michael hill

INTERNATIONAL LIMITED

ANNUAL REPORT 2011

The directors are pleased to present the annual report of Michael Hill International Limited for the year ended 30 June 2011

COMPANY PROFILE

Michael Hill International owns the brand “Michael Hill” and operates a retail jewellery chain of 240 stores in Australia, New Zealand, Canada and United States as at 30 June 2011.

The Company had its origins in 1979 when Michael and Christine Hill opened their first store in the New Zealand town of Whangarei, some 160 kilometres north of Auckland. The Group now has 52 stores throughout New Zealand.

A unique retail jewellery formula that included dramatically different store designs, a product range devoted exclusively to jewellery and high impact advertising elevated the company to national prominence.

The company listed on the New Zealand Stock Exchange in 1987 the same year it expanded into Australia and now has 146 stores throughout Australia.

In 2002, the Company expanded into Canada, opening its first stores in Vancouver. We now have a presence in British Columbia, Alberta, Manitoba, Saskatchewan and Ontario with 33 stores.

In September 2008, the Company entered the United States market and now has 9 stores in Chicago.

Today the group employs over 2,000 permanent employees who are involved in retail sales, manufacturing and administration. It has approximately 3,500 shareholders and is proud of its consistently high returns to shareholders.

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

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

PERFORMANCE HIGHLIGHTS FOR THE TWELVE MONTHS

› Operating revenue of $489.330m up 10.3% on same period last year

› Same store sales were 9.2% up on same period last year

› EBIT of $45.638m up 28.4% on same period last year

› Net profit before tax of $39.985m up 32.4% on last year

› Net profit after tax of $34.499m up 32.6%

› Net debt of $36.873m at 30 June 2011

› Operating cash flow of $43.319m for period up from $12.872m

› 11 new stores opened and 3 closed during the period

› Total of 240 stores open at 30 June 2011

› Final dividend of 3.0 cents per share up 20%

› Total dividend for the year of 4.5 cents up 12.5% from 4.0 cents in 2010

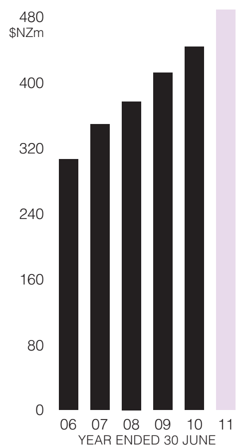
› Equity ratio of 60.9% at 30 June 2011

(all values stated in NZD unless stated otherwise)

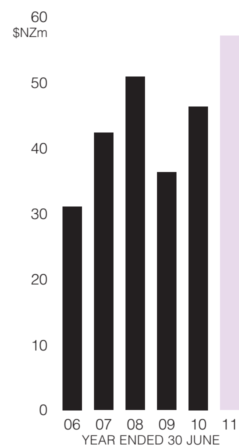
KEY FACTS

YEAR ENDED 30 JUNE, NZ$000's unless stated	2011	2010	% change
TRADING RESULTS			
Group revenue	**489,330**	443,710	10.3%
Earnings before interest and tax	**45,638**	35,534	28.4%
Group surplus after tax	**34,499**	26,015	32.6%
- First half	**23,896**	22,299	7.2%
- Second half	**10,603**	3,716	185.3%
Net cash from operating activities	**43,319**	12,872	236.5%
FINANCIAL POSITION AT YEAR END			
Contributed equity			
382,664,473 ordinary shares	**3,983**	3,850	3.5%
Total equity	**178,376**	158,544	12.5%
Total assets	**293,108**	258,217	13.5%
Net debt	**36,873**	45,437	-18.8%
Capital expenditure - cash	**14,010**	10,452	34.0%
NUMBER OF STORES 30 JUNE			
New Zealand	**52**	53	
Australia	**146**	141	
Canada	**33**	29	
United States	**9**	9	
Total	**240**	232	

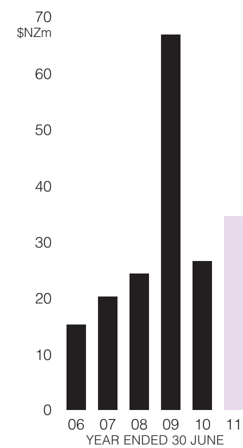
YEAR ENDED 30 JUNE	2011	2010
DISTRIBUTION TO SHAREHOLDERS		
Dividends - including final dividend		
- Per ordinary share	**4.5¢**	4.0¢
- Times covered by surplus after tax	**2.00**	1.70
SHARE PRICE		
30 June	**$0.90**	$0.69
KEY DATA PER SHARE		
Basic earnings per share	**9.02¢**	6.80¢
Diluted earnings per share	**8.99¢**	6.79¢
KEY MEASURES		
Same store sales up (in local currency)		
- New Zealand	**5.4%**	6.1%
- Australia	**4.7%**	9.9%
- Canada	**12.1%**	15.0%
- United States	**20.3%**	-
Return on average shareholders' funds	**20.5%**	17.0%
Interest expense cover (times)	**7.8**	6.4
Equity ratio	**60.9%**	61.4%
Current ratio	**3.3:1**	3.5:1



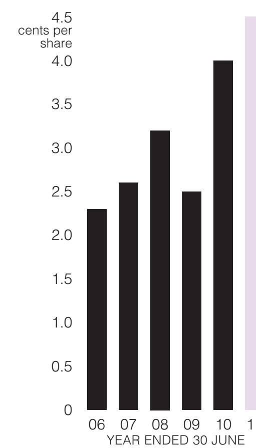
GROUP REVENUE UP 10%



PROFIT BEFORE DEPRECIATION, AMORTISATION AND INTEREST (EBITDA) UP 23%

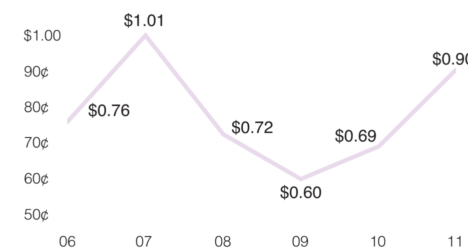


NET PROFIT AFTER TAX UP 33%



ORDINARY DIVIDEND UP 13%

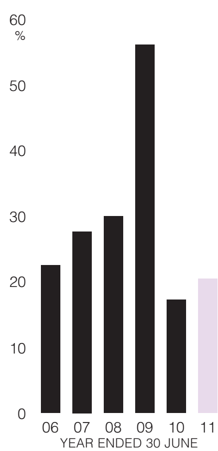
10 for 1 share split Nov 2007 - prior years adjusted for comparative purposes



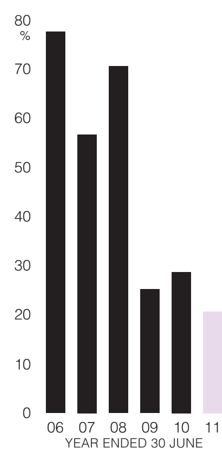
SHARE PRICE PERFORMANCE - LAST 6 YEARS

AS AT 30 JUNE

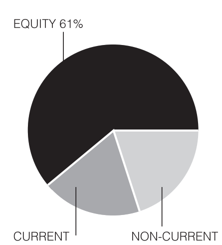
NOTE: 10 for 1 share split November 2007. Prior years adjusted for comparative purposes.



RETURN ON AVERAGE SHAREHOLDERS' FUNDS 21%

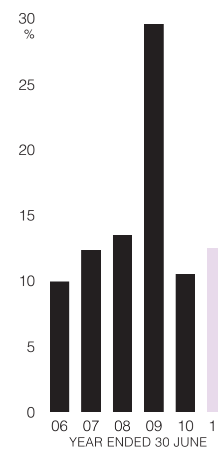


GEARING RATIO 21%

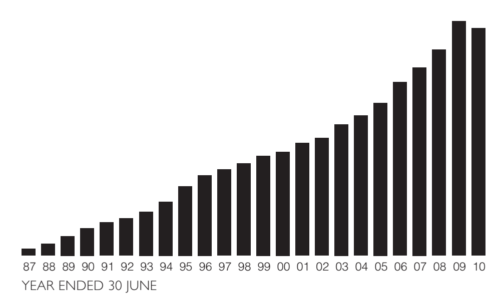


SOURCE OF FUNDING

30 JUNE 2010

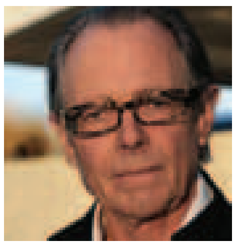


RETURN ON AVERAGE ASSETS 13%



TOTAL JEWELLERY STORES

CHAIRMAN'S REVIEW



Dear Shareholders,

Our Group has reported a net profit after tax of $34.499m for the 2010-11 financial year and earnings before interest and tax of $45.638m, up 28.4% on the previous year. The Group's revenues of $489.330m were up 10.3% on the previous year. The net profit after tax represents a 20.5% return on average shareholders' funds for the year, with our average return over the past 5 years being 30.6%.

The Group continues to have a very sound balance sheet with an equity ratio of 60.9% at 30 June 2011 (61.4% in 2010), and a working capital ratio of 3.3:1 (3.5:1 in 2010). Net operating cash flows were $43.319m compared to $12.872m the previous year. Net debt at 30 June 2011 was $36.873m compared to $45.437m at 30 June 2010. The Group remains in a strong position to take advantage of growth opportunities as they arise.

I would like to take this opportunity to thank the management team for this excellent result especially given the ongoing turbulence in world economies and the negative impacts of the unexpected natural disasters in our key markets.

For shareholders, the dividend for the year was 4.5 cents per share, up 12.5% from 4.0 cents in 2009-10, with the final dividend of 3.0 cents per share being paid on the 10th October, 2011. The final dividend will have no imputation credits attached for New Zealand shareholders but full franking credits for Australian shareholders. Due to the internal restructuring of the group in December 2008, the company is unlikely to be in a position to impute dividends for the foreseeable future.

New store openings are being evaluated in all 4 markets, however in the current economic climate only the very best opportunities will be considered and the emphasis will remain on growing same store sales, managing margins and controlling costs.

In the February half year report, the company provided an update on the 2 outstanding tax matters relating to the 2008 Group restructure. Below is an update on the respective matters.

The discussions referred to in the half year report with the Inland Revenue (IR) in New Zealand in relation to the way the Group financed the sale of Intellectual Property from one of our New Zealand companies to one of our Australian companies have continued. Tax returns have been filed with the IR for the 2008-09 and 2009-10 financial years. The IR has issued a binding ruling confirming some aspects of the tax treatment of the financing structure but has commenced a limited scope review of some outstanding concerns in relation to the 2009 tax return. In turn the company has initiated the disputes resolution process in respect of the 2010 return in order to expedite finalisation of the issues. Discussions are continuing.

The company's discussions with the Australian Taxation Office (ATO) relate to the value at which the intellectual property was transferred between the respective companies. Discussions are likewise continuing with the ATO in respect to this matter at the time of this announcement.

The board does not consider that either of the above ongoing tax matters requires a provision or contingency in the Group's financial statements for 2010-11 financial year. This will be kept under review.

I would like to thank our board for their wise advice and direction that gives us the confidence to pursue our goals and vision.

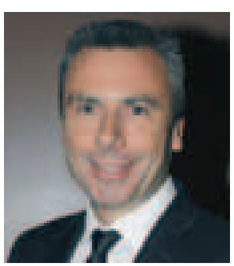
Sir Michael Hill, Chairman


michael
michael

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS

A REVIEW OF PRIORITIES FROM LAST YEAR

Priorities	Results
To drive increases in same store sales and EBIT performance >	Same store sales increase of 9.2% were achieved, along with EBIT growth of 28.4%
To deliver a return on average shareholders funds in excess of 25% >	A return on average shareholder funds was achieved of 20.5%
To return to profit in Canada >	Same store sales increase of 12.1% and losses reduced from CA$1.211m to CA$0.174m
To drive sales improvement in the 9 stores in the US >	Same store sales increase of 20.3% and losses reduced from US$6.264m to US$3.392m



Our Group has reported operating revenues of $489.330m with a net profit after tax of $34.499m for the 2010-11 financial year. Earnings before interest and tax were $45.638m, up 28.4% on the previous year, and net profit before tax rose 32.6%.

All markets improved their bottom line positions during the year with progress being made in the Canadian and US operations. A strong focus on the performance of same stores, including the refurbishment of existing stores, and selective opening of new stores resulted in the company improving its bottom line position again this year. As a result, cash flows increased and net debt levels reduced leaving the company in a strong position.

The retail environment was still very challenging in North America and became more difficult in Australia during the second half of the year. The continuing economic difficulties around the world, combined with unexpected natural disasters in NZ and Australia, dampened consumer confidence and made retail challenging. This impacted on margins and earnings as the retail industry generally tried to stimulate sales through increased discounting and value offers. As a consequence our gross profit margins were flat on the previous year.

During the financial year we continued to rollout new stores and refurbish old ones into the new Michael Hill store design. The new concept has provided the company with a distinctive look, differentiated us from competitors, and vastly improved the overall shopping experience for our customers. New and improved displays, lighting systems, and other

Chief Executive Officer's review of operations cont.

features have ensured our product is now showcased in the best possible environment. The "new concept" stores continue to trade well and we are generally experiencing a lift in average transaction value and sales volumes as existing stores are refurbished.

This year we also commenced a program to develop and launch further differentiated collections to our standard ranges. We are experiencing strong sales volumes and margins from the collections tested to date including; Michael Hill Watches, Evermore Collection (engagement rings) and Captured Moments Charm Collection. The goal with these ranges is to create and develop unique collections that are exclusive, differentiated from our competitors and that yield higher margin and have a higher average transaction value. Further collections are in development and due for release in the next 12 months.

In the US, all 9 stores traded the year in the new Michael Hill format and we worked hard to improve assortments particularly in the bridal category. The decision to rationalise the store numbers last year has allowed us to focus on the market, reduce risk, and drive solid "same stores" sales growth. While we acknowledge there is still much work to do in the US, sales revenue lifted from an average of $750,000 to over $900,000 during the year.

Increasing costs were a challenge during the year, with consumer credit costs, pressure on wages and rents, and foreign exchange losses all impacting negatively on the bottom line.

We opened 11 new stores during the year; 6 in Australia; 1 in New Zealand; 4 in Canada; and 3 stores were closed resulting in a total of 240 stores open across the Group at 30 June 2011.

SEGMENT RESULTS

The segments reported on reflect the performance of the company'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 2008 to include distribution margins that are generated in each segment and recognised when retail sales are made. Prior to 2007-08 it was not possible to accurately allocate this margin to each segment.

AUSTRALIA

OPERATING RESULTS AUSTRALIA (AU $000)	**2011** New segment definition	**2010** New segment definition	**2009** New segment definition	**2008** New segment definition	**2007** Old segment definition
Revenue	**250,999**	236,314	221,113	212,095	197,187
Earnings before interest & tax	**38,935**	38,105	33,831	31,934	18,190
As a % of revenue	**15.5%**	16.1%	15.3%	15.1%	9.2%
Average assets employed	**81,020**	79,931	82,426	75,515	86,646
Return on assets	**48.1%**	47.7%	41.0%	42.3%	21.0%
Number of stores	**146**	141	143	136	126
Exchange rate	**0.77**	0.81	0.82	0.85	0.87

Total sales in Australian dollars, increased 6.2% to AU$250.999m and same store sales grew by 4.7%. The operating surplus (EBIT) increased 2.2% to AU$38.935m and this represented 15.5% of sales (2010 - 16.1%). EBIT was impacted by increased consumer credit costs, and the impact on margins from the increased promotional activity required in the second half to combat the floods and cyclone experienced in Queensland, and the general tightening in retail sales in the second half.

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

- Castletown, Queensland
- Rundle Mall, South Australia
- Wendouree, Victoria
- Merrylands, New South Wales
- Sunshine Marketplace, Victoria
- Charlestown, New South Wales

There were 146 stores trading at 30 June 2011.

The Australian business still has strong expansion opportunities available for future growth. New malls and expansions are creating new opportunities for us every year as landlords expand space to cater for expanding and changing demographics. Our latest revision of the retail opportunities left still indicate there are at least 20 new stores which can be opened. This combined with our relocation and refurbishment strategy on existing stores, provides the Group with strong growth prospects into the future. New stores are being actively pursued in the current year and we expect to open up to 10 new stores in Australia in 2011-12.

We will also continue our operational focus on lifting same store sales and EBIT performance. This is seen as an important earnings strategy as we believe we can extract further earnings growth from the existing store base in this market. We have many stores that continue to mature and there is further potential for growth from stores within the Group that have yet to reach their full potential.

NEW ZEALAND

OPERATING RESULTS
NEW ZEALAND (NZ $000)

	2011 New segment definition	2010 New segment definition	2009 New segment definition	2008 New segment definition	2007 Old segment definition
Revenue	**101,742**	95,811	90,393	97,019	97,439
Earnings before interest & tax	**18,577**	16,050	14,954	18,435	13,570
As a % of revenue	**18.3%**	16.8%	16.5%	19.0%	13.9%
Average assets employed	**37,946**	39,454	40,418	42,355	43,564
Return on assets	**49.0%**	40.7%	37.0%	43.5%	31.1%
Number of stores	**52**	53	53	52	50

Total sales increased 6.2% to NZ$101.742m and same store sales were up by 5.4%. The operating surplus (EBIT) improved by 15.7% to NZ$18.577m and represented 18.3% of sales (2010 – 16.8%).

New Zealand posted record earnings this year. Despite disruptions caused by the earthquakes in Christchurch, earnings still recovered to exceed the company's best year in 2008. During the year we focused on the quality and performance of our management and sales teams. A new centralised recruitment model for sales professionals and future managers was established, and this along with a strong focus on the basics and our sales management systems delivered strong improvements in productivity. The focus on more important diamond rings and the engagement ring market also increased sales.

During the year the company also embarked on a refurbishment and relocation program to ensure our premium retail locations up and down the country are maximised. In addition to the refurbishment of Queen St, Albany was relocated into the new Westfield Mall, Newmarket was relocated into the Westfield Mall, Manakau was refurbished, Rotorua was refurbished,

Chief Executive Officer's review of operations cont.

Palmerston North was relocated, and Riccarton was refurbished. This strategy will continue to ensure our exposure and full potential is maximised in each location.

One new store was opened in New Zealand at The Base in Hamilton.

Two stores were closed in the South Island due to structural damage sustained during the earthquakes in Christchurch in early 2011.

There were 52 stores trading at 30 June 2011.

CANADA

OPERATING RESULTS

CANADA (CA $000)	**2011** New segment definition	**2010** New segment definition	**2009** New segment definition	**2008** New segment definition	**2007** Old segment definition
Revenue	**36,818**	29,998	25,645	24,855	19,443
Earnings before interest & tax	**(174)**	(1,211)	(239)	998	28
As a % of revenue	**(0.5%)**	(4.0%)	(0.9%)	4.0%	0.1%
Average assets employed	**22,837**	17,593	15,387	12,565	9,078
Return on assets	**(0.8%)**	(6.9%)	(1.6%)	7.9%	0.3%
Number of stores	**33**	29	26	22	16
Exchange rate	**0.76**	0.76	0.70	0.77	0.78

Total sales in Canadian dollars grew by 22.7% to CA$36.818m and same store sales increased by 12.1%. There was a good improvement in operating deficit to CA$0.174m for the twelve months compared to a deficit of CA$1.211m for the previous corresponding period.

This result was very pleasing and reflected a strong focus on improving same store productivity. Our focus on the bridal market ensured more consistent business throughout the year and assisted greatly in lifting our average transaction value. We invested more money into electronic media and were able to utilise TV advertising in December and February – the prime gift giving times. Radio was purchased throughout the balance of the year to help better position the business in the engagement ring market. As the company grows in size we will have more scale especially in advertising, which should result in increased sales and average store volumes.

Securing new sites in Canada is challenging due to the demand from American and European retailers entering the market. However, we are confident with this market and well positioned for an upturn in the economy and consumer spending. We plan to open between five and ten stores a year.

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

- Chinook, Alberta
- Midtown, Saskatchewan
- Bramalea, Ontario
- Upper Canada Mall, Ontario

There were 33 stores open at 30 June 2011.

USA

OPERATING RESULTS - USA (US $000)	**2011**	**2010**	**2009** Commenced Sept 2008
Revenue	**8,105**	10,574	9,088
Earnings before interest & tax	**(3,392)**	(6,264)	(3,094)
As a % of revenue	**(41.9%)**	(59.2%)	(34.1%)
Average assets employed	**8,101**	7,378	8,012
Return on assets	**(41.9%)**	(84.9%)	(38.6%)
Number of stores	**9**	9	17
Exchange rate	**0.76**	0.72	0.58

Same store sales in the nine US stores increased by 20.3%. Total sales decreased 23.3% to US$8.105m but this was due to the closure of 8 stores in June 2010. The operating deficit improved from US$6.264m to US$3.392m.

During the year all the stores were refurbished into the new concept and assortments were adjusted to ensure we were competitive in the bridal market.

There are no current plans to open further stores as our major priority is to continue improving the performance of the existing stores. Our goal is to build average store volumes to over $1.2 million.

There were 9 stores open at 30 June 2011.

OUR PRIORITIES

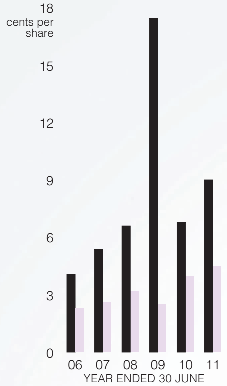
Our main priorities for the 2011/12 financial year to build shareholder wealth are:

- To drive increase in "same store" sales and EBIT
- To open 20 new stores across the Group
- To deliver a return on shareholders' funds in excess of 25%
- To achieve profit in Canadian segment
- To drive continued sales improvement in the 9 stores in the US and reach breakeven
- To reduce operational costs as a % of sales
- To lift gross profit margins and gross return on inventory employed

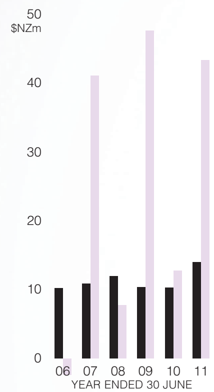
OUR THANKS

This year has seen another strong increase in underlying earnings from the Group. The result was pleasing considering the economic conditions in our various markets and the challenges faced during the year. I would like to thank everyone within the Michael Hill team for their commitment and efforts throughout the year, and our shareholders for their ongoing support.

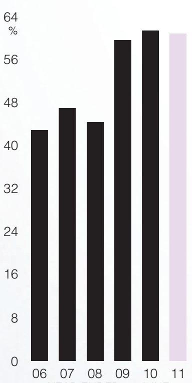
Mike Parsell, Chief Executive Officer



EARNINGS AND ORDINARY DIVIDENDS
■ EARNINGS ■ DIVIDENDS



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



EQUITY RATIO 61%

FINANCIAL REVIEW - discussions & analysis

FINANCIAL PERFORMANCE

The Group's surplus after tax was $34.499m, up 32.6% on last year's surplus after tax of $26.015m. Total operating revenue went up from $443.710m to $489.330m, a 10.3% increase.

The Australian retail segment achieved a same store sales increase of 4.7% in Australian dollars and a segment result of NZ$50.833m up from NZ$47.246m the previous year.

The New Zealand retail segment achieved a same store sales increase of 5.4% and a segment result of NZ$18.577m up from NZ$16.050m the previous year.

The Canadian retail segment had a same store sales increase of 12.1% for the year in Canadian dollars and produced a segment operating loss of NZ$0.215m compared to a loss of NZ$1.629m the previous year.

The US retail segment completed its second full year of trade and produced a segment loss of NZ$4.477m compared to a loss of NZ$8.734m the previous year.

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

CASH FLOW

The Group has reported net operating cash flows of $43.319m for the twelve months, compared to $12.872m for the previous year. The increased surplus from operations, compared to last year, is a result of improved revenue from all markets and also due to the cash flow created from the company introducing a Professional Care Plan for customers to purchase to provide for the ongoing maintenance and care for their jewellery. Revenue from the Professional Care Plan is treated as deferred revenue and brought to account over the life of the plan purchased by the customer.

Net cash outflow relating to investing activities was $13.853m.

Net cash outflow from financing activities was $27.150m compared to a net outflow of $19.772m last year.

BALANCE SHEET

Net assets increased from $158.544m at the end of the previous year to $178.376m. Borrowings from the bank decreased to $45.413m from $51.707m last year. The equity ratio at year end was 60.9%, down from 61.4% last year. Total assets went up from $258.217m to $293.108m.

The current ratio decreased from 3.5:1 last year to 3.3:1 at 30 June 2011.

EVENTS AFTER BALANCE DATE

There were no events after balance sheet date requiring disclosure.

SHAREHOLDERS RETURN

- Declared dividends total 4.5 cents per share up from 4.0 cents in 2009-10.
- Shares traded between a high of $0.94 and a low of $0.65 ending the year at $0.90.
- Return on average equity was 20.5% compared to 17.0% last year.
- Return on average total assets was 12.5% compared to 10.3% last year.

TREND STATEMENT

FINANCIAL PERFORMANCE	NZIFRS 2011 $000	NZIFRS 2010 $000	NZIFRS 2009 $000	NZIFRS 2008 $000	NZIFRS 2007 $000	NZIFRS 2006 $000
Group revenue	**489,330**	443,710	411,999	376,664	348,757	306,374
Profit before depreciation, amortisation and interest (EBITDA)	**57,091**	46,320	36,026	50,851	42,351	31,059
Depreciation and amortisation	**11,453**	10,786	9,833	8,574	7,264	6,714
Earnings before interest and tax (EBIT)	**45,638**	35,534	26,193	42,277	35,087	24,345
Net interest paid	**5,653**	5,326	6,044	4,789	3,943	1,834
Profit before taxation	**39,985**	30,208	20,149	37,488	31,144	22,511
Income tax expense / (benefit)	**5,486**	4,193	(46,639)	12,256	10,127	6,737
Operating profit after tax attributable to members	**34,499**	26,015	66,788	25,232	21,017	15,774
Net operating cash flow	**43,319**	12,872	47,643	7,763	41,114	(2,360)
Ordinary dividends per share paid out	**15,307**	11,474	11,490	10,668	9,427	8,926

FINANCIAL POSITION	2011 $000	2010 $000	2009 $000	2008 $000	2007 $000	2006 $000
Cash	**8,540**	6,270	23,529	10,013	8,426	4,088
Other current assets	**181,606**	154,264	127,930	151,025	108,023	133,582
Total current assets	**190,146**	160,534	151,459	161,038	116,449	137,670
Other non-current assets	**42,211**	39,054	35,280	35,291	28,748	27,846
Deferred tax assets	**60,599**	58,349	58,591	7,822	7,938	7,285
Total tangible assets	**292,956**	257,937	245,330	204,151	153,135	172,801
Intangible assets	**152**	280	471	884	1,205	1,537
Total assets	**293,108**	258,217	245,801	205,035	154,340	174,338
Current interest bearing debt	**-**	-	-	23,320	31,119	-
Other liabilities	**57,192**	46,226	37,300	38,900	31,374	36,441
Total current liabilities	**57,192**	46,226	37,300	62,220	62,493	36,441
Term borrowings	**45,413**	51,707	60,487	50,927	18,396	62,134
Other long term liabilities	**12,127**	1,740	1,275	887	947	1,004
Total liabilities	**114,732**	99,673	99,062	114,034	81,836	99,579
Net assets	**178,376**	158,544	146,739	91,001	72,504	74,759
Reserves and retained profits	**174,393**	154,694	142,889	87,151	67,752	60,901
Paid up capital	**4,177**	4,141	4,141	4,141	5,129	14,235
Treasury stock	**(194)**	(291)	(291)	(291)	(377)	(377)
Total shareholder equity	**178,376**	158,544	146,739	91,001	72,504	74,759

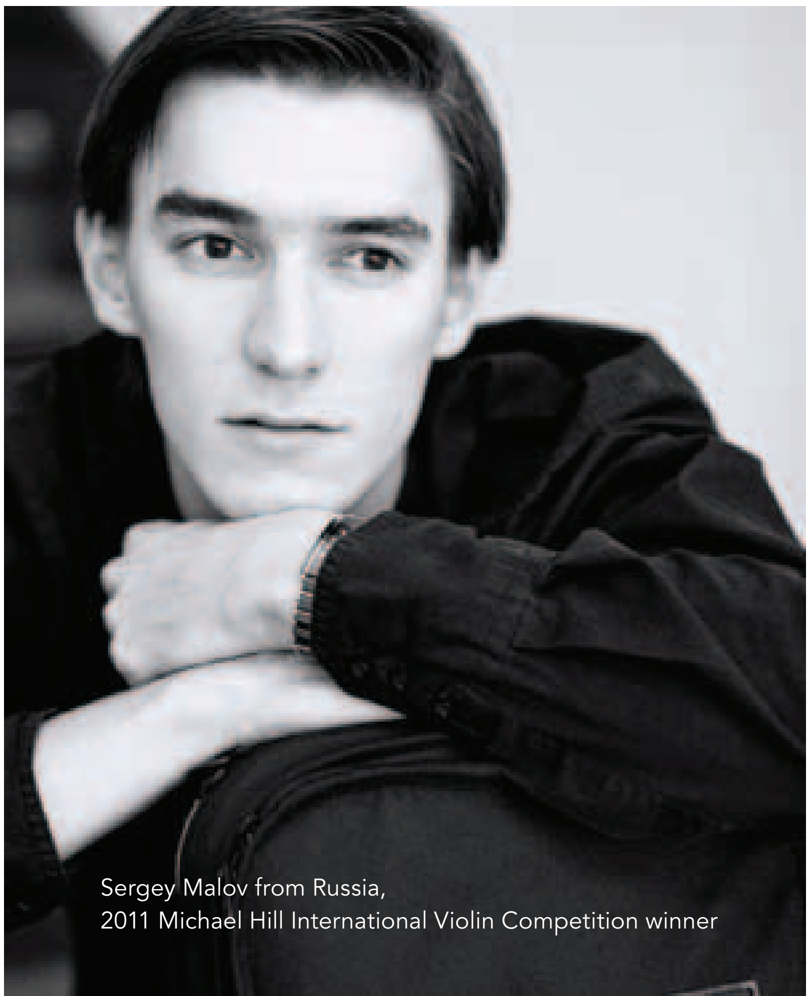
	NZIFRS 2011 $000	NZIFRS 2010 $000	NZIFRS 2009 $000	NZIFRS 2008 $000	NZIFRS 2007 $000	NZIFRS 2006 $000
Per ordinary share						
Basic earnings per share	**9.02¢**	6.80¢	17.46¢	6.61¢	5.39¢	4.08¢
Diluted earnings per share	**8.99¢**	6.79¢	17.44¢	6.60¢	5.35¢	4.05¢
Dividends declared per share - interim	**1.5¢**	1.5¢	1.0¢	1.2¢	1.0¢	0.9¢
- final	**3.0¢**	2.5¢	1.5¢	2.0¢	1.6¢	1.4¢
Net Tangible asset backing	**$0.47**	$0.41	$0.38	$0.24	$0.19	$0.19

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

ANALYTICAL INFORMATION	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
EBITDA to sales	**11.7%**	10.4%	8.7%	13.5%	12.1%	10.1%
EBIT to sales	**9.3%**	8.0%	6.4%	11.2%	10.1%	7.9%
Profit after tax to sales	**7.1%**	5.9%	16.2%	6.7%	6.0%	5.1%
EBIT to total assets	**15.6%**	13.8%	10.7%	20.6%	22.7%	14.0%
Return on average shareholders funds	**20.5%**	17.0%	56.2%	30.9%	28.5%	23.2%
Return on average total assets	**12.5%**	10.3%	29.6%	14.0%	12.8%	10.3%
Current ratio	**3.3**	3.5	4.1	2.6	1.9	3.8
EBIT interest expense cover	**7.8**	6.4	4.1	8.4	7.6	7.4
Effective tax rate	**13.7%**	13.9%	-231.5%	32.7%	32.5%	29.9%
Gearing						
Net borrowings to equity	**20.7%**	28.7%	25.2%	70.6%	56.7%	77.6%
Equity ratio	**60.9%**	61.4%	59.7%	44.4%	47.0%	42.9%
Other						
Shares issued at year end excl Treasury	**382,664,473**	382,468,900	382,468,900	382,468,900	382,760,700	392,329,460
Treasury and buy back stock at year end	**388,717**	584,290	584,290	584,290	756,540	756,540
Exchange rate for translating Australian results	**0.77**	0.81	0.82	0.85	0.87	0.89
Exchange rate for translating Canadian results	**0.76**	0.76	0.70	0.77	0.78	0.78
Exchange rate for translating United States results	**0.76**	0.72	0.58	-	-	-
Number of stores - New Zealand	**52**	53	53	52	50	49
- Australia	**146**	141	143	136	126	116
- Canada	**33**	29	26	22	16	12
- USA	**9**	9	17	-	-	-
Total number of stores	**240**	232	239	210	192	177


michael hill
michael hill
TOURBILLON
michael hill

COMMUNITY SPIRIT



Sergey Malov from Russia,
2011 Michael Hill International Violin Competition winner

MICHAEL HILL INTERNATIONAL VIOLIN COMPETITION

This prestigious competition, the sixth Michael Hill International Violin Competition, took place in June this year. The contest attracted entries from 136 applicants representing 29 nationalities from which 18 semi-finalists were selected and flown to New Zealand. The semi-finalists performed demanding programmes of solo and piano-accompanied works in Queenstown, followed by the chamber music round and final in Auckland. The competition is judged by an international panel.

The winner of this year's competition went to Russian violinist Sergey Malov. As winner, Sergey received a cheque of NZ$40,000, a recording with Atoll and a winner's tour with Chamber Music New Zealand in 2012. Sergey also picked up the inaugural Julian Anderson Award of NZ$2,000 as best chamber music player and the Michael Hill Audience Prize won by text voting.

The competition wishes to recognise and encourage excellence and musical artistry, and to expand performance opportunities. All competition applicants are aged 18 – 28 years.

SUPPORTING THE COMMUNITY

Michael Hill values the support of the communities we live in and in turn regularly supports local initiatives by donating products, gift vouchers and cash. This financial year, Michael Hill International proudly donated in excess of NZ$20,000 to community causes and events.

Our family and friends of Christchurch suffered the effects of numerous earthquakes this year. Michael Hill produced a Captured Moment bead to commemorate the 22nd February earthquake and sold them in the stores around New Zealand, $50 from the sale of every gold bead and $20 from the sale of every silver bead was donated to the Christchurch Appeal, resulting in a total of NZ$10,000.

OUR MANAGEMENT TEAM

SENIOR MANAGEMENT TEAM

Mike Parsell	Chief Executive Officer
Phil Taylor	Chief Financial Officer
Ross McKinnon	Chief Information Officer
Sue Szylvester	Group Marketing Executive
Stewart Silk	Group Human Resources Manager
Tony Lum	Training & Communications Manager
Tony Van Der Ark	Group Property Manager
Kerri Greenfield	Project Manager
Emile Traversari	Leasing Manager
Oliver Keene	Group Merchandise and Supply Chain Manager
Galina Hirtzel	Category Buyer Diamonds
Richard Price	Category Buyer
Chris Colvile	Group Distribution Manager
Grant Caldwell	Group Manufacturing Manager
Lindsay Corfield	Group Projects Manager
Lisa Walton	Software Development Manager
Daniel Hawkins	IT Support Manager
Tony Springford	IT Support Manager New Zealand
Stephanie Speedy	Management Accountant
Andrew Sparrow	Financial Controller
Vanessa Parker	Senior Financial Accountant
Kandi Govender	Group Internal Audit Manager
Tom Lima	Visual Merchandise Manager

THE AUSTRALIAN RETAIL MANAGEMENT TEAM

Kevin Stock	Retail General Manager
Ahmad Karnib	New South Wales Central Regional Manager
James Elliott	New South Wales North Regional Manager
Luke Doddrell	Queensland South Regional Manager
Suean Buckley	Queensland North Regional Manager
Leah Hurst	Victoria East Regional Manager
Nathan Hickman	Western Australia Regional Manager
Brenda Watson	South Australia/Tasmania Regional Manager

THE NEW ZEALAND RETAIL MANAGEMENT TEAM

Greg Smith	Retail General Manager
Greg Nel	Northern Regional Manager
Angela Mana-Tupara	Central Regional Manager
Paul Valentine	Southern Regional Manager

THE CANADIAN RETAIL MANAGEMENT TEAM

Brett Halliday	Retail General Manager
Patrick Sauter	British Columbia Regional Manager
Gerald Lecomte	Alberta Regional Manager

THE UNITED STATES RETAIL MANAGEMENT TEAM

Darcy Harkins	Retail General Manager
Steve Johannes	Chicago Regional Manager

OUR VALUES & GUIDING PRINCIPLES

CUSTOMER SATISFACTION IS OUR PASSION, OUR LOVE & OUR LIFE

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

OUR PEOPLE MAKE OUR COMPANY

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

ENCOURAGE INNOVATION AND USE COMMON SENSE

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

TAKE OWNERSHIP OF YOUR BUSINESS

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

BE HONEST AND ETHICAL

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

CORPORATE GOVERNANCE

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

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 do not materially differ from those detailed in the NZX Best Practice Code. During the last year, there have been no changes to the Company's governance practices.

THE BOARD IS ACCOUNTABLE FOR THE PERFORMANCE OF THE GROUP

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

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

Each year, the company produces a five year 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, comprising an Executive Chairman, a Chief Executive Officer, and six non-executive Directors. The Board convened on eight occasions in the financial year ended 30 June 2011. Profiles of the current Directors appear on page 39 of this Report. Under the Company's constitution, and the NZX Listing rules, one third of all Directors must retire every year, but can be re-elected at an annual meeting if eligible. Newly appointed Directors must seek re-election at the first annual meeting of shareholders following their appointment.

The Board appointed Deeta McGeoch (Colvin) as a non-executive director on 17 February 2011, and she will seek re-election at the Annual meeting on 4 November 2011.

The Company has no requirement for Directors to hold shares in the company but actively encourages them to do so and all current Directors have holdings in the company, which are detailed on page 83 of this report. Directors adhere to the Company's insider trading policy at all times.

INDEPENDENT DIRECTORS

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

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

The Company has determined that Gary Gwynne, Murray Doyle and Deeta McGeoch (Colvin) are independent Directors under the NZX Listing rules.

Corporate governance cont.

DIRECTORS' MEETINGS

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

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

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

	Board of Directors		Audit Committee		Remuneration Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
R.M. Hill	8	7	2	2	1	1
M.R. Parsell	8	8	2	2	1	1
L.W. Peters	8	8	2	2	1	1
G.J. Gwynne	8	8	2	2	1	1
M.R. Doyle	8	8	2	2	1	1
A.C. Hill	8	7	2	2	1	1
E.J. Hill	8	8	2	2	1	1
D.W. McGeoch (Colvin)	3	3	0	0	0	0

THE WORK OF DIRECTORS

Non-executive directors normally spend around 22 days per year on board and sub-committee meetings. The length of meetings varies between one to two days. Board meetings are held in different locations in Australia and New Zealand.

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 the structure of the Board itself. Each sub-committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice. The provision of such advice, if required, would be arranged in consultation with the Chairman. In circumstances where a Director was to obtain separate advice from that obtained on behalf of the Group, that advice would normally be provided to all Directors.

AUDIT SUB-COMMITTEE

The Audit sub-committee, which is chaired by Murray Doyle and consists of Messrs Doyle, Peters and Gwynne, met twice during the year. The function of the Audit sub-committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993, regarding management's accountancy practices, policies and controls relative to the Group's financial position and to review and make appropriate inquiry into the audits of the Group's financial statements by both internal and external auditors. This responsibility includes advising on the appointment of the external auditor and reviewing the scope and quality of the audit. The audit sub-committee has the responsibility of monitoring the Group's Risk Management practices and procedures 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 senior executives, attend all meetings and may discuss any matters in connection to audits, the Group's risk and control environment or any other matters relating to the Group's financial and non-financial affairs. This committee also approves any non-audit work carried out by the Company's auditors, and ensures that the lead partner in the audit firm is rotated every five years. The committee will also approve all major accounting policy changes. At least once a year, the Chairman meets with the external auditors privately without the presence of Company executives.

REMUNERATION SUB-COMMITTEE

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

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

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

NOMINATIONS SUB-COMMITTEE

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

Any person who is to be considered as a Director of the company must attend 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 Directors named below have disclosed to the Board, under Section 148 of the Companies Act 1993, particulars of the following acquisitions of relevant interests in the ordinary shares of the company during the year. The relevant interest acquired includes beneficial ownership.

	No. of shares acquired/(sold)	Consideration paid/(received)	Date acquired/(sold)
R.M. Hill, A.C. Hill & E.J. Hill	10,011,573	$9,010,415	14/1–28/2/11
M.R. Doyle	(1,116,401)	($1,004,760)	8/3/11
L.W. Peters	(5,508,000)	($4,957,200)	9/3/11
D.W. McGeoch (Colvin)	20,000	$18,758	12/5/11

L.W. Peters terminated management of a client account. Control and voting rights over 644,000 shares were relinquished on 18/2/2011.

Corporate governance cont.

NON-EXECUTIVE DIRECTORS' FEES

Fees for non-executive Directors are based on the nature of their work and their responsibilities. The Company is now a truly global company with 78% of the Group's stores in Australia, Canada and the USA. Shareholders at the Annual Meeting in November 2007 approved a maximum amount of $395,000 to be paid to Directors.

Each NZ resident Director is currently paid $75,000 per annum and our Australian resident Directors A$75,000 per annum. Directors appointed after November 2007 are paid at the forementioned rates. 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.

SHARE PURCHASE SCHEME

The Company has a Share Purchase Scheme for Management in operation. The scheme was designed to encourage Store Managers, Regional Managers and other senior employees of the Company to purchase shares in the Company. In order to provide a pool of shares for eligible employees to purchase, the Company from time to time will buy Michael Hill International shares on the New Zealand Stock Exchange. The rules of the scheme provide for the Company to on sell shares to purchasing employees at a 10% discount to the weighted average price for the ordinary shares during the 10 working day period ending 2 working days immediately prior to the date on which the Company offers shares to the employees. The discount is deemed to be "financial assistance" under the Companies Act 1993. The 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 2011, 195,573 shares were issued to staff at a price of $0.61 in September 2010. The company holds a further 388,717 shares which are held as "Treasury Stock" and will be used for the next issue of shares under the scheme in September 2011.

SHARE OPTIONS

During the year, a total of 1,150,000 options to purchase fully paid shares in the company were issued to executives of the company. There are currently 5,750,000 options outstanding to employees as at 30 June 2011. Further information on options outstanding to employees are included in note 29 to the Financial Statements on page 76.

COMMUNICATION WITH SHAREHOLDERS

Michael Hill International places high importance on communication with shareholders.

A half year and annual report is published each year and posted on the MHI website.

Announcements to the New Zealand Stock Exchange and the media are also posted on the website as are copies of presentations for Analysts which are done once a year in conjunction with the release of the annual results for the year.

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

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

CONTINUOUS DISCLOSURE POLICY

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

1. At each Board meeting, a standard agenda item is now considered – "Does the Company have anything to disclose?" The Board considers the information in its possession and decides appropriately whether any information needs to be disclosed to the market.
2. Between Board meetings, management will bring to the attention of the Directors any information they believe should be disclosed to the market for their consideration.
3. The Company now discloses revenue figures for the Group to the market for the first and third quarters in advance of the earnings announcement. For the second and fourth quarters, sales figures are released with the earnings results. In the all important Christmas trading period, an announcement on sales alone for the second quarter without reference to profitability could result in misinterpretation by the market. The Board considers it sensible to combine the sales and earnings release for the second and fourth quarters in order to ensure that the market understands how sales translated into earnings.
4. In the 12 months ended June 2011, the Company has made the following disclosures (excluding Directors and Officers ongoing disclosures re share trading) to NZX under the continuous disclosure rules:

26 July 2010	Announcement relating to the change in the value of the Intellectual Property values sold to the Australian company.
4 August 2010	Announcement to NZX re intention to change the external auditor.
20 August 2010	Full year results to 30 June 2010 released to NZX.
23 August 2010	Closing date for Director Nominations Announced.
22 September 2010	Release of Annual report for year ended 30 June 2010.
7 October 2010	3 Months sales update to 30 September 2010.
20 October 2010	Notice of Annual Meeting.
8 November 2010	Resolutions passed at Annual meeting 5 November 2010, confirmation of independent Directors.
20 December 2010	Notice of receipt of partial takeover offer from Durante Holdings Pty Limited.
13 January 2011	6 months trading update and profit guidance for the half year.
17 January 2011	Terms of partial takeover offer confirmed.
4 February 2011	Updated profit guidance for the half year ending 31 December 2010.
17 February 2011	Appointment of new Director.
17 February 2011	Half year results announced for 6 months ending 31 December 2010.
28 February 2011	Partial takeover for MHI announced unconditional.
2 March 2011	Half year report released to NZX.
14 April 2011	9 months sales update to 31 March 2011 released.
27 June 2011	Change of registered office announced.

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

Corporate governance cont.

EXTERNAL AUDIT INDEPENDENCE POLICY

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

The policy covers the following areas:

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

PROVISION OF NON AUDIT SERVICES BY THE EXTERNAL AUDITING FIRM

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

Bookkeeping

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

Valuations

Prohibited.

Tax Services

Permitted, as not seen to threaten independence.

Provision of IT Systems

Design and implementation of financial IT systems prohibited.

Staff secondment from Auditors

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

Litigation Support Services

Permitted with safeguards.

Legal Services

Permitted where immaterial to the financial statements.

Executive Search and Selection

Permitted with safeguards. Making selection for Michael Hill International 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 committee annually. Non-audit fees greater than $25,000 must be reviewed by the Chief Financial Officer and reported to the Audit committee for approval.

For the 2010/11 financial year audit fees amounting to $276,000 (2009/10 - Nil) and fees for other professional services amounting to $33,000 (2009/10 - $Nil) were paid to Ernst & Young. In addition, audit fees amounting to $26,000 (2009/10 - $330,000) and fees for other professional services amounting to $1,459,000 (2009/10 - $1,063,000) were paid to PricewaterhouseCoopers.

HIRING OF STAFF FROM THE EXTERNAL AUDITING FIRM

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

RISK MANAGEMENT REPORT

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

RISK MANAGEMENT PROCESS

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

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

A formal Risk Management workshop is conducted annually by our risk consultants in conjunction with the company's Group Executives to review and update the Risk Register which is included in the Audit Sub-Committee agenda.

INSURANCE PROGRAM

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

INTERNAL AUDIT

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

CODE OF ETHICS

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

CORPORATE CODE OF ETHICS

Michael Hill International (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.

In general, 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 communications, and dedication to our vision and values.
- We will strive to provide a safe workplace that at a minimum meets all health and safety laws and regulations.
- The privacy of an individual's records will be respected and will not be disclosed without 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 Guarantee on selected diamond products, a 12-month Guarantee for all other jewellery items, and a 3 year guarantee 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 Company's system of internal controls. No false or artificial information will be tolerated.
- We will safeguard all sensitive information. We will not disclose inside information that has not been reported publicly.

OUR COMMUNITIES

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

COMPANY PROPERTY AND ASSETS

- Our Directors and employees will properly use company assets and safeguard and protect any company 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 Company does not make political contributions and has no political affiliations.

SHARE TRADING BY DIRECTORS AND OFFICERS IN MHI SHARES

- The Company does not condone any form of insider trading by Directors or officers.
- The Board Operations manual sets out a procedure which must be followed by Directors when trading in Michael Hill International shares. If Directors or officers possess "material information" (refer to definition below) at any time, then they must not trade in MHI securities, advise or encourage others to trade or hold or pass on material information to others.
- Material Information is information that:
  - Is not generally available to the market; and
  - If it were generally available to the market, would have a material effect on the price of Michael Hill International's listed securities. Information is generally available to the market if it has been released as an NZX announcement.
- There are additional restrictions for Directors and all other senior executives who report to the CEO. 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
  - 1st December, until the half year results are released to NZX.
  - 1 June until after the full year results are released to NZX.
- Before trading in MHI shares, Directors and officers must, in writing
  i) Notify MHI's Company Secretary of their intention to trade in securities and seek consent to do so.
  ii) Confirm that do not hold material information.
  iii) Confirm that there is no known reason to prohibit trading in MHI securities.
- From the 3rd 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 Financial Controller. We may accept meals/hospitality that are not lavish and are reasonable in the context of doing business. Guidelines to use for the acceptance of any gift are: Will this influence my decision making? Does it place me in obligation? Could it be seen as an inducement? How would this look if reported by the media?
- Our employees will avoid any conflict of interest professionally and personally which might prevail or appear to prevail over the 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 organization 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 & 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

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. Member of the Remuneration and Nominations sub-committees.

EMMA HILL

Non Executive Director/Deputy Chairman.

Emma has been associated with the company 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 the Australian company 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 Remuneration sub-committee.

MIKE PARSELL

Chief Executive Officer of the Group. Mike spearheaded the Company'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 Prime Retail Management, the operators of Dress Smart Factory Shopping Centres, and a Director of Overland Footwear Company. He was appointed to the Board in February 1998. Member of the Audit, Remuneration and Nominations sub-committees.

WAYNE PETERS

Non Executive Director.

Wayne, who is based in Australia, has 29 years of retailing and investment management experience. He is Chairman and Chief Investment Officer of Peters MacGregor Capital Management Pty Ltd and Chairman of ASX listed Peters MacGregor Investments Ltd.

Member of the Audit and Nominations sub-committees and Chairman of the Remuneration sub-committee, Wayne joined the board in February 1999.

MURRAY DOYLE

Non Executive and Independent Director. Murray is a Director of Aspiring Asset Management Limited. His previous experience was in the finance industry until 1998, when his stockbroking firm was purchased by Bankers Trust, now Deutsche Bank. He is a member of the Remuneration sub-committee and Chairman of the Audit sub-committee. He joined the Board in February 2000.

CHRISTINE HILL

Non Executive Director

Christine has been associated with the Company since its original formation in 1979 and has been closely involved with the artistic direction of the Group's store design and interior layouts over the years. Christine is a member of the Remuneration sub-committee, and joined the Board in 2001.

DEETA MCGEOCH (COLVIN)

Non Executive Director and Independent Director.

Based in Sydney, Deeta has wide communications and retail skills founded in fashion, perfumes and cosmetics, travel and the media.

She is a former owner of high profile marketing and PR consultancy Colvin Communications which specialised in lifestyle, consumer products and corporate issues and management. She has been a director of corporate relations for PBL Media and has consulted to some of the world's biggest fashion and cosmetic brands including Louis Vuitton, Dior, Fendi and Versace.

She is also a non executive Director of NZX listed Ecoya Limited and a board member of UNICEF Australia. Deeta was appointed a Director by the Board in February 2011.


michael hill

STATUTORY REPORT OF THE DIRECTORS

The Directors have pleasure in submitting to shareholders the 24th Annual Report and audited accounts of the Company for the year ended 30 June 2011.

BUSINESS ACTIVITIES

The Group's sole business activities during the 2010/11 financial year continued to be jewellery retailing and manufacturing.

CONSOLIDATED FINANCIAL RESULTS

The Group has recorded a tax paid surplus of $34.499m for the year ended 30 June 2011 (2010 - $26.015m). This surplus was achieved on total operating revenue of $489.330m (2010 - $443.710m).

The accounts for the year ended 30 June 2011 have been presented in accordance with the accounting principles and policies detailed on pages 50 to 56 of this report.

	2011 $000	2010 $000
Total operating revenue	489,330	443,710
Surplus before tax	39,985	30,208
Taxation	(5,486)	(4,193)
Surplus after tax	34,499	26,015
Dividends paid	(15,307)	(11,474)
Net surplus retained	19,192	14,541

SHAREHOLDERS' FUNDS/RESERVES

Total Shareholders' Funds of the Group now stand at $178.376m. Contributed equity increased to $3.983m due to shares issued under the employee share scheme.

The Group's reserves at 30 June 2011 totaled $174.393m.

	$000
The Group's reserves at 30 June 2010 were	**154,694**
To which was added:	
Operating surplus after tax for the year	34,499
Exchange differences on translation of foreign operations	86
Option reserve movement	421
From which was deducted:	
Ordinary dividends paid	(15,307)
Leaving reserves at 30 June 2011 at	**174,393**
These comprise:	
Retained earnings	171,111
Other reserves	3,282
	174,393

ACCOUNTING POLICIES

During the year the Group changed the accounting policy relating to display material.

Prior to 30 June 2011, display material was classified as inventory and measured based on the unit cost and consumption pattern of the display item. During the year, the Group considered it appropriate to classify display material as property, plant and equipment. This resulted in a change in accounting policy relating to the measurement of the display material.

The Group considers the change in classification of accounting for display material to property, plant and equipment, as a more appropriate method of accounting for display material in the financial statements.

The change in accounting policy has been accounted for retro-spectively. The change in accounting policy had the effect of increasing property, plant and equipment $4.156m, decreasing inventory ($6.125m)

Statutory report of the Directors cont.

and decreasing opening retained earnings by ($0.885m) for the year ended 30 June 2010. The change in accounting policy also had the effect of increasing depreciation $0.706m, decreasing profit before tax ($0.706m) and decreasing profit after tax ($0.494m) for the year ended 30 June 2010.

Basic earnings per share decreased from 6.93 cents in June 2010 to 6.80 cents and diluted earnings per share decreased from 6.92 cents to 6.79 cents in June 2010.

DIVIDENDS

Your Directors paid an interim dividend of 1.5 cents per share, with nil imputation credits and full franking credits attached on the 1st April 2011. On the 18th August 2011, your Directors declared a final dividend of 3.0 cents per share payable on the 10th October 2011. The share register will close at 5:00pm on the 30th September 2011 for the purpose of determining entitlement to the final dividend.

The total ordinary dividend for the year was 4.5 cents (not imputed), (2010 – 4.0 cents not imputed). The payout represents 49.9% (2010 – 58.8%) of the tax paid profit of the Group.

DIRECTORS

Deeta McGeoch (Colvin), having been appointed a Director by the Board in February 2011, retires under section 3.3.3 of the NZSX Listing rules, but offers herself for re-election at the Annual Meeting to be held on 4 November, 2011. Sir Michael Hill and Wayne Peters retire by rotation and being eligible offer themselves for re-election at the annual meeting.

DIRECTORS' REMUNERATION

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

	2011 $000	2010 $000
Parent Company		
R.M. Hill*	$150	$150
M.R. Parsell*	A$1,332	A$1,427
G.J. Gwynne	$75	$75
L.W. Peters	A$75	A$75
M.R. Doyle	$75	$75
A.C. Hill	$75	$75
E.J. Hill	$75	$75
D.W. McGeoch (Colvin)	A$37.5	-

* 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 company's net profit after tax, in excess of a hurdle rate of return on capital employed in the company.

Mike Parsell has the following share options outstanding as at 30 June 2011:

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

REMUNERATION OF EMPLOYEES

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

$000	2011	2010
100-110	23	14
110-120	19	16
120-130	21	11
130-140	15	12
140-150	9	9
150-160	7	2
160-170	4	2
170-180	3	2
180-190	6	2
190-200	4	2
200-210	2	0
210-220	3	0
230-240	1	0
240-250	1	0
250-260	0	1
280-290	1	1
290-300	0	1
300-310	1	0
310-320	1	0
380-390	1	0
390-400	0	1
420-430	1	0
440-450	1	0
510-520	1	1
580-590	1	0
660-670	0	1
710-720	1	0

Australian remuneration has been converted into New Zealand dollars at the exchange rate used for translating the Australian results into New Zealand dollars, 0.77 (2010 – 0.81). Canadian remuneration on the same basis at 0.76 (2010 – 0.76) and USA remuneration on the same basis at 0.76 (2010 - 0.72).

INFORMATION ON DIRECTORS

The qualifications and experience of the Directors are shown on page 39.

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

The Company appoints independent chartered accountants to audit the Financial Statements prepared by the Directors and to express an opinion on these Financial Statements. The independent auditor's report, which sets out their opinion and the basis of that opinion, is set out on page 44 of this report.

DONATIONS

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

INTERESTS REGISTER

The interests of Deeta McGeoch (Colvin) in Ecoya Limited, an NZSX listed company, were noted in the register.

On behalf of the Directors,

Michael Hill. McParsell

Sir R.M. Hill M.R. Parsell

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Michael Hill International Limited and its subsidiaries on pages 46 to 81 which comprise the statement of financial position of Michael Hill International Limited and the group as at 30 June 2011, and the statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended for the company and the 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.

Other than in our capacity as auditor and consultants in taxation and other assurance services we have no relationship with, or interest in Michael Hill International Limited or any of its subsidiaries.

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 46 to 81:

- 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 2011 and the financial performance and cash flows of the company and group for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Ernst + Young

Ernst & Young
18 August 2011
Brisbane

The Directors are pleased to present the

FINANCIAL STATEMENTS

of Michael Hill International Limited for the year ended 30 June 2011. The Board of Directors of Michael Hill International Limited authorised these Financial Statements for issue on 18 August 2011.

Michael Hill

Sir Michael Hill
Chairman of Directors

M Parsell

Mike Parsell
Chief Executive Officer/Director

Statements of comprehensive income for the year ended 30 June 2011

	NOTES	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
Revenue from continuing operations	5	**489,330**	443,710	35,049	11,198
Other income	6	**598**	2,397	45	425
Cost of goods sold		**(185,323)**	(171,103)	-	-
Employee benefits expense	7	**(119,416)**	(110,265)	(124)	94
Occupancy costs		**(43,716)**	(44,469)	-	-
Depreciation and amortisation expense	7	**(11,453)**	(10,786)	(8)	(13)
Loss on disposal of property, plant and equipment	7	**(163)**	(467)	-	-
Other expenses		**(84,051)**	(73,248)	(1,767)	(1,213)
Finance costs		**(5,821)**	(5,561)	118	-
Profit before income tax		**39,985**	30,208	33,313	10,491
Income tax (expense) / benefit	8	**(5,486)**	(4,193)	518	117
Profit for the year		**34,499**	26,015	33,831	10,608
Other comprehensive income					
Currency translation differences arising during the year		**86**	(2,061)	-	-
Total comprehensive income for the year		**34,585**	23,954	33,831	10,608
Total comprehensive income for the year is attributable to:					
Owners of Michael Hill International Limited		**34,585**	23,954	33,831	10,608
Earnings per share attributable to the ordinary equity holders of the company during the year, attributable to continuing operations:					
Basic earnings per share	26	**9.02¢**	6.80¢		
Diluted earnings per share	26	**8.99¢**	6.79¢		

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

Statements of Financial Position for the year ended 30 June 2011

	NOTES	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
ASSETS					
Current assets					
Cash and cash equivalents	9	**8,540**	6,270	80	14
Trade and other receivables	10	**8,551**	6,203	6,783	6,236
Inventories	11	**173,055**	144,750	-	-
Current tax receivables	12	**-**	3,311	525	263
Total current assets		**190,146**	160,534	7,388	6,513
Non-current assets					
Property, plant and equipment	13	**42,211**	39,054	117	1
Deferred tax assets	14	**60,599**	58,349	-	4
Intangible assets	15	**152**	280	-	-
Investments in subsidiaries	16	**-**	-	314,869	296,869
Total non-current assets		**102,962**	97,683	314,986	296,874
Total assets		**293,108**	258,217	322,374	303,387
LIABILITIES					
Current liabilities					
Trade and other payables	17	**51,401**	43,769	65	156
Current tax liabilities	18	**893**	-	-	-
Provisions	19	**2,697**	2,189	-	-
Deferred revenue	20	**2,201**	268	-	-
Total current liabilities		**57,192**	46,226	65	156
Non-current liabilities					
Borrowings	21	**45,413**	51,707	-	-
Provisions	22	**1,443**	1,248	-	-
Deferred revenue	23	**10,684**	492	-	-
Total non-current liabilities		**57,540**	53,447	-	-
Total liabilities		**114,732**	99,673	65	156
Net assets		**178,376**	158,544	322,309	303,231
EQUITY					
Contributed equity	24	**3,983**	3,850	3,983	3,850
Reserves		**3,282**	2,775	1,031	610
Retained profits		**171,111**	151,919	317,295	298,771
Total equity		**178,376**	158,544	322,309	303,231

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 2011

Attributable to owners of Michael Hill International Limited	Notes	GROUP Contributed equity $000	GROUP Reserves $000	GROUP Retained profits $000	GROUP Total equity $000	PARENT Contributed equity $000	PARENT Reserves $000	PARENT Retained profits $000	PARENT Total equity $000
Balance at 1 July 2009		3,850	4,626	137,378	145,854	3,850	400	299,637	303,887
Total comprehensive income		-	(2,061)	26,015	23,954	-	-	10,608	10,608
		3,850	2,565	163,393	169,808	3,850	400	310,245	314,495
Transactions with owners in their capacity as owners:									
Dividend paid	25	-	-	(11,474)	(11,474)	-	-	(11,474)	(11,474)
Option expense through share based payments reserve	29(c)	-	210	-	210	-	210	-	210
		-	210	(11,474)	(11,264)	-	210	(11,474)	(11,264)
Balance at 30 June 2010		3,850	2,775	151,919	158,544	3,850	610	298,771	303,231
Total comprehensive income		-	86	34,499	34,585	-	-	33,831	33,831
		3,850	2,861	186,418	193,129	3,850	610	332,602	337,062
Transactions with owners in their capacity as owners:									
Dividend paid	25	-	-	(15,307)	(15,307)	-	-	(15,307)	(15,307)
Employee shares issued	29(b)	133	-	-	133	133	-	-	133
Option expense through share based payments reserve	29(c)	-	421	-	421	-	421	-	421
		133	421	(15,307)	(14,753)	133	421	(15,307)	(14,753)
Balance at 30 June 2011		3,983	3,282	171,111	178,376	3,983	1,031	317,295	322,309

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 2011

	NOTES	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
Cash flows from operating activities					
Receipts from customers (incl. of goods & services tax)		**551,512**	487,600	-	-
Payments to suppliers and employees (incl. of goods & services tax)		**(473,930)**	(443,873)	(2)	(3)
		77,582	43,727	(2)	(3)
Interest received		**168**	265	-	-
Other revenue		**706**	350	-	-
Interest paid		**(5,637)**	(5,564)	-	-
Income tax paid		**(1,392)**	(1,934)	-	-
Net goods and services tax paid		**(28,108)**	(23,972)	-	-
Net cash inflow / (outflow) from operating activities	30	**43,319**	12,872	(2)	(3)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**157**	258	-	-
Payments for property, plant and equipment		**(14,010)**	(10,452)	-	-
Net cash (outflow) from investing activities		**(13,853)**	(10,194)	-	-
Cash flows from financing activities					
Proceeds from borrowings		**82,457**	35,918	-	-
Repayment of borrowings		**(94,419)**	(44,216)	-	-
Proceeds from sale of treasury stock		**119**	-	-	-
Dividends paid to company's shareholders	25	**(15,307)**	(11,474)	(15,307)	(11,474)
Intercompany advance		**-**	-	15,375	11,483
Net cash (outflow) / inflow from financing activities		**(27,150)**	(19,772)	68	9
Net increase / (decrease) in cash and cash equivalents		**2,316**	(17,094)	66	6
Cash and cash equivalents at the beginning of the financial year		**6,270**	23,529	14	8
Effects of exchange rate changes on cash and cash equivalents		**(46)**	(165)	-	-
Cash and cash equivalents at end of year	9	**8,540**	6,270	80	14

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

Notes to the financial statements for the year ended 30 June 2011

NOTE 1 Summary of significant accounting policies

(a) BASIS OF PREPARATION

The financial statements for the year ended 30 June 2011 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 orientated entities.

Compliance with IFRS

New Zealand Accounting Standards include New Zealand equivalents to International Financial Reporting Standards (NZIFRS). 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 18 August 2011.

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

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation 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 2011 and the results of all subsidiaries for the year then ended. Michael Hill International Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

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

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

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

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. 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 consolidated and parent financial statements are presented in New Zealand dollars, which is the Michael Hill International Limited's functional and presentation currency.

(ii) **Transactions and balances**

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

(iii) **Group companies**

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

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

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

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

(e) REVENUE RECOGNITION

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

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

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

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

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

Services expected to be settled within 12 months of reporting date are recognised as deferred revenue in current liabilities. Services expected to be settled after 12 months of reporting date are recognised as deferred revenue in non-current liabilities. They are measured at the amounts expected to be utilised as the services are provided.

(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 income**

Interest income is recognised using the effective interest method.

(f) INCOME TAX

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

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

Notes to the financial statements cont. for the year ended 30 June 2011

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

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

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

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

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

(g) LEASES

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

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

(h) IMPAIRMENT OF ASSETS

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

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

The discount rates used in determining the recoverable amount ranged between 10.25% and 12.50%.

(i) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, 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 RECEIVABLES

Trade receivables are amounts due from customers for merchandise sold or services performed 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 doubtful 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 income statement.

(k) 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.

(l) INVESTMENTS AND OTHER FINANCIAL ASSETS

The Group classifies its investments 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 and re-evaluates this designation at each reporting date.

(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.

(m) DERIVATIVES

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

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

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

(i) **Fair value hedge**

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

(ii) **Cash flow hedge**

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

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

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

(n) 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.

(o) 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.

During the year, there was a change in accounting policy for the method of measurement for display material. Display material is now stated at cost less depreciation. 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

Notes to the financial statements cont. for the year ended 30 June 2011

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 & 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.

(p) 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 programmes 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).

(q) 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 service plans.

(r) 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.

(s) PROVISIONS

Provisions for legal claims, sales returns 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.

(t) 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. The liability for annual leave is recognised in the provision for employee benefits. All other 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 constitution. The Board of Directors of the Group pass a resolution approving the issue of the Options. The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity.

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

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

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

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

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

(u) 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.

(v) DIVIDENDS

Provision is made for the amount of any dividend 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.

(w) 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.

Notes to the financial statements cont. for the year ended 30 June 2011

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

Certain new standards, amendments and interpretations to existing standards have been published that are not mandatory for 30 June 2011 reporting periods. The new standards have been reviewed and there are no standards that will have an impact on the group.

(y) CHANGES IN ACCOUNTING POLICY

During the year the Group changed the accounting policy relating to display material.

Prior to 30 June 2011, display material was classified as inventory and measured based on the unit cost and consumption pattern of the display item. During the year, the Group considered it appropriate to classify display material as property, plant and equipment. This resulted in a change in accounting policy relating to the measurement of the display material. The Group considers the change in classification of accounting for display material to property, plant and equipment, as a more appropriate method of accounting for display material in the financial statements.

The change in accounting policy has been accounted for retrospectively. The change in accounting policy had the effect of increasing property, plant and equipment $4,156,000, decreasing inventory ($6,125,000) and decreasing opening retained earnings by ($885,000) for the year ended 30 June 2010. The change in accounting policy also had the effect of increasing depreciation $706,000, decreasing profit before tax ($706,000) and decreasing profit after tax ($494,000) for the year ended 30 June 2010.

Basic earnings per share decreased from 6.93 cents in June 2010 to 6.80 cents and diluted earnings per share decreased from 6.92 cents to 6.79 cents in June 2010.

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, ie 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.

There were no derivatives at balance sheet date.

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

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

(a) MARKET RISK

(i) **Foreign exchange risk**

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

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

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

	30 June 2011			30 June 2010		
	USD $000	**AUD** $000	**CAD** $000	**USD** $000	**AUD** $000	**CAD** $000
Cash and cash equivalents	737	4,317	1,051	446	1,683	1,407
Trade receivables	22	2,068	522	-	1,317	508
Commercial bills	-	35,000	-	-	42,700	-
Trade payables	6,811	2,410	136	6,263	2,480	400

The parent entity's financial assets and liabilities are denominated in New Zealand dollars.

Group sensitivity

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

Based on the US dollar trade payables due for payment at 30 June 2011, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's pre tax profit for the year would have been NZ$931,000 lower / NZ$762,000 higher (2010: NZ$989,000 lower / NZ$809,000 higher). All trade payables are repaid within 30 days so there is no equity impact arising from foreign currency exposures.

Based on the AUD commercial bills owing at 30 June 2011, had the NZD weakened/strengthened by 10% against the AUD with all other variables held constant, the Group's equity for the year would have been NZ$5,046,000 lower / NZ$4,128,000 higher (2010: NZ$5,745,000 lower / NZ$4,700,000 higher) on restatement of commercial bills to spot rate.

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

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

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

An analysis by maturities and a summary of the terms and conditions is in note 21.

Group sensitivity

At 30 June 2011, if interest rates had changed by -/+100 basis points from the year end rates with all other variables held constant, pre tax profit for the year would have been NZ$454,000 lower/higher (2010: NZ$517,000 lower/higher), mainly as a result of higher/lower interest expense on commercial bills. All other non direct financial liabilities have a contractual maturity of less than 6 months.

(b) CREDIT RISK

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

(c) LIQUIDITY RISK

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

Please see note 21 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 balance sheet. 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 semi-annually. The principal covenants relating to capital management are the earnings before interest and taxation (EBIT) fixed cover charge ratio, the consolidated debt to earnings before interest, taxation, depreciation and amortisation (EBITDA) and consolidated debt to capitalisation. There have been no breaches of these covenants or events of review for the current or prior period.

NOTE 3 Critical accounting estimates and assumptions

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

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

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with the assistance of an external valuer using both the binomial model and the Black-Scholes formula. The related assumptions are detailed in note 29. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black- Scholes formula taking into account the terms and conditions upon which the instruments were granted (see note 29).

Notes to the financial statements cont. for the year ended 30 June 2011

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 19 and note 22.

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
Service plan revenue is recognised as sales revenue in the comprehensive income statement. Management judgement is required to determine the amount of service revenue that can be recognised based on the useage pattern of service plans and general information obtained on the operation of service plans in other markets.

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

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

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

NOTE 4 Segment information

Identification and description of segments
The operating segments are identified by the board and executive team based on the country in which the item is sold.
The executive directors and executive team consider, organise and manage the business from a geographic perspective, being the country of origin where the sale and service was performed. Discrete financial information about each of these operating businesses is reported to the board and executive team monthly, via the preparation of the group financial report.

The company operates in 4 geographical segments; New Zealand, Australia, Canada and the United Sates of America.

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

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

Accounting policies and inter-segment transactions
The accounting policies used by the group in reporting segments internally are the same as those contained in note 1 to the accounts and in the prior period.

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

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

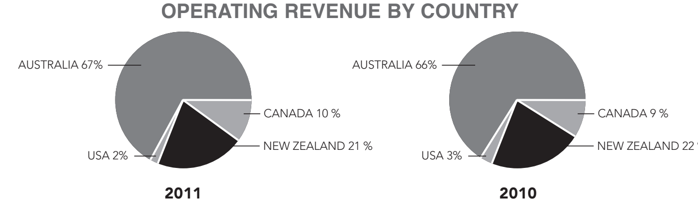
Statement of segmented results for the year ended 30 June 2011

NOTE 4 cont.	NEW ZEALAND 2011 $000	NEW ZEALAND 2010 $000	NEW ZEALAND +/- %	AUSTRALIA 2011 $000	AUSTRALIA 2010 $000	AUSTRALIA +/- %	CANADA 2011 $000	CANADA 2010 $000	CANADA +/- %	USA 2011 $000	USA 2010 $000	USA +/- %	GROUP 2011 $000	GROUP 2010 $000	GROUP +/- %
Operating revenue															
Sales to customers	**101,742**	95,811	6.2%	**326,805**	292,985	11.5%	**48,144**	39,398	22.2%	**10,630**	14,768	(28.0%)	**487,321**	442,962	10.0%
Unallocated revenue													**2,009**	748	168.6%
Total operating revenue													**489,330**	443,710	10.3%
Segment results															
Operating surplus / (loss)	**18,577**	16,050	15.7%	**50,833**	47,246	7.6%	**(215)**	(1,629)	86.8%	**(4,477)**	(8,734)	48.7%	**64,718**	52,933	22.3%
Unallocated revenue less unallocated expenses													**(24,733)**	(22,725)	8.8%
Profit before income tax													**39,985**	30,208	32.4%
Income tax (expense)													**(5,486)**	(4,193)	30.8%
Profit for the year													**34,499**	26,015	32.6%
Segment assets	**39,215**	36,676	6.9%	**111,339**	92,311	20.6%	**31,994**	26,879	19.0%	**11,642**	9,557	21.8%	**194,190**	165,423	17.4%
Unallocated													**98,918**	92,794	6.6%
Total													**293,108**	258,217	13.5%
Segment liabilities	**8,962**	5,782	55.0%	**33,772**	21,313	58.5%	**4,711**	2,643	78.2%	**1,488**	1,023	45.4%	**48,934**	30,761	59.1%
Unallocated													**65,798**	68,912	(4.5%)
Total													**114,732**	99,673	15.1%
Segment acquisitions of property, plant & equipment and intangibles	**1,893**	1,900	(0.4%)	**5,758**	3,178	81.2%	**2,466**	2,147	14.8%	**2,041**	1,767	15.5%	**12,157**	8,992	35.2%
Unallocated													**1,853**	1,460	26.9%
Total													**14,010**	10,452	34.0%
Segment depreciation and amortisation expense	**1,757**	1,731	1.5%	**5,809**	5,470	6.2%	**1,448**	1,448	0.0%	**460**	156	194.9%	**9,474**	8,805	7.6%
Unallocated													**1,979**	1,981	(0.1%)
Total													**11,453**	10,786	6.2%
Impairment expense	**-**	-	-	**-**	9	(100.0%)	**2**	157	100.0%	**-**	-	-	**2**	166	(98.8%)

Notes:

1. Michael Hill International Limited and its controlled entities operate predominantly in one business segment being the sale of jewellery and related services.
2. The company operates in 4 geographical segments; New Zealand, Australia, Canada and the United States of America and is managed on a global basis.
3. Inter segment pricing is at arm's length or market value.
4. 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.

OPERATING REVENUE BY COUNTRY



Notes to the financial statements cont. for the year ended 30 June 2011

NOTE 5 Revenue

	GROUP		PARENT	
	2011 $000	**2010** $000	**2011** $000	**2010** $000
From continuing operations:				
Sales revenue				
Revenue from sale of goods	**488,493**	443,331	-	-
Revenue from services	**560**	-	-	-
	489,053	443,331	-	-
Other revenue				
Interest revenue	**168**	235	3	-
Intercompany dividends	**-**	-	35,046	11,198
Rent income	**109**	107	-	-
Other revenue	**-**	37	-	-
	489,330	443,710	35,049	11,198

NOTE 6 Other income

	GROUP		PARENT	
	2011 $000	**2010** $000	**2011** $000	**2010** $000
Net gain on disposal of property, plant and equipment	**-**	-	45	-
Insurance recovery relating to earthquake	**443**	-	-	-
Net foreign exchange gains (Net loss in 2011 - see note 7)	**-**	2,162	-	308
Other income	**155**	235	-	117
	598	2,397	45	425

NOTE 7 Expenses

	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
Profit before income tax includes the following specific expenses:				
Depreciation				
Leasehold improvements	**5,629**	5,509	-	-
Furniture and fittings	**1,735**	1,556	-	-
Plant and equipment	**2,839**	2,591	1	1
Motor vehicles	**209**	220	7	12
Display material	**893**	706	-	-
Total depreciation	**11,305**	10,582	8	13
Amortisation				
Software	**148**	204	-	-
Total amortisation	**148**	204	-	-
Total depreciation and amortisation	**11,453**	10,786	8	13
Impairment of property, plant and equipment	**2**	166	-	-
Net loss on disposal of property, plant and equipment	**163**	467	-	-
Rental expense relating to operating leases	**43,716**	44,469	-	-
Defined contribution superannuation expense	**7,279**	6,530	-	-
Net foreign exchange losses (net gain in 2010 - see note 6)	**1,289**	-	-	-
Donations	**30**	65	-	-

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 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
(a) Assurance services				
Ernst & Young firm audit and review of financial reports and other audit work	**276**	-	-	-
PricewaterhouseCoopers Australian firm audit and review of financial reports and other audit work	**26**	330	-	-
Total remuneration for audit services	**302**	330	-	-
Total remuneration for assurance services	**302**	330	-	-
(b) Taxation Services				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns	**179**	261	-	-
Corporate planning and related tax advice for the Group	**750**	370	-	-
Related practices of *PricewaterhouseCoopers* Australian firm				
Tax compliance services, including review of company income tax returns	**170**	161	-	-
Corporate planning and related tax advice for the Group	**360**	238	-	-
Total remuneration for taxation services	**1,459**	1,030	-	-
(c) Advisory services				
Ernst & Young firm consulting fees	**33**	-	-	-
PricewaterhouseCoopers Australian firm system reviews	**-**	33	-	-
Total remuneration for advisory services	**33**	33	-	-
	1,794	1,393	-	-

Notes to the financial statements cont. for the year ended 30 June 2011

NOTE 8 Income tax expense

	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
(a) Income tax expense				
Current tax	**7,351**	3,307	(525)	(263)
Deferred tax	**(2,153)**	599	4	(2)
Under provided in prior years	**288**	287	3	148
Income tax expense / (benefit)	**5,486**	4,193	(518)	(117)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	**39,985**	30,208	33,313	10,491
Tax at the New Zealand tax rate of 30%	**11,995**	9,062	9,994	3,147
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non deductible entertainment expenditure	**156**	86	1	1
Investment allowance	**-**	(73)	-	-
Share of partnership	**(7,311)**	(6,555)	-	-
Dividends not assessable	**-**	-	(10,514)	(3,360)
Sundry items	**147**	82	1	(53)
	4,987	2,602	(518)	(265)
Difference in overseas tax rates	**90**	96	-	-
Change in tax rate on deferred tax balance	**511**	55	-	-
(Over) / under provision in prior years	**(104)**	114	-	148
Tax losses not recognised	**2**	1,326	-	-
	499	1,591	-	148
Income tax expense / (benefit)	**5,486**	4,193	(518)	(117)
(c) Tax losses				
Unused tax losses for which no deferred tax has been recognised	**7,365**	7,360	-	-
Potential tax benefit @ 34%	**2,504**	2,502	-	-

All unused tax losses were incurred by the USA entity.

NOTE 9 Current assets - Cash and cash equivalents

	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
Cash at bank and in hand	**8,540**	5,020	80	14
Deposits at call	**-**	1,250	-	-
	8,540	6,270	80	14

(a) Cash at bank and on hand

Cash on hand is non-interest bearing.

(b) Deposits at call

There were no deposits at call as at 30 June 2011. Deposits at call as at 30 June 2010 had a floating interest rate of 2.60%.

NOTE 10 Current assets - Trade and other receivables

	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
Trade receivables	**4,555**	3,508	-	-
Provision for doubtful receivables	**(819)**	(644)	-	-
	3,736	2,864	-	-
Other receivables	**1,966**	769	-	-
Prepayments	**2,849**	2,570	61	-
Related party receivables	**-**	-	6,722	6,236
	8,551	6,203	6,783	6,236

(a) Impaired receivables

Trade receivables are from sales made to customers mainly through third party credit providers, are non-interest bearing and are generally on 30-60 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 $955,000 (2010: $340,000) has been recognised by the Group. All trade receivables past 90 days have been impaired.

Movements in the provision for impairment loss were as follows:

	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
Opening balance	**644**	1,098	-	-
Amounts written off	**(955)**	(340)	-	-
Charged / (credited)	**1,080**	(109)	-	-
Exchange differences	**50**	(5)	-	-
Closing balance	**819**	644	-	-
At 30 June 2011, the ageing analysis of trade receivables is as follows:				
0 - 30 days	**3,337**	2,597	-	-
31 - 60 days	**299**	179	-	-
61 - 90 days	**100**	88	-	-
91+ days	**819**	644	-	-
	4,555	3,508	-	-

The other 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.

(b) Other receivables

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

(c) Related party receivables

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

(d) Effective interest rates

All receivables are non-interest bearing.

Notes to the financial statements cont. for the year ended 30 June 2011

NOTE 11 Current assets - Inventories

	GROUP		PARENT	
	2011 $000	**2010** $000	**2011** $000	**20109** $000
Raw materials	**11,519**	9,436	-	-
Finished goods	**160,695**	133,985	-	-
Packaging and other consumables	**841**	1,329	-	-
	173,055	144,750	-	-

All inventories are held at cost.

NOTE 12 Current assets - Current tax receivables

	GROUP		PARENT	
	2011 $000	**2010** $000	**2011** $000	**2010** $000
Income tax	**-**	3,311	525	263

NOTE 13 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 2009						
Cost	16,718	12,250	1,282	41,601	6,004	77,855
Accumulated depreciation	(8,938)	(6,146)	(602)	(20,885)	(1,264)	(37,835)
Net book amount	7,780	6,104	680	20,716	4,740	40,020
Year ended 30 June 2010						
Opening net book amount	7,780	6,104	680	20,716	4,740	40,020
Exchange differences	(46)	(56)	-	75	1	(26)
Additions	2,979	1,372	280	5,700	121	10,452
Additions - make good asset	-	-	-	81	-	81
Disposals	(129)	(124)	(199)	(273)	-	(725)
Depreciation charge	(2,591)	(1,556)	(220)	(5,509)	(706)	(10,582)
Impairment charge	(30)	(1)	-	(135)	-	(166)
Closing net book amount	7,963	5,739	541	20,655	4,156	39,054
At 30 June 2010						
Cost	18,949	13,053	999	45,112	6,125	84,238
Accumulated depreciation	(10,986)	(7,314)	(458)	(24,457)	(1,969)	(45,184)
Net book amount	7,963	5,739	541	20,655	4,156	39,054

	Plant and equipment $000	Fixtures and fittings $000	Motor vehicles $000	Leasehold improvements $000	Display material $000	Total $000
GROUP						
Year ended 30 June 2011						
Opening net book amount	7,963	5,739	541	20,655	4,156	39,054
Exchange differences	291	294	4	46	170	805
Additions	4,048	3,157	329	6,234	242	14,010
Additions - make good asset	-	-	-	(31)	-	(31)
Disposals	(48)	(63)	(89)	(120)	-	(320)
Depreciation charge	(2,839)	(1,735)	(209)	(5,629)	(893)	(11,305)
Impairment charge	(2)	-	-	-	-	(2)
Closing net book amount	9,413	7,392	576	21,155	3,675	42,211
At 30 June 2011						
Cost	23,425	16,657	983	50,791	6,526	98,382
Accumulated depreciation	(14,012)	(9,265)	(407)	(29,636)	(2,851)	(56,171)
Net book amount	9,413	7,392	576	21,155	3,675	42,211

Notes to the financial statements cont. for the year ended 30 June 2011

NOTE 14 Non-current assets - Deferred tax assets

	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
The balance comprises temporary differences attributable to:				
Doubtful debts	**245**	188	-	-
Fixed assets and intangibles	**50,247**	51,560	-	4
Unearned income	**461**	228	-	-
Employee benefits	**2,570**	2,319	-	-
Retirement benefit obligations	**269**	236	-	-
Deferred service revenue	**2,796**	-	-	-
Provision for warranties and legal costs	**368**	320	-	-
Other provisions	**792**	770	-	-
Unrealised foreign exchange losses	**-**	22	-	-
Straight line lease provision	**1,115**	1,007	-	-
Prepayments	**(14)**	(115)	-	-
Tax losses	**1,750**	1,814	-	-
Net deferred tax assets	**60,599**	58,349	-	4
Movements:				
Opening balance at 1 July	**58,349**	58,970	4	2
Credited / (charged) to the income statement (note 8)	**2,153**	(599)	(4)	2
Prior year adjustment	**-**	(4)	-	-
Foreign exchange differences	**97**	(18)	-	-
Closing balance at 30 June	**60,599**	58,349	-	4
Expected settlement:				
Within 12 months	**5,429**	4,410	-	4
In excess of 12 months	**55,170**	53,939	-	-
	60,599	58,349	-	4

NOTE 15 Non-current assets - Intangible assets

	Patents, trademarks and other rights $000	Computer software $000	Total $000
GROUP			
At 1 July 2009			
Cost	-	4,005	4,005
Accumulated amortisation	-	(3,534)	(3,534)
Net book amount	-	471	471
Year ended 30 June 2010			
Opening net book amount	-	471	471
Exchange differences	-	(1)	(1)
Additions	14	-	14
Amortisation charge*	-	(204)	(204)
Closing net book amount	14	266	280
At 30 June 2010			
Cost	14	3,961	3,975
Accumulated amortisation	-	(3,695)	(3,695)
Net book amount	14	266	280
Year ended 30 June 2011			
Opening net book amount	14	266	280
Exchange differences	1	19	20
Amortisation charge*	-	(148)	(148)
Closing net book amount	15	137	152
At 30 June 2011			
Cost	15	4,244	4,259
Accumulated amortisation	-	(4,107)	(4,107)
Net book amount	15	137	152

*Amortisation of $148,000 (2010: $204,000) is included in depreciation and amortisation expense in the comprehensive income statement.
The parent has no intangible assets.

Notes to the financial statements cont. for the year ended 30 June 2011

NOTE 16 Non-current assets - Investments in subsidiaries

	GROUP		PARENT	
	2011 $000	2010 $000	2011 $000	2010 $000
Shares in subsidiaries	**-**	-	314,869	296,869

The subsidiaries of Michael Hill International Limited are set out in note 28. All investments in subsidiary companies are eliminated on consolidation.

NOTE 17 Current liabilities - Trade and other payables

	GROUP		PARENT	
	2011 $000	2010 $000	2011 $000	2010 $000
Trade payables	**33,803**	28,161	1	98
Accrued expenses	**7,290**	6,709	-	-
Annual leave liability	**6,507**	5,888	-	-
Other payables	**3,801**	3,011	64	58
	51,401	43,769	65	156

NOTE 18 Current liabilities - Current tax liabilities

	GROUP		PARENT	
	2011 $000	2010 $000	2011 $000	2010 $000
Income tax	**893**	-	-	-

NOTE 19 Current liabilities - Provisions

	GROUP		PARENT	
	2011 $000	2010 $000	2011 $000	2010 $000
Employee benefits - long service leave	**1,505**	1,195	-	-
Returns provision	**1,139**	923	-	-
Make good provision	**53**	71	-	-
	2,697	2,189	-	-

(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 30 day change of mind policy. Management estimates the provision based on historical sale return information and any recent trends that may suggest future claims could differ from historical amounts.

(c) Make good provision

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

(d) Movements in provisions

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

	Employee benefits $000	**Returns provision** $000	**Make good provision** $000	**Total** $000
Carrying amount at start of year	1,195	923	71	2,189
Additional provisions recognised	437	1,143	-	1,580
Amounts incurred and charged	(209)	(920)	(19)	(1,148)
Exchange differences	82	(7)	1	76
Carrying amount at end of year	1,505	1,139	53	2,697

NOTE 20 Current liabilities - Deferred revenue

	GROUP		PARENT	
	2011 $000	**2010** $000	**2011** $000	**2010** $000
Deferred service revenue	**1,798**	-	-	-
Lease incentive income	**403**	268	-	-
	2,201	268	-	-

Notes to the financial statements cont. for the year ended 30 June 2011

NOTE 21 Non-current liabilities - Borrowings

	GROUP		PARENT	
	2011 $000	2010 $000	2011 $000	2010 $000
Secured				
Bank loans	**45,413**	51,707	-	-
Total non-current borrowings	**45,413**	51,707	-	-

(a) Assets pledged as security
These advances, together with the bank overdraft, are secured by floating charges over all of the Group's assets. The Group utilises bank bills for financing the operations of the business.

(b) Financing arrangements
Unrestricted access was available at balance date to the following lines of credit:

	GROUP		PARENT	
	2011 $000	2010 $000	2011 $000	2010 $000
Credit standby arrangements				
Total facilities				
Bank overdrafts	**4,298**	4,211	-	-
Commercial bill acceptance facility	**98,612**	92,117	-	-
	102,910	96,328	-	-
Used at balance date				
Bank overdrafts	**-**	-	-	-
Commercial bill acceptance facility	**45,413**	51,707	-	-
	45,413	51,707	-	-
Unused at balance date				
Bank overdrafts	**4,298**	4,211	-	-
Commercial bill acceptance facility	**53,199**	40,410	-	-
	57,497	44,621	-	-

The bank overdraft facilities and the commercial bill acceptance facility may be drawn at any time and are subject to annual review.

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

	Less than 6 months $000	6 - 12 months $000	Over 1 year less than 5 yrs $000	Over 5 years $000	Total $000
2011					
Commercial bill acceptance facility	2,595	15,570	27,248	-	45,413
Weighted average interest rate	5.91%	7.13%	6.29%	-	
2010					
Commercial bill acceptance facility	14,531	25,067	12,109	-	51,707
Weighted average interest rate	6.57%	6.81%	6.97%	-	

NOTE 22 Non-current liabilities - Provisions

	GROUP		PARENT	
	2011 $000	2010 $000	2011 $000	2010 $000
Employee benefits - long service leave	**1,215**	1,012	-	-
Make good provision	**228**	236	-	-
	1,443	1,248	-	-

(a) Employee benefits - long service leave

The basis used to measure the liability for long service leave is set out in note 19(a).

(b) Make good provision

The basis used to calculate the make good provision is set out in note 19(c).

(c) Movements in provisions

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

	Employee benefits $000	Make good provision $000	Total $000
Carrying amount at start of year	1,012	236	1,248
Additional provisions recognised	134	22	156
Amounts incurred and charged	-	(36)	(36)
Exchange differences	69	6	75
Carrying amount at end of year	1,215	228	1,443

NOTE 23 Non-current liabilities - Deferred revenue

	GROUP		PARENT	
	2011 $000	2010 $000	2011 $000	2010 $000
Deferred service revenue	**9,272**	-	-	-
Lease incentive income	**1,412**	492	-	-
	10,684	492	-	-

Notes to the financial statements cont. for the year ended 30 June 2011

NOTE 24 Contributed equity

	PARENT		PARENT	
	2011 Shares	2010 Shares	2011 $000	2010 $000
(a) Share capital: Ordinary shares				
- Fully paid (b)	**383,053,190**	383,053,190	4,177	4,141
- Treasury stock held for Employee Share Scheme (c)	**(388,717)**	(584,290)	(194)	(291)
	382,664,473	382,468,900	3,983	3,850
(b) Fully paid ordinary share capital				
Opening balance of ordinary shares issued	**383,053,190**	383,053,190	4,141	4,141
Issues of ordinary shares during the year				
Employee share scheme issue	**195,573**	-	133	-
Transfer from treasury stock	**(195,573)**	-	(97)	-
Closing balance of ordinary shares issued	**383,053,190**	383,053,190	4,177	4,141

(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 29).

	PARENT		PARENT	
	2011 Shares	2010 Shares	2011 $000	2010 $000
Opening balance of treasury stock shares issued	**584,290**	584,290	291	291
Allocated to employee share ownership plan	**(195,573)**	-	(97)	-
Closing balance of treasury stock shares issued	**388,717**	584,290	194	291

(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 29.

(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 29.

NOTE 25 Dividends

	Parent	
	2011 $000	**2010** $000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2010 of 2.5 cents (2009 - 1.5 cents) per fully paid share paid on 11 October 2010 (2009 - 12 October 2009).	**9,567**	5,737
Interim dividend for the year ended 30 June 2011 of 1.5 cents (2010 - 1.5 cents) per fully paid share paid on 1 April 2011 (2010 - 1 April 2010).	**5,740**	5,737
Total dividends provided for or paid	**15,307**	11,474
(b) Dividends not recognised at year end		
Since year end, the Directors have declared the payment of a final dividend of 3.0 cents per fully paid ordinary share (2010 - 2.5 cents). No imputation credits are attached to the final dividend. The aggregate amount of the proposed dividend expected to be paid on 10 October 2011 out of retained profits at 30 June 2011, but not recognised as a liability at year end, is	**11,480**	9,562

(c) Imputed dividends

The dividends paid during the current financial period and corresponding previous financial period are not imputed out of existing imputation credits or out of imputation credits arising from the payment of income tax. No Supplementary dividends were paid to shareholders not tax-resident in New Zealand for which the Group received a foreign investor tax credit entitlement.

Imputation credits available for subsequent financial years based on a 30% tax rate for the Group was $217,000 (2010: $1,700,000).

Imputation credits available for subsequent financial years based on a 30% tax rate for the Parent was $0 (2010: $1,200,000).

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 consolidated 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.

Notes to the financial statements cont. for the year ended 30 June 2011

NOTE 26 Earnings per share

	GROUP	
	2011 Cents	**2010** Cents
(a) Basic earnings per share		
Profit attributable to the ordinary equity holders of the company	**9.02**	6.80
(b) Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company	**8.99**	6.79

	GROUP	
(c) Reconciliations of earnings used in calculating earnings per share	**2011** $000	**2010** $000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**34,499**	26,015
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**34,499**	26,015

	GROUP	
(d) Weighted average number of shares used as the denominator	**2011** Number	**2010** Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**382,618,393**	382,468,900
Adjustments for calculation of diluted earnings per share:		
Options	**750,000**	-
Treasury Stock	**388,717**	584,290
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**383,757,110**	383,053,190

(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 29.

(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 have not been included in the determination of basic earnings per share. Details relating to treasury stock are set out in note 24.

NOTE 27 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: R.M. Hill, M.R. Parsell, L.W. Peters, G.J. Gwynne, M.R. Doyle, A.C. Hill, E.J. Hill, D.W. McGeoch (Colvin).

(b) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2011 and 2010 is set out below. The key management personnel are all the directors of the company and the five executives with the greatest authority for the strategic direction and management of the company.

	SHORT-TERM BENEFITS	POST-EMPLOYMENT BENEFITS	OTHER LONG-TERM BENEFITS	TERMINATION BENEFITS	SHARE-BASED PAYMENTS	TOTAL
	$000	$000	$000	$000	$000	$000
2011	**3,960**	**292**	**-**	**-**	**344**	**4,596**
2010	3,800	290	-	-	160	4,250

(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	
	2011 $000	**2010** $000	**2011** $000	**2010** $000
Loans to key management personnel				
Unsecured loans	**59**	56	-	-

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 applied 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 28.

(e) Transactions with related parties

	GROUP		PARENT	
	2011 $000	**2010** $000	**2011** $000	**2010** $000
The following transactions occurred with related parties:				
Sales of goods and services				
Sale of property, plant and equipment to a related party of the board members	**-**	-	45	-
Purchases of goods and services				
Services rendered for typing and editing the annual financial report to a related party of the board members	**-**	-	9	11
Other transactions				
Annual sponsorship for Michael Hill Violin Charitable Trust	**-**	-	58	56

Notes to the financial statements cont. for the year ended 30 June 2011

NOTE 28 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 2011 %	EQUITY HOLDING 2010 %
Michael Hill Jeweller Limited	New Zealand	Ordinary	100	100
Michael Hill Trustee Company Limited	New Zealand	Ordinary	100	100
Michael Hill Finance (NZ) Limited	New Zealand	Ordinary	100	100
Michael Hill Franchise Holdings Limited	New Zealand	Ordinary	100	100
MHJ (US) Limited	New Zealand	Ordinary	100	100
Michael Hill Jeweller (Australia) Pty Limited	Australia	Ordinary	100	100
Michael Hill Wholesale Pty Limited	Australia	Ordinary	100	100
Michael Hill Manufacturing Pty Limited	Australia	Ordinary	100	100
Michael Hill Franchise Pty Limited	Australia	Ordinary	100	100
Michael Hill Franchise Services Pty Limited	Australia	Ordinary	100	100
Michael Hill Finance (Limited Partnership)	Australia	-	100	100
Michael Hill Group Services Pty Limited	Australia	Ordinary	100	100
Michael Hill Jeweller (Canada) Limited	Canada	Ordinary	100	100
Michael Hill LLC	United States	Ordinary	100	100

NOTE 29 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 General Meeting in accordance with the Group's constitution.

Options are granted under the plan for no consideration. Options are granted for a six or ten year period.

The six year options are only exercisable in the final three years. 25% of the options granted are exercisable during the fourth year, a further 25% during the fifth year and the remaining options outstanding can be exercised in the final year.

The ten year options 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 15% (six year options) or 30% (ten year options) 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.

Set out below are summaries of options granted under the plans:	**2011 Weighted average exercise price per share**	**2011 Number of options**	2010 Weighted average exercise price per share	2010 Number of options
Outstanding at the beginning of the year	$1.23	4,600,000	$1.25	4,250,000
Granted during the year	$0.91	1,150,000	$0.94	350,000
Outstanding at the end of the year	$1.16	5,750,000	$1.23	4,600,000

Share options outstanding at the end of the year have the following expiry date and exercise prices:	**Exercise price per share**	**2011 Number of options**	2010 Number of options
30 September 2017	**$1.25**	**4,250,000**	4,250,000
30 September 2019	**$0.94**	**200,000**	200,000
30 September 2019	**$0.94**	**150,000**	150,000
30 September 2019	**$0.94**	**400,000**	-
30 September 2020	**$0.88**	**350,000**	-
30 September 2020	**$0.88**	**400,000**	-
		5,750,000	4,600,000

The weighted average remaining contractual life of share options outstanding at the end of the period was 6.9 years (2010 - 7.4 years).The range of exercise prices for options outstanding at the end of the year was $0.88 - $1.25. Refer to the table above for detailed information on each issue.

Option pricing model

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

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

The following table lists the inputs to the models used for the options issued during the years ended 30 June 2011 and 30 June 2010:

	June 2011 8 November 2010	**June 2011 8 November 2010**	**June 2011 17 September 2010**	**June 2010 5 November 2009**	**June 2010 24 August 2009**
Number of options	**400,000**	**400,000**	**350,000**	**150,000**	**200,000**
Dividend yield	5.00%	5.00%	5.00%	4.50%	4.50%
Expected volatility	30%	30%	30%	30%	30%
Risk - free interest rate	5.10%	5.10%	5.10%	6.00%	5.60%
Expected life of option (years)	10	10	10	10	10
Option exercise price	$0.88	$0.94	$0.88	$0.94	$0.94
Weighted average share price at measurement date	$0.70	$0.70	$0.70	$0.67	$0.75

(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.

Notes to the financial statements cont. for the year ended 30 June 2011

(b) Employee share scheme (continued)

	GROUP		PARENT	
	2011 Number	2010 Number	2011 Number	2010 Number
The plan held the following ordinary shares at the end of the year:				
Shares issued to participating employees (fully paid)	**195,573**	-	195,573	-
Not yet allocated to employees	**388,717**	584,290	388,717	584,290
	584,290	584,290	584,290	584,290

During the year, 195,573 (2010 - nil) shares were issued to the Michael Hill Employee Share Ownership Plan at an average price of $0.68 (2010 - nil). 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.
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	
	2011 $000	2010 $000	2011 $000	2010 $000
Options issued under employee option plan	**421**	210	-	(180)
Shares issued under employee share scheme	**14**	-	14	-
	435	210	14	(180)

NOTE 30 Reconciliation of profit after income tax to net cash inflow from operating activities

	GROUP		PARENT	
	2011 $000	2010 $000	2011 $000	2010 $000
Profit for the year	**34,499**	26,015	33,831	10,608
Depreciation	**11,305**	10,582	8	13
Amortisation	**148**	204	-	-
Non-cash employee benefits expense - share-based payments	**435**	210	14	(180)
Other non-cash expenses	**33**	85	(33,267)	(13,325)
Net loss on sale of non-current assets	**163**	467	-	-
Deferred taxation	**(2,250)**	621	4	(2)
Net exchange differences	**1,288**	(2,365)	308	(308)
(Increase) / decrease in trade and other receivables	**(2,199)**	217	(547)	-
(Increase) in inventories	**(22,780)**	(31,649)	-	-
Decrease / (increase) in current tax receivables	**4,187**	(906)	(262)	3,088
Increase / (decrease) in trade and other payables	**5,581**	8,141	(91)	103
Increase in deferred revenue	**12,362**	760	-	-
Increase in provisions	**547**	490	-	-
Net cash inflow / (outflow) from operating activities	**43,319**	12,872	(2)	(3)

NOTE 31 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	
	2011	**2010**	**2011**	**2010**
	$000	$000	$000	$000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**35,244**	28,852	-	-
Later than one year but not later than five years	**89,532**	66,078	-	-
Later than five years	**17,229**	13,196	-	-
	142,005	108,126	-	-

NOTE 32 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities in respect of guarantees to bankers and other financial institutions of subsidiary companies' overdraft facilities and fixed assets at 30 June 2011 of $420,000 (30 June 2010 - $463,000)

The parent entity had contingent liabilities in respect of guarantees to bankers and other financial institutions of subsidiary companies' overdraft facilities and fixed assets at 30 June 2011 of $75,000 (30 June 2010 - $75,000).

No material losses are anticipated in respect of any of the above contingent liabilities. The Group has no other material contingent liabilities as at balance date.

(b) Contingent assets

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

NOTE 33 Events occurring after the reporting period

There were no significant events occurring after 30 June 2011.

Notes to the financial statements cont. for the year ended 30 June 2011

NOTE 34 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 liabile 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.

Set out below is a consolidated statement of comprehensive income and a statements of changes in equity of the closed group consisting of Michael Hill International Limited and the subsidiaries listed above.

	2011 $000	2010 $000
Statements of comprehensive income		
Revenue from sale of goods and services	**454,522**	411,689
Sales to group companies not in closed group	**29,457**	26,056
Other income	**1,488**	-
Cost of goods sold	**(189,492)**	(171,383)
Employee benefits expense	**(106,307)**	(94,895)
Occupancy costs	**(37,586)**	(37,093)
Depreciation and amortisation expense	**(9,526)**	(8,505)
Loss on disposal of property, plant and equipment	**(166)**	(376)
Other expenses	**(69,543)**	(59,996)
Finance costs	**(6,267)**	(4,939)
Profit before income tax	**66,580**	60,558
Income tax expense	**(12,919)**	(11,854)
Profit for the year	**53,661**	48,704

Statements of changes in equity		
Balance at 1 July	**155,165**	139,680
Total comprehensive income	**53,107**	48,494
Employee shares issued	**133**	-
Option expense through share based payments reserves	**421**	210
Dividend paid	**(39,446)**	(33,219)
Balance at 30 June	**169,380**	155,165

Statements of financial position

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

	2011 $000	2010 $000
Current assets		
Cash and cash equivalents	**3,976**	3,504
Trade and other receivables	**5,984**	3,417
Inventories	**146,422**	122,354
Current tax receivables	**-**	3,422
Loans to related parties	**171,751**	155,601
Total current assets	**328,133**	288,298
Non-current assets		
Property, plant and equipment	**30,520**	30,004
Deferred tax assets	**58,277**	55,521
Intangible assets	**152**	280
Investments in subsidiaries	**116,818**	77,290
Total non-current assets	**205,767**	163,095
Total assets	**533,900**	451,393
Current liabilities		
Trade and other payables	**47,367**	40,255
Current tax liabilities	**1,282**	-
Provisions	**2,498**	1,976
Deferred revenue	**1,813**	268
Total current liabilities	**52,960**	42,499
Non-current liabilities		
Provisions	**1,392**	1,186
Deferred revenue	**8,959**	-
Total non-current liabilities	**10,351**	1,186
Total liabilities	**63,311**	43,685
Net assets	**470,589**	407,708
Equity		
Contributed equity	**300,662**	250,429
Reserves	**547**	2,114
Retained profits	**169,380**	155,165
Total equity	**470,589**	407,708

Analysis of Shareholding

TWENTY LARGEST SHAREHOLDERS AS AT 31 JULY 2011

	ORDINARY SHARES	% OF SHARES
Durante Holdings Pty Limited	192,444,593	50.24
Accident Compensation Corporation - NZCSD	18,084,498	4.72
Bond St Custodians Limited	14,215,000	3.71
Tea Custodians Limited	13,690,260	3.57
Citibank Nominees (New Zealand) Limited	12,941,235	3.38
Peters MacGregor Pty Limited	7,367,000	1.92
Peters MacGregor Investments Limited	5,900,000	1.54
M.R.Parsell	5,859,890	1.53
GMS Group Nominees Pty Ltd	3,810,000	0.99
R.L. Parsell	3,560,250	0.93
HSBC Nominees (New Zealand) Limited - NZCSD	3,147,124	0.82
Peters MacGregor Holdings Pty Limited	2,756,000	0.72
Double Dragon Superannuation Pty Limited	2,370,000	0.62
National Nominees New Zealand Limited	2,072,885	0.54
P.R.Taylor	2,000,000	0.52
NZPT Custodians (Grosvenor) Limited	1,904,356	0.50
New Zealand Permanent Trustees Limited	1,883,599	0.49
W.K. Butler & C.A. Butler & R.M.J.Urlich	1,823,640	0.48
E.J Hill	1,524,750	0.40
H.C Wilson	1,400,000	0.37
Total	298,755,080	77.99

SHAREHOLDING BY RANGE OF SHARES AS AT 31 JULY 2011

	NO. OF HOLDERS	% OF HOLDERS	NO. OF SHARES
1 - 9,999	1,781	51.0	6,946,097
10,000 - 49,999	1,382	39.6	26,849,420
50,000 - 99,999	193	5.5	12,194,575
100,000 & over	138	3.9	337,063,098
Total	3,494	100%	383,053,190

SUBSTANTIAL SECURITY HOLDERS

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

	NO. OF ORDINARY SHARES
Durante Holdings Pty Limited	192,444,593
Leslie Wayne Peters, Peters MacGregor Capital Management Pty Ltd.	40,466,500

Total number of issued voting securities of the Company as at 31 July 2011 is 382,664,473.
An additional 388,717 shares are held as Treasury stock for the Company's Staff share purchase scheme.

DIRECTORS' & ASSOCIATED INTERESTS' SHARE HOLDINGS

The table below sets out the relevant interests in equity securities of Directors and Associated Persons of Directors at 30 June 2011, in terms of Listing Rule 10.5.3 of the New Zealand Exchange Listing Rules.

	RELEVANT INTEREST OF DIRECTOR	RELEVANT INTEREST OF ASSOCIATED PERSON
R.M. Hill & A.C. Hill	192,444,593	
M.R. Parsell	5,859,890	3,700,400
G.J. Gwynne	1,427,000	
L.W. Peters	40,466,500	
M.R. Doyle	2,883,599	
E.J. Hill	1,524,750	
D.W. McGeoch (Colvin)	20,000	

Share price performance

	HIGH	LOW	as at 30/6/11
PRICES FOR SHARES TRADED DURING THE YEAR	$0.94	$0.65	$0.90

	2011	2010	2009	2008	2007	2006	2005
SEVEN YEAR COMPARATIVE REVIEW OF SHARE PRICES AS AT 30 JUNE	$0.90	$0.69	$0.60	$0.72	$1.01	$0.76	$0.76

Note: a 10 for 1 share split occurred on 19 November 2007. The previous years have been adjusted for comparative purposes.

Shareholder information

Information specifically for investors and shareholders is featured on our website, **www.michaelhill.com**

It includes our latest share and historical share prices over the last six years. It also includes any announcements and powerpoint presentations made to Analysts and the Press at the time of the release of our half year and annual financial results to the New Zealand Stock Exchange each year. A copy of the Company's Constitution , minutes of the last Annual Meeting, and the Company's Insider Trading Policy are also available on the website. Any shareholders with queries relating to their shareholding or dividend payments etc., should direct their enquiries to

Computershare Investor Services Limited
Private Bag 92119
Auckland 1020
Phone 09 488 8777

Financial calendar

ANNUAL MEETING

Friday 4th November 2011 at 10:30am
Stamford Plaza Hotel
Albert St, Auckland

DIVIDENDS PAYABLE

Interim - April   Final - October

FINANCIAL RESULTS ANNOUNCED

Half year - February   Annual - August

Corporate directory

DIRECTORS
Sir Michael Hill, K.N.Z.N. (Chairman)
E.J. Hill B.Com., M.B.A. (Deputy Chairman)
M.R. Parsell (Chief Executive Officer)
G.J. Gwynne
L.W. Peters M.B.A.,FFin.
M.R. Doyle
Lady Christine Hill Dip F.A.
D.W. McGeoch (Colvin) B.A.

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

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Australia and New Zealand Banking Group
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