.6:1 (2.8:1 in 2011).

Summary

Trading for the six months was a story of two quarters with a strong first quarter being followed by a slowdown in the second quarter. All countries struggled to make gains on the previous year's sales numbers during the key December quarter however "same store" growth was achieved in all markets during the six months which is pleasing. As mentioned in our August 2012 Chairman's Statement, additional resources were placed into our key Australian market in mid-2012 and this has started to have a positive impact on sales in this key market. The directors remain satisfied with the overall performance of the Group and they remain confident in the continued growth and profitability of the Group.



Sir Michael Hill 15/02/2013

Chairman

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STATEMENT OF FINANCIAL PERFORMANCE	Consolidated Statement of Financial Performance		
	Current half year \$NZ'000	% Change	Previous corresponding half year \$NZ'000
Revenue			
Trading revenue	312,866	8.3%	288,846
Other revenue	182	(7.6%)	197
Total operating revenue	313,048	8.3%	289,043
Expenses			
Cost of goods sold	(112,965)	3.2%	(109,483)
Employee benefits expense	(76,389)	13.9%	(67,060)
Occupancy costs	(25,820)	11.0%	(23,257)
Selling expenses	(18,532)	9.9%	(16,862)
Marketing expenses	(17,501)	(0.3%)	(17,560)
Depreciation and amortisation expense	(6,411)	5.2%	(6,093)
Loss on disposal of property, plant & equipment	(34)	(92.0%)	(423)
Other expenses	(19,262)	43.0%	(13,474)
Finance costs	(1,924)	(22.9%)	(2,494)
Profit before income tax	34,210	5.8%	32,337
Income tax expense	(6,371)	5.5%	(6,040)
Profit attributable to equity holders of Michael Hill International Limited	27,839	5.9%	26,297

INCLUDED IN STATEMENT OF FINANCIAL PERFORMANCE ABOVE

Interest income	35	(37.5%)	56
Net foreign exchange (loss) / gain	(551)	(138.3%)	1,438
Depreciation	(6,386)	5.6%	(6,048)
Amortisation	(25)	(44.4%)	(45)
Net loss on disposal of property, plant & equipment	(34)	(92.0%)	(423)
Rental expense relating to operating leases	(25,820)	11.0%	(23,257)
Donations	(14)	133.3%	(6)

EARNINGS PER SECURITY	Earnings Per Security	
	Current half year Cents	Previous corresponding half year Cents
Basic EPS	7.27	6.87
Diluted EPS	7.23	6.85

DIVIDENDS	Dividends	
	Current half year \$NZ'000	Previous corresponding half year \$NZ'000
Final dividend for the year ended 30 June 2012 of 3.5 cents (2011 - 3.0 cents) per fully paid share paid on 5 October 2012 (2011 - 10 October 2011).	13,400	11,483
Total dividends provided for or paid	13,400	11,483

STATEMENT OF FINANCIAL POSITION	Consolidated Statement of Financial Position		
	At end of current half year \$NZ'000	% Change	At end of previous half year \$NZ'000
ASSETS			
Current Assets			
Cash and cash equivalents	13,424	(58.8%)	32,545
Trade and other receivables	21,322	25.5%	16,988
Inventories	213,836	13.7%	188,083
Total current assets	248,582	4.6%	237,616
Non-current assets			
Property, plant and equipment	54,896	20.6%	45,535
Deferred tax assets	66,443	5.3%	63,100
Intangible assets	44	(58.5%)	106
Trade and other receivables	701	-	-
Other non-current assets	2,287	-	-
Total non-current assets	124,371	14.4%	108,741
Total assets	372,953	7.7%	346,357
LIABILITIES			
Current liabilities			
Trade and other payables	71,102	2.0%	69,725
Current tax liabilities	6,252	(8.8%)	6,856
Provisions	4,737	30.5%	3,631
Deferred revenue	12,256	135.7%	5,200
Total current liabilities	94,347	10.5%	85,412
Non-current liabilities			
Borrowings	34,112	(21.2%)	43,273
Provisions	2,004	2.7%	1,952
Deferred revenue	34,154	62.8%	20,975
Total non-current liabilities	70,270	6.1%	66,200
Total liabilities	164,617	8.6%	151,612
Net assets	208,336	7.0%	194,745
EQUITY			
Contributed equity	4,162	1.9%	4,083
Reserves	1,252	(73.6%)	4,737
Retained profits	202,922	9.1%	185,925
Total equity	208,336	7.0%	194,745

NET TANGIBLE ASSETS	Net Tangible Assets	
	Current half year \$ / Share	Previous corresponding half year \$ / Share
Net tangible assets	\$ 0.54	\$ 0.51

STATEMENT OF CASH FLOWS	Consolidated Statement of Cash flows	
	Current half year \$NZ'000	Previous corresponding half year \$NZ'000
Cash flows from operating activities		
Receipts from customers (incl. GST)	351,530	325,731
Payments to suppliers and employees (incl. GST)	(301,601)	(262,519)
Interest received	35	55
Other revenue	182	197
Interest paid	(1,792)	(2,501)
Income tax paid	(7,669)	(1,049)
Net goods and services tax paid	(12,571)	(13,114)
Net cash inflow from operating activities	28,114	46,800
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	116	145
Payments for property, plant and equipment	(14,703)	(9,108)
Net cash outflow from investing activities	(14,587)	(8,963)
Cash flows from financing activities		
Proceeds from borrowings	72,485	30,744
Repayment of borrowings	(71,213)	(33,306)
Proceeds from sale of treasury stock	71	90
Dividends paid to Company's shareholders	(13,400)	(11,483)
Net cash outflow from financing activities	(12,057)	(13,955)
Net increase in cash and cash equivalents	1,470	23,882
Cash and cash equivalents at the beginning of the half year	12,064	8,540
Effects of exchange rate changes on cash and cash equivalents	(110)	123
Cash and cash equivalents at the end of half year	13,424	32,545

STATEMENT OF CHANGES IN EQUITY	Statement of Changes In Equity	
	Current half year \$NZ'000	Previous corresponding half year \$NZ'000
Total equity at the beginning of the financial year	194,359	178,376
Profit for the year	27,839	26,297
Exchange differences on translation of foreign operations	(626)	1,257
Total recognised income and expense for the year	27,213	27,554
Transactions with equity holders in their capacity as equity holders		
Employee share scheme issue	79	100
Option reserve movement	85	198
Dividends provided for or paid	(13,400)	(11,483)
Total equity at the end of the financial year	208,336	194,745

ISSUED AND QUOTED SECURITIES	Issued Securities	
	At end of current half year No. of Shares	At end of previous half year No. of Shares
Ordinary Shares:		
Fully Paid	383,053,190	383,053,190
Treasury stock held for employee share scheme	(203,646)	(277,604)
	382,849,544	382,775,586
Outstanding options issued during the year	750,000	750,000

Issued Options:

	Issued	Exercise Price	Expiry Date
Options issued 7 November 2007	4,250,000	\$1.25	30/09/2017
Options issued 24 August 2009	200,000	\$0.94	30/09/2019
Options issued 5 November 2009	150,000	\$0.94	30/09/2019
Options issued 17 September 2010	350,000	\$0.88	30/09/2020
Options issued 5 November 2010	400,000	\$0.94	30/09/2019
Options issued 5 November 2010	400,000	\$0.88	30/09/2020
Options issued 16 September 2011	750,000	\$1.16	30/09/2021
Options issued 19 September 2012	750,000	\$1.41	30/09/2022

SUBSIDIARIES		Subsidiaries	
		Current half year % Ownership	Previous corresponding half year % Ownership
Name of Entity	Country of Incorporation		
Michael Hill Jeweller Limited	New Zealand	100%	100%
Michael Hill Trustee Company Limited	New Zealand	100%	100%
MHJ (US) Limited	New Zealand	100%	100%
Michael Hill Finance (NZ) Limited	New Zealand	100%	100%
Michael Hill Franchise Holdings Limited	New Zealand	100%	100%
Michael Hill Jeweller (Australia) Pty Limited	Australia	100%	100%
Michael Hill Wholesale Pty Limited	Australia	100%	100%
Michael Hill Manufacturing Pty Limited	Australia	100%	100%
Michael Hill Finance (Limited Partnership)	Australia	100%	100%
Michael Hill Group Services Pty Limited	Australia	100%	100%
Michael Hill Franchise Pty Limited	Australia	100%	100%
Michael Hill Franchise Services Pty Limited	Australia	100%	100%
Michael Hill Jeweller (Canada) Limited	Canada	100%	100%
Michael Hill LLC	United States	100%	100%