



Annual Report 2019

michael hill[®]

INTERNATIONAL LIMITED

DISCLAIMER: Certain statements in this report constitute forward-looking statements. Forward-looking statements are statements (other than statements of historical fact) relating to future events and the anticipated or planned financial and operational performance of Michael Hill International Limited and its related bodies corporate (the Group). The words "targets," "believes," "expects," "aims," "intends," "plans," "seeks," "will," "may," "might," "anticipates," "would," "could," "should," "continues," "estimates" or similar expressions or the negatives thereof, identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements include, among other things, statements addressing matters such as the Group's future results of operations; financial condition; working capital, cash flows and capital expenditures; and business strategy, plans and objectives for future operations and events, including those relating to ongoing operational and strategic reviews, expansion into new markets, future product launches, points of sale and production facilities.

Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the Group's actual results, performance, operations or achievements or industry results, to differ materially from any future results, performance, operations or achievements expressed or implied by such forward-looking statements.

Such risks, uncertainties and other important factors include, among others: global and local economic conditions; changes in market trends and end-consumer preferences; fluctuations in the prices of raw materials, currency exchange rates, and interest rates; the Group's plans or objectives for future operations or products, including the ability to introduce new jewellery and non-jewellery products; the ability to expand in existing and new markets and risks associated with doing business globally and, in particular, in emerging markets; competition from local, national and international companies in the markets in which the Group operates; the protection and strengthening of the Group's intellectual property rights, including patents and trademarks; the future adequacy of the Group's current warehousing, logistics and information technology operations; changes in laws and regulations or any interpretation thereof, applicable to the Group's business; increases to the Group's effective tax rate or other harm to the Group's business as a result of governmental review of the Group's transfer pricing policies, conflicting taxation claims or changes in tax laws; and other factors referenced to in this presentation.

Should one or more of these risks or uncertainties materialise, or should any underlying assumptions prove to be incorrect, the Group's actual financial condition, cash flows or results of operations could differ materially from that described herein as anticipated, believed, estimated or expected. Accordingly, you are cautioned not to place undue reliance on any forward-looking statements.

The Group does not intend, and do not assume any obligation, to update any forward-looking statements contained herein, except as may be required by law. All subsequent written and oral forward-looking statements attributable to us or to persons acting on the Group's behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this announcement.

TERMINOLOGY: In this report, unless otherwise specified or appropriate in the context, the term "Company" refers to Michael Hill International Limited, and the terms "Group" or "Michael Hill" refer to the Company and its subsidiaries (as appropriate).





The Directors are pleased to present the annual report of Michael Hill International Limited and its subsidiaries for the year ended 30 June 2019

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Company profile

Michael Hill is a specialist retail jewellery chain. As at 30 June 2019, it operates 306 stores in Australia, New Zealand and Canada.

The first Michael Hill store opened in 1979 when Sir Michael Hill and his wife, Lady Christine Hill launched their unique retail jewellery formula in the New Zealand town of Whangarei, some 160 kilometres north of Auckland.

With dramatically different store designs, a product range devoted exclusively to accessible jewellery and the clever use of high impact advertising, Michael Hill rapidly gained popularity and rose to national prominence.

Through the successful listing on the New Zealand Stock Exchange in 1987, the Group expanded into Australia. The next 15 years saw sustained growth and in 2002, Michael Hill expanded into North America, opening its first stores in Vancouver, Canada. The Group's Canadian store presence continues to grow as does the Group's online presence in all markets in which it operates.

In June 2016 shareholders voted overwhelmingly in favour of moving the primary stock exchange listing of Michael Hill from the New Zealand Stock Exchange to the Australian Securities Exchange. On 7 July 2016 the Company was admitted to the official list of the Australian Securities Exchange as its primary listing with a secondary listing on the New Zealand Stock Exchange (ASX/NZX: MHJ).

As at 30 June 2019, the Group had 168 stores in Australia, 52 in New Zealand and 86 stores in Canada. Around the world, the Group employs approximately 2,500 permanent employees across retail sales, manufacturing and administration roles.

Michael Hill's vision is to be the most loved jewellery destination.

Information on our corporate governance policies and practices, including our Corporate Governance Statement, is available in the corporate governance section of our website at investor.michaelhill.com



EXCLUSIVE TO MICHAEL HILL, THE **SOUTHERN STAR** DIAMOND IS UNIQUELY CUT TO REVEAL AN EIGHT POINT STAR, EIGHT HEARTS AND EIGHT ARROWS, SYMBOLISING TRIPLE GOOD FORTUNE



Chair & CEO Review

...many of our pieces are created
by our in-house team of master
jewellers – one of the only retailer-led
workshops in the world...

Dear Shareholders,

POSITIVE MOMENTUM AND A REAL SENSE OF PURPOSE

The last year has been both transitional and formative for Michael Hill. Whilst we are not satisfied with the financial result, we are very excited about the work we have been doing to reshape the business for the future. As our new initiatives and strategies gain momentum, we are confident in our ability to grow our brand and our market share and improve our financial performance.

The Board was delighted to welcome Daniel Bracken as CEO in November and we have since strengthened the executive team with the appointment of Andrea Slingsby as Chief Operating Officer and Joanne Matthews as Chief People Officer. We are all aligned on the strategy and focused on building scalable foundations for future growth. The Board was pleased with Daniel's refinement and endorsement of the strategy and encouraged by the way the business moved decisively in the second quarter to ensure a steady turnaround in sales momentum for the balance of the financial year.

BRANDED COLLECTIONS - THE CORNERSTONE OF OUR STRATEGY

At Michael Hill, we celebrate love in all its forms, and our vision is to be the most loved jewellery destination. The cornerstone of our strategy is our ongoing commitment to branded collections. Many of these pieces are created by our in-house team of master jewellers – one of the only retailer-led workshops in the world. Talented designers and craftsmen dedicated to making truly unique and beautiful pieces to celebrate love in all its forms. Quality and provenance are always our first priorities. Which is why we are active members of the Responsible Jewellery Council and why we are committed to using responsibly sourced materials in our work.

VALUES AND CULTURE

High standards of culture and conduct have always been important to us and putting the customer first has been fundamental to our success over a long period of time. This year our values were reviewed and refreshed to clearly communicate and reflect what we stand for today, these are; We care. We create outstanding experiences. We are professional. We are inclusive and diverse. Our values form the foundations to guide our decisions and behaviours. We have for some time measured and tracked our performance against our values through culture and organisational health surveys, these provide the executive and board with actionable insights for continual improvement. We are proud of our culture of success and the real sense of customer led purpose throughout the group.

As culture has always been important to us we were disappointed to discover during the year a misapplication of the General Retail Industry Award which affected many of our store based Australian teams. We moved quickly and decisively to self report this mistake and are committed to a thorough process to put it right. We sincerely apologise to our team members and stakeholders who have been affected by this misapplication.

Last year we continued to strengthen our sustainability practices. The highlight of this was being issued the Responsible Jewellery Councils certification for a period of three years which validates our adherence to responsible business practices throughout our supply chain capturing human rights, labour rights, health and safety, environmental impact, conflict free diamonds and many more important topics for the jewellery industry.

WHAT ARE THE PRIORITIES FOR THE COMING YEAR?

We are certainly proud of the way the team pulled together, reversing the momentum of the business during the course of the year. Whilst we expect market conditions to remain challenging next year, we will continue to focus on strengthening our customer proposition with new branded collections and improved disciplines in buying, selling and marketing. Our cost reduction and improved productivity initiatives will also continue as we look to build on our recent successes.

The coming year we will focus on retail basics in our core businesses – building on the positive momentum that we have worked so hard for.

Last year we introduced a new disciplined “rhythm of the business” that provides a structured operating model across Merchandise, Marketing, Retail and Online. The strategy ensures total alignment across all customer-facing aspects of the brand. It provides the platform for bringing new product to market on a regular schedule, to ensure our stores are always showcasing new and compelling product for our customers.

We will also continue to prioritise investment in our online business, and develop a loyalty program that forges deeper and more engaged relationships with our customers.

It's an exciting time to be leading Michael Hill. The pace of change has been intense this year with a greater sense of urgency and determination to deliver, which is really infectious. There is a strong belief in the strategy and each other – and a healthy impatience among us to see results.



Emma Hill
Chair



Daniel Bracken
CEO



Key facts

Year ended 30 June
 Au\$000 unless stated

TRADING RESULTS

From continuing operations

	2019	2018 Restated	% Change
Group revenue	569,500	575,539	(1.0%)
Gross margin	353,032	366,882	(3.8%)
Earnings before interest and tax*	21,115	45,787	(53.9%)
Underlying earnings before interest and tax*	34,608	40,106	(13.7%)
Net profit before tax	18,811	43,107	(56.4%)
Net profit after tax	16,498	31,765	(48.1%)

Group trading results

Loss from discontinued operations	-	(30,208)	-
Profit for the year	16,498	1,557	959.8%
Net cash inflow from operating activities	38,969	54,893	(29.0%)

FINANCIAL POSITION AT YEAR END

Contributed equity			
387,750,000 ordinary shares	10,984	10,266	7.0%
Total equity	176,752	174,925	1.0%
Total assets	379,193	381,475	(0.6%)
Net debt	24,781	27,993	(11.5%)
Capital expenditure	16,134	24,555	(34.3%)



GOLD AND DIAMOND RING FROM WILLOW
 COLLECTION BY CHRISTINE HILL

Year ended 30 June

KEY RATIOS

Return on average shareholders' funds	9.4%	17.4%
Gross margin	62.0%	63.7%
Interest expense cover (times)	8.6	17.0
Equity ratio (total equity / total assets)	46.6%	45.9%
Gearing Ratio (net debt / total equity)	23.5%	27.7%
Working capital ratio (current assets / trade payables)	5.0 : 1	4.6 : 1
Current ratio (current assets / current liabilities)*	2.1 : 1	2.1 : 1

EARNINGS PER SHARE

Basic earnings per share	AU4.3¢	AU8.2¢
Diluted earnings per share	AU4.3¢	AU8.2¢

DISTRIBUTION TO SHAREHOLDERS

Dividends - including final dividend		
Per ordinary share	AU4.0¢	AU5.0¢
Times covered by net profit after tax	0.85	1.64

SHARE PRICE

30 June	AU\$0.54	AU\$0.97
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SAME STORE SALES

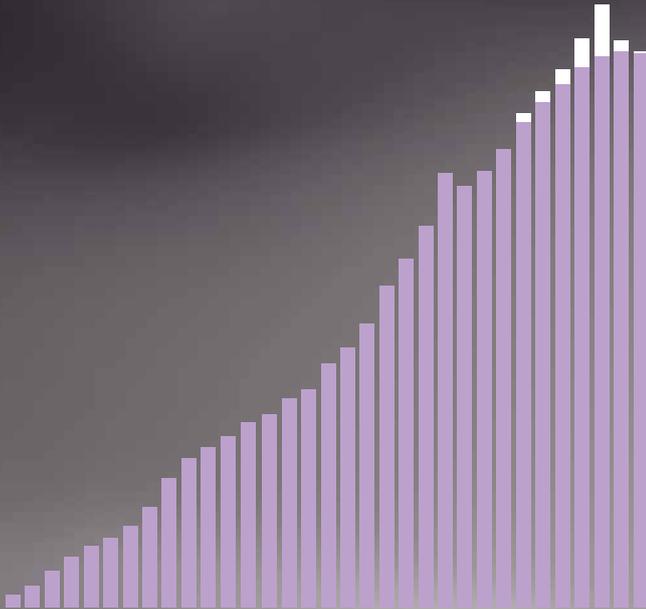
Michael Hill same store sales movement (in local currency)

Australia	-5.7%	-0.9%
New Zealand	-4.5%	2.3%
Canada	-1.7%	3.8%
Group same store sales movement	-3.3%	0.4%

NUMBER OF STORES

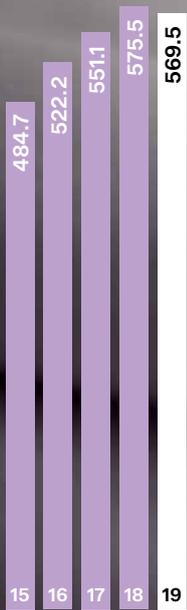
Australia	167	171
New Zealand	52	52
Canada	86	83
Michael Hill stores	305	306
Emma & Roe stores	1	6
Total stores	306	312

* EBIT and Normalised EBIT are Non-IFRS Information and are unaudited. Please refer to Non-IFRS Information in the Directors' Report on page 29 of this annual report for an explanation of Non-IFRS information and a reconciliation of EBIT from continuing operations and Normalised EBIT.



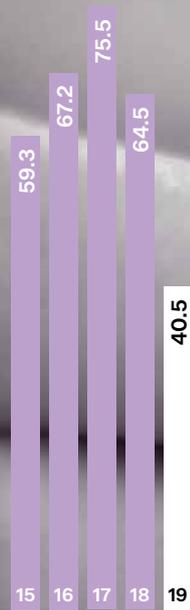
Total stores 306

1987 - 2018, year ended 30 June
 ■ MH stores ■ E&R stores



Group revenue down 1%

AU\$ millions / year ended 30 June



Earnings before interest, taxation, depreciation and amortisation (EBITDA) down 37%

AU\$ millions / year ended 30 June



Performance Highlights

Key Financial Results

Group operating revenues \$569.5m

Statutory net profit after tax increased to \$16.5m

Statutory earnings before interest and tax increased to \$21.1m

Underlying earnings before interest and tax* \$34.6m

Group same store sales \$524.7m

Net debt reduction of 11.4% to \$24.8m

Final dividend of AU1.5¢ per share, giving a full year dividend AU4.0¢



Operational Performance

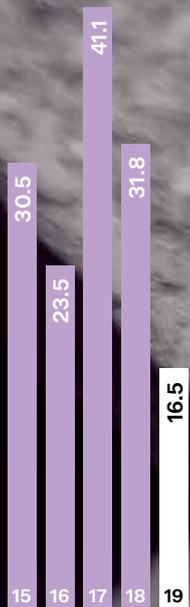
e-commerce sales increased by 43.6% to \$16.0m

Branded collection sales represented 32.5% of total sales

Ten Michael Hill stores opened and eleven under-performing stores were closed (along with five Emma & Roe stores) during the year, giving a total of 306 stores trading at year end

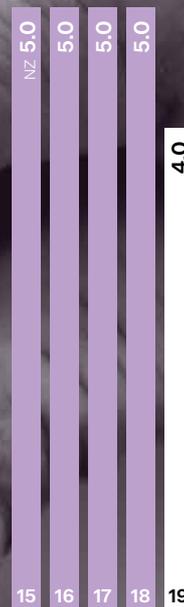
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Net profit from operating activities after tax down 48%

AU\$ millions / year ended 30 June



Ordinary dividend

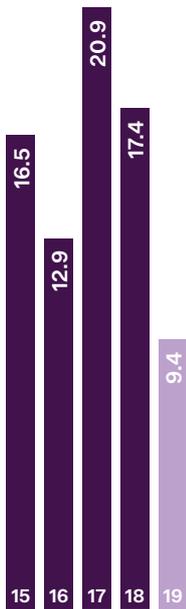
AU cents per share / year ended 30 June



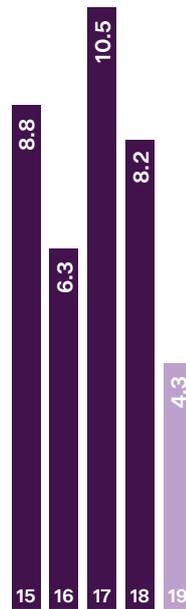
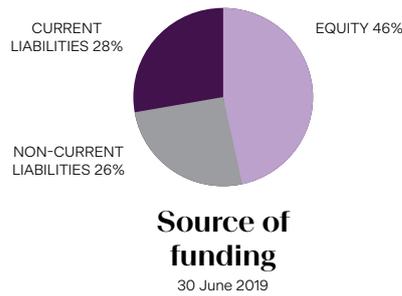
Share price performance

AU\$ / year ended 30 June

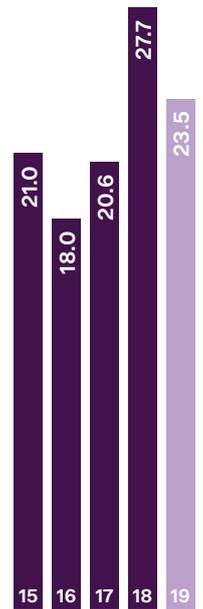
GRAND ARPEGGIO ENGAGEMENT RING FROM SIR MICHAEL HILL DESIGNER BRIDAL COLLECTION



Return on average shareholders' funds 9.4%
% / year ended 30 June



Return on average assets 4.3%
% / year ended 30 June



Gearing ratio 23.5%
% / year ended 30 June



ROSE GOLD AND DIAMOND RING FROM
WILLOW COLLECTION BY CHRISTINE HILL

Trend Statement

FINANCIAL PERFORMANCE FROM CONTINUING OPERATIONS	2019	2018	2017	2016[^]	2015[^]
	\$000	Restated \$000	Restated \$000	Restated \$000	Restated \$000
Group revenue	569,500	575,539	551,099	522,214	484,667
Earnings before interest, tax, depreciation and amortisation (EBITDA)*	40,481	64,481	75,482	67,212	59,250
Depreciation and amortisation	19,366	18,694	17,427	16,796	14,645
Earnings before interest and tax (EBIT)*	21,115	45,787	58,055	50,416	44,605
Net interest paid	2,304	2,680	3,149	5,508	4,665
Net profit before tax (NPBT)	18,811	43,107	54,906	44,908	39,940
Income tax	2,313	11,342	13,768	21,384	9,488
Net profit after tax (NPAT)	16,498	31,765	41,138	23,524	30,452
Net operating cash flow	38,969	54,893	39,752	47,794	54,566
Ordinary dividends paid	19,365	19,371	19,264	17,490	23,176
FINANCIAL POSITION	2019	2018	2017	2016	2015[^]
	\$000	Restated \$000	Restated \$000	Restated \$000	Restated \$000
Cash	7,923	7,220	5,676	8,853	6,797
Inventories	179,503	192,074	203,853	199,961	182,232
Other current assets	35,878	29,314	29,052	31,298	39,378
Total current assets	223,304	228,608	238,581	240,112	228,407
Other non-current assets	72,742	72,219	83,864	74,450	67,734
Deferred tax assets	67,708	68,022	62,712	67,610	50,715
Total tangible assets	363,754	368,849	385,157	382,172	346,856
Intangible assets	15,439	12,626	8,784	5,561	6,491
Total assets	379,193	381,475	393,941	387,733	353,347
Total current liabilities	105,130	108,710	95,716	112,772	77,657
Non-current borrowings	32,704	35,213	45,034	40,887	45,116
Other long term liabilities	64,607	62,627	62,252	55,923	48,397
Total liabilities	202,441	206,550	203,002	209,582	171,170
Net assets	176,752	174,925	190,939	178,151	182,177
Reserves and retained profits*	165,768	164,659	180,924	174,384	178,410
Paid up capital	10,984	10,266	10,015	3,767	3,767
Total shareholder equity	176,752	174,925	190,939	178,151	182,177
Per ordinary share					
Basic earnings per share	4.26¢	8.20¢	10.66¢	6.14¢	7.95¢
Diluted earnings per share	4.25¢	8.19¢	10.66¢	6.11¢	7.92¢
Dividends declared per share - Interim	AU2.5¢	AU2.5¢	AU2.5¢	NZ2.5¢	NZ2.5¢
- Final	AU1.5¢	AU2.5¢	AU2.5¢	AU2.5¢	NZ2.5¢
Net tangible asset backing	\$0.42	\$0.42	\$0.47	\$0.45	\$0.46

[^] Please note that several key measures in the 2015-16 financial year were materially affected by the separate booking of the IR tax settlement and the income tax consolidation cost base adjustments as a consequence of the ASX listing.

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ANALYTICAL INFORMATION

	2019	2018 Restated	2017 Restated	2016 [^] Restated	2015 [^] Restated
EBITDA to sales [^]	7.1%	11.2%	13.7%	12.9%	12.2%
EBIT to sales [^]	3.7%	8.0%	10.5%	9.7%	9.2%
Net profit after tax to sales	2.9%	5.5%	7.5%	4.5%	6.3%
EBIT to total assets [^]	5.6%	12.0%	14.7%	13.0%	12.6%
Return on average shareholders funds	9.4%	17.4%	20.9%	12.9%	16.5%
Return on average total assets	4.3%	8.2%	10.5%	6.3%	8.8%
Working capital ratio	5.0 : 1	4.6 : 1	4.9 : 1	5.2 : 1	5.2 : 1
Current ratio	2.1 : 1	2.1 : 1	2.5 : 1	2.1 : 1	2.9 : 1
EBIT interest expense cover [^]	8.6	17.0	18.3	8.3	9.5
Effective tax rate	12.3%	26.3%	25.1%	47.6%	23.8%

Gearing

Net borrowings to equity	23.5%	27.7%	20.6%	18.0%	21.0%
Equity ratio	46.6%	45.9%	48.5%	45.9%	51.6%

Other

Shares issued at year end excl Treasury	387,750,000	387,438,513	387,438,513	383,138,513	383,138,513
Treasury stock at year end	-	-	14,677	14,677	14,677
Exchange rate for translating:					
New Zealand results	1.06	1.09	1.07	1.07	1.07
Canadian results	0.95	0.98	0.97	0.97	0.97
United States results	-	0.78	0.83	0.83	0.83
Number of Michael Hill stores					
Australia	167	171	166	168	167
New Zealand	52	52	52	52	52
Canada	86	83	76	67	60
USA	-	-	9	10	9
Total Michael Hill stores	305	306	303	297	288
Number of Emma & Roe stores					
Australia	1	6	28	15	7
New Zealand	-	-	1	1	1
Number of Emma & Roe stores	1	6	29	16	8
Total stores	306	312	332	313	296

[^] Please note that several key measures in the 2015-16 financial year were materially affected by the separate booking of the IR tax settlement and the income tax consolidation cost base adjustments as a consequence of the ASX listing.

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RING FROM
THE SOLITAIRE
BY MICHAEL HILL
COLLECTION



**Our purpose:
We celebrate love
in all its forms.**

Sustainability and the Responsible Jewellery Council

At Michael Hill we are committed to continue strengthening our sustainability practices across the breadth of the organisation. We are proud to announce our success in obtaining Responsible Jewellery Council's (RJC) certification granted in February 2019 for a period of three years; the maximum period granted by the RJC.

The RJC is an international, not-for-profit standards and certification organisation. Its 1,100+ members span the jewellery supply chain from mine to retail, and commit to being independently audited against the RJC Code of Practices – an international standard on responsible business practices for the diamond, gold and platinum jewellery supply chain addressing human rights, labour rights, health and safety, environmental impact, conflict free diamonds, product disclosure and many more important topics for the industry. Michael Hill is one of the select few retailers in Australia and New Zealand to receive this certification.

SOURCING

The Company's sourcing strategies and activities embrace the RJC principles and have enabled the Company to:

- Redesign jewellery packaging reducing the size, materials and weights of packaging. This not only reduces the quantity of raw materials required to produce packaging as well as end-user waste, it also creates cost efficiencies in freight.
- Complete the first stage of removing 95% of all plastic from packaging. Where plastic continues to be used, this is recycled plastics.
- Undertake a general waste review at the Company's head office. In 2018 the Company implemented new waste and recycling programs, removing all general waste bins from individual work stations, and introducing waste, recycling and paper bins in work areas and bulk harvest bins at loading docks.
- Reduce printer devices and drive the adoption of digital work practices. In addition, all empty printer ink cartridges are now collected and disposed of by an ink recycling company.
- Begin implementing LED lighting within our retail store portfolio and Head Office to reduce the Company's energy usage and carbon footprint.



RECOVERY

The Company's Brisbane based manufacturing centre has established practices for the collection and recycling of gold scrap and lemel generated from manufacturing and repair operations. The recovered product is monitored to ensure it is in line with benchmarked recovery standards.

DIVERSITY

At Michael Hill we are committed to ensure the profile of our workforce and employees reflect the diversity and demographics of the communities we serve including gender, religion, ethnicity and age. In FY19 two new female executives were appointed to the leadership team with broad experience outside the jewellery industry. This has brought valuable gender diversity and different experience, insight and perspective to the leadership team. Females continue to hold the majority of our sales professional and store management roles, reflective of the customer base we serve.

HEALTH, SAFETY AND WELLBEING

We care about the wellbeing, safety and security of our workforce. We know that the success of Michael Hill depends on its people, and we are committed to the safety and wellbeing. We are focused beyond regulatory compliance and risk management, by placing people at the centre of solutions we will develop as a proactive health, safety and wellness organisation.

In 2019 we further encouraged a culture of genuine care and personal commitment by establishing a Zero Harm committee focussing on the identification, management and mitigation of safety and security hazards across all our operations.

The wellbeing of our team is currently considered through Employee Assistance Programs and leave schemes designed to support team members with both work and personal life challenges.

**Our vision:
To be the most
loved jewellery
destination**



Our People Promise

Enabling our team members to reach their potential

We aim for Michael Hill to provide exceptional experiences for all and to be a loved employer. Our Employee Value Proposition is our promise to our team members. It's what sets us apart as an employer to ensure we attract and retain the right talent our business needs to succeed. Through our focus on our people and our commitment to each individual, we deliver an amazing Michael Hill experience to our teams. Our People Promise ensures we are equipped to deliver against our customer promise.

Our People Promise, validated through workshops with our team members, is to deliver excellent customer focused solutions that value our people, building their capability and enabling the realisation of their potential. Our team members create outstanding experiences. They become part of our diverse family, a family who care about each other, customers, communities and our purpose. We invest in our culture of learning, career development and coaching. We empower and incentivise.

For us, being a loved employer, is about making that connection, it's about living our values, it's about joining brilliance together. Our People Promise, crafted by our people, is completely aligned with our corporate culture, our vision and our brand. In the year ahead we will integrate our People Promise across the team member lifecycle in our business as we further enhance our team member experience.

OUR VALUES

We are a people business. In listening to our people we identified the need to revamp our Company Values, to make them more relevant and aligned with our culture and desired behaviours for all, from leadership to front line team members, in every location.

Our values, which will be launched and reinforced in the year ahead are:

- We care
- We create outstanding experiences
- We are professional
- We are inclusive and diverse

These values form the core of how we operate. They will inform our decision making processes, they clarify what we stand for and what we are aligned to, they confirm our desired culture, they influence our overall behaviour. They will inspire our people to action and contribute to the overall success of our company.

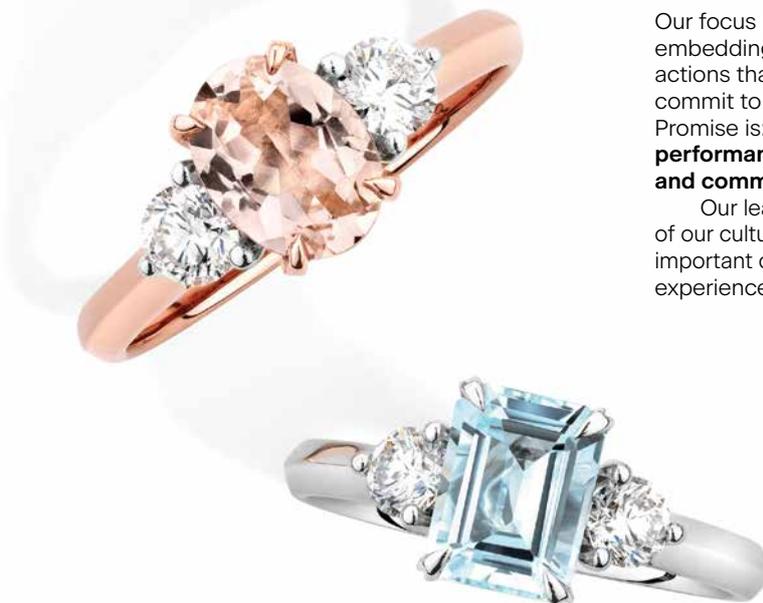
OUR LEADERSHIP PRINCIPLES

Our leadership principles have continued in 2019:

- Customer focus
- Mindset for growth
- Bias for action
- Building talent and teams
- Accountability and responsibility

Our focus in 2020 will be on further defining and embedding a Leadership Promise, a statement and actions that show to our team members how we commit to interacting with them. This Leadership Promise is: **As leaders, we will create a high-performance, high-trust culture that is open, honest and committed to excellence.**

Our leaders are champions of our values and shapers of our culture. How they interact with our team members is important on delivering on our goal to provide exceptional experiences for all and to be a loved employer.



Our Executive Team

at 30 June 2019



Daniel Bracken

Chief Executive Officer

Daniel has more than 25 years experience managing some of the world's most iconic brands. He has an extensive background in retailing, fashion, and brand development in Australia and international markets, as a Chief Executive Officer and in senior executive positions across strategy, marketing, merchandise, product design and digital and customer engagement strategies.

Prior to joining Michael Hill as CEO in November 2018, Daniel was CEO at Specialty Fashion Group and previously held positions as the Group Vice President, Strategy for Burberry London, as Deputy CEO and Chief Merchandise & Customer Officer of Myer, and as CEO of The Apparel Group.

During his time at Specialty Fashion Group, Daniel led the company's corporate restructure and the successful divestment of the Millers, Katies, Crossroads, Autograph and Rivers brands, returning the company to profitability. At Myer, he oversaw merchandise buying, design, sourcing, and manufacturing, and led the Myer brand and customer experience strategy. During his tenure, the Apparel Group owned leading fashion brands Sportscraft, Saba, Willow, and JAG.

His international experience includes more than 15 years at Burberry London in the United Kingdom, where he was a key member of the leadership team involved in their turnaround into an iconic global brand. He performed a range of roles at Burberry including Vice President – Strategy (Group), Head of Merchandising & Production (Ready to Wear), and Commercial & Operations Director (Menswear).



Andrew Lowe

Chief Financial Officer
and Company Secretary

Andrew joined Michael Hill in December 2017 as Chief Financial Officer, and later assumed the role of Company Secretary. He holds a Bachelor of Commerce, a Bachelor of Laws (Hons) and a Masters of Applied Finance, and is a qualified Chartered Accountant and a Chartered Taxation Adviser of the Taxation Institute of Australia.

Andrew has extensive experience in finance and leadership roles across a range of listed corporate groups with Australian and offshore operations. This includes as Head of Tax, Shared Services and Finance Partnering at Australia's largest rail-based freight operator and ASX100 firm, Aurizon. Previously, he was Deputy CFO and Head of Tax at Cleanaway Waste Management, and spent a decade with global mining company, Anglo American.



Vanessa Brennan

Chief Brand & Customer Officer

Vanessa joined Michael Hill in January 2018 in the newly created position of Chief Brand & Customer Officer, to lead the commercial growth strategy for the business across customer, product, brand marketing and eCommerce. She is a recognised leader in strategic brand, customer and digital strategy, and is renowned as a transformative specialist in building brands with expertise covering the end-to-end spectrum of customer, brand and marketing communications.

Vanessa has more than 20 years' experience gained in Australia, Europe, Latin America and Asia, where she has been a key advisor to a number of global and domestic commercial and government organisations, including as a Partner at PWC and Managing Director of Clemenger BBDO.



Andrea Slingsby

Chief Operating Officer

Andrea has more than 25 years corporate experience working in high-growth service sectors, and has held various Board, Managing Director, Chief Executive Officer, senior management and corporate advisory roles for a broad range of Australian private and public companies. She has outstanding Australian and international experience, and is an Alumni of Harvard Business School.

Prior to joining Michael Hill in 2019, Andrea held a number of senior roles across 14 years working for Flight Centre, including President & CEO for North America. She also worked as a corporate advisor to Michael Hill in late 2018 on the company's HR strategy and operational execution, prior to her appointment to the company's Executive Management Team.

Andrea's background working for many fast-growing companies, as well as her unique experience in business model improvement and operational excellence, is fundamental for Michael Hill as it realises its strategy to be a globally relevant and modern retailer in the premium jewellery category.



Matt Keays

Chief Information Officer

Matt joined Michael Hill in June 2015, bringing with him extensive international IT experience in the retail space. Prior to joining the company, Matt led the global IT strategy for Forever New as their General Manager Information Technology, and prior to that worked as Chief Information Officer for Super Amart where his final project was successfully leading a full-scale Disaster Recovery process after the Qld floods in 2011. He also worked for leading national footwear and apparel company, Colorado Group after enjoying his long Retail apprenticeship with 11 years at Country Road.

Matt has strong technical skills and a track record of developing an effective team focused on business alignment. Matt's career has seen him lead significant technology and infrastructure programs, covering Microsoft Dynamics, Infor, Oracle and JDE. He has helped all Retail businesses implement and embrace Data Warehousing with his first Microsoft based implementation as far back as 2004. The Michael Hill advanced Data Warehouse went live in 2016 and his team continually evolve our data platforms to align with the strategic shifts across the business.



Joanne Matthews

Chief People Officer

Joanne joined Michael Hill in January 2019 with extensive experience in change leadership, and talent management and development. This experience was gained across 14 years in senior human resource leadership roles, including as Divisional Human Resources Manager (Leisure) for Super Retail Group.

Joanne has also worked as the Executive General Manager, Human Resources for MAX Solutions Pty Ltd, a national organisation that delivers health, training and humanitarian solutions for Federal and State Governments, and prior to this she worked in retail operations with Woolworths.

With a workforce of more than 3000 people in over 300 stores across Australia, New Zealand and Canada, Joanne's experience will help to support the company's core priority of recruiting, training, rewarding and retaining top quality people at Michael Hill.

Joanne holds a MBA and Bachelor of Business in Human Resources and Marketing.



NORTHERN RADIANCE EARRINGS AND PENDANT



Celebrating our Success

A look at how we pay tribute to our managers and high achievers

Managers' Conferences

It truly is our people who make our Company. Each year, our Retail and Support Centre Management Teams come together to celebrate their phenomenal achievements. We recognise their contributions and share with them the Group's strategic direction for the coming year.

This year over 400 of our Leaders came together in their home countries of Australia, New Zealand, and Canada, focused to inspire our teams to continue to produce outstanding results and most importantly – incredible customer experiences.



Gold Club

Every year we celebrate the personal achievements of our highest performing Sales Professionals. This year the 291 incredible individuals who achieved gold club status, accounting for over A\$123m in sales, were invited to celebrate their success in Toronto, Canada and Melbourne, Australia. Our top performers were joined by our Senior Executives and CEO, to personally congratulate and thank them for their contributions to the success of Michael Hill for 2018.



TOP: SOME OF OUR GOLD STAR RECIPIENTS AT THE 2018 MANAGERS' CONFERENCE; PHOTOS 2 - 4: SIR MICHAEL HILL CELEBRATES WITH OUR STELLAR SALES PROFESSIONALS AT THE 2019 GOLD CLUB AWARDS

Michael Hill International Violin Competition



PICTURED: THIS YEAR'S WINNER, **ANNA IM** FROM SOUTH KOREA PERFORMING AT THE QUARTER FINAL ROUNDS IN QUEENSTOWN. ANNA WILL BE TOURING ACROSS NEW ZEALAND AND AUSTRALIA IN 2020 AS PART OF HER PRIZE PACKAGE.

michaelhillviolincompetition.co.nz

The Michael Hill International Violin Competition is the launch-pad for violin virtuosos; the foundation stone of brilliant musical careers.

With a prize package valued at over NZ\$100,000, the "Michael Hill" as it is affectionately named, shapes the artistry of 16 of the world's finest young violinists. It delivers a sublime, unique experience to violinists and audiences alike.

From concert stages in sub-tropical Auckland and alpine Queenstown, New Zealand, the globe's best young violinists deliver platinum-plated performances over eight magnificent days.

The broadcast of the June 2019 event was enjoyed by 1.3 million around the world, and the full digital reach was 1.6 million – with "Michael Hill International" being the most-recognised business partner as attested in audience surveys.

Established two decades ago by entrepreneur and passionate violinist, New Zealander Sir Michael Hill, the Michael Hill International Violin Competition is regarded as one of the world's top violin events. It is New Zealand's most prestigious classical music competition and arguably one of its key iconic events of the calendar.

Closely nurtured by a Board of commercial business people and ardent arts lovers, the organisation carefully selects international and leading local luminaries to guide brilliant young talent through competition, intensive master classes and career development, and launches these artists onto the world stage, empowered with the necessary skills to broaden their career opportunities.

The Michael Hill International Violin Competition aims to recognise and celebrate excellence, distinctiveness and musical artistry. It takes pride in New Zealand Aotearoa's cultural offerings and showcases its finest artistic talents.

Through our dedicated partnership with this major event, which invites the world's celebrated violinists, we are raising the awareness of fine music and the standards of musical performance that richly impacts the next layer of talent in New Zealand.

A close-up photograph of a person's hand holding a white smartphone. The hand is wearing a gold ring with a large, curved, textured design on the ring finger. The person is wearing a dark, long-sleeved garment. The background is a plain, light blue-grey color.

...the Group remains in a strong financial position to continue to invest in improvements to its systems, infrastructure and capabilities, and position the business for future growth opportunities...

Directors' Report

The Directors present their report on the consolidated entity (referred to hereafter as the 'Group') consisting of Michael Hill International Limited ACN 610 937 598 ('Michael Hill International' or the 'Company') and all controlled subsidiaries for the year ended 30 June 2019.

Principal activities

The Group operates predominately in the retail sale of jewellery and related services sector in Australia, New Zealand and Canada.

There were no significant changes in the nature of the Group's activities during the year.

Dividends

Dividends paid to members during the financial year were as follows:

	2019 \$000	2018 \$000
Final ordinary dividend for the year ended 30 June 2018 of AU2.5¢ (2017 - AU2.5¢) per fully paid share paid on 28 September 2018 (2017 - 29 September 2017)	9,679	9,685
Interim ordinary dividend for the year ended 30 June 2019 of AU2.5¢ (2018 - AU2.5¢) per fully paid share paid on 27 March 2019 (2018 - 29 March 2018)	9,686	9,686
The Directors have declared the payment of a final dividend of AU1.5¢ per fully paid ordinary share* (2018 - AU2.5¢). The final dividend will be unfranked for Australian shareholders and fully imputed for New Zealand shareholders. The aggregate amount of the proposed dividend expected to be paid on 27 September 2019 out of retained earnings, but not recognised as a liability at year end is:	5,816	9,686

* This will be declared as conduit foreign income, therefore no Australian withholding tax will be deducted from the dividend payment for foreign (non-Australian tax resident) shareholders.

Likely developments and expected results of operations

Information on likely developments in the Group's operations and the expected results of operations have been included in the Operational Review and Outlook sections of this report.

Review of operations

In Australian dollars, the Group has reported operating revenue of \$569.5m (2018: \$575.5m) for the 2019 financial year, producing earnings before interest and tax ('EBIT') of \$21.1m (2018: \$8.9m restated). The Group reported a net profit after tax ('NPAT') of \$16.5m for the 2019 financial year. Underlying EBIT for the Group was \$34.6m for the year. Underlying EBIT excludes one off costs, including employee benefit remediation and significant items per the Non-IFRS Information note on page 29.

OPERATIONAL REVIEW

The Group achieved the following key outcomes for the 2019 financial year:

Key Financial Results

- Statutory net profit after tax increased to \$16.5m (Restated FY18: \$1.6m)
- Statutory earnings before interest and tax increased to \$21.1m (Restated FY18: \$8.9m)
- Group operating revenues \$569.5m (FY18: \$575.5m)
- Underlying earnings before interest and tax* \$34.6m (FY18: \$40.1m)
- Group same store sales \$524.7m (FY18: \$542.8m), down 3.3%
- Gross margin 62.0% (FY18: 63.7%)
- Controlled working capital management with inventory reduced to \$179.5m after one off impairment of \$6.0m
- Net debt reduction of 11.4% to \$24.8m (FY18: \$28.0m)
- Equity ratio 46.8% (FY18: 45.9%)
- Final dividend of AU 1.5 cents per share, giving a full year dividend AU 4.0 cents per share (FY18: AU5.0¢ per share)



Operational Performance

- Same store sales momentum recovery continued throughout the year, finishing with FY19Q4 at +0.7%
- e-commerce sales increased by 43.6% to \$16.0m (FY18: \$11.1m)
- Branded collection sales represented 32.5% of total sales
- Delivery of a \$5m cost out, largely from a reduction in corporate overhead costs, to annualise in FY20
- A further \$5m annualised savings from vendor negotiations, supply chain efficiencies and other retailing operating costs to be delivered across FY20 and FY21
- Continued investment in technology as the Company migrates to a highly integrated IT environment, including an upgraded inventory management system
- Ten Michael Hill stores opened and eleven under-performing stores were closed (along with five Emma & Roe stores) during the year, giving a total of 306 stores trading at year end.

* EBIT and Underlying EBIT are Non-IFRS Information and are unaudited. Please refer to Non-IFRS Information on page 29 for an explanation of Non-IFRS information and a reconciliation of EBIT and Underlying EBIT.

The Group reported a net profit after tax (NPAT) of \$16.5m for the full year ending 30 June 2019. Underlying earnings before interest and tax (EBIT) for the period was \$34.6m (FY18: \$40.1m). The decline in EBIT was partially offset by our cost out program, announced in February 2019. In addition to compressed margins arising from the current competitive retail environment and clearing of aged off range inventory, the results for FY19 were impacted by employee remediation costs of \$4.5m, one-off aged inventory impairment of \$6.0m and employee restructuring costs of \$2.0m as part of the cost out program.

Same store sales were down 3.3% for the full year to \$524.7m (FY18: \$542.8m), due to the Company's shift away from aggressive discounting for the first four months of the year and a competitive retail environment. Same store sales returned to positive growth in FY19Q4 with an increase of 0.7%.

The continued investment and development of the Company's e-commerce business resulted in record on-line revenue of \$16.0m for the full year (up 43.6% on FY18) and now represents 2.8% of total sales. The launch of a number of new branded bridal collections and a concerted marketing focus led to branded collections representing 32.5% of total product sales for the full year.

The active inventory management program along with one-off aged inventory impairment of \$6.0m has seen inventory levels reduced to \$179.5m at year end (FY18: \$192.1m). This focus on working capital, along with the cost out program and renegotiated vendor payment terms, have contributed to the reduction in net debt to \$24.8m from \$28.0m in FY18.

Sales from the Group's Professional Care Plan (PCP) declined to \$28.5m with an amount of \$32.9m recognised as revenue for the full year. At 30 June 2019, a deferred amount of \$77.8m remained on the balance sheet (FY18: \$80.0m).

The company opened ten new stores and closed eleven under-performing stores along with five Emma & Roe stores, resulting in 306 stores at year end (including one remaining Emma & Roe store).



GOLD AND DIAMOND RING
FROM THE MARK HILL COLLECTION

Segment Results

The operational segments below reflect the performance of the Group's retail operations in each geographic segment. The segments include trading activity from our online presence and our Canadian in-house credit function. The segments exclude revenue and expenses that do not relate directly to the relevant retail segments, and are treated as unallocated. These predominately relate to corporate costs and Australian based support costs, but also include the manufacturing activities, warehouse and distribution, interest and company tax.

The Michael Hill United States and Emma & Roe segments were classified as Discontinued Operations during the prior year following the announcement of their planned closure. As a result, the wind-down of Michael Hill United States has been included in Corporate/Other and Emma & Roe has been included in the Australian retail segment. The results below are expressed in local currency.

Michael Hill Australia

OPERATING RESULTS (AU \$000)	2019	2018	2017	2016	2015
Revenue from continuing operations	313,587	325,709	321,981	309,457	294,442
Gross margin	194,052	206,303	201,707	194,152	183,582
Gross margin as a % of revenue	61.9%	63.3%	62.6%	62.7%	62.3%
EBIT	32,917	48,621	51,688	49,975	45,933
As a % of revenue	10.5%	14.9%	16.1%	16.1%	15.6%
Number of stores	168	171	166	168	167

Australian retail segment revenue declined by 3.7% to \$313.6m (FY18: \$325.7m) with gross margin of 61.9% (FY18: 63.3%) during the year. Gross margins were compressed as the Company moved decisively to defend market share in challenging retail conditions.

In FY20, we expect the Australian retail environment will continue to be challenging, but we are focused on building momentum off the back of the last quarter of FY19. We expect performance to be driven by improved retail in-store execution and product newness, strong property portfolio management and continued online revenue growth.

Four stores were opened in Australia during the period as follows:

- Coomera, Queensland
- DFO Perth, Western Australia
- Harbourn, Queensland
- Launceston, Tasmania

Eight stores closed during the period. There were 168 stores trading at 30 June 2019, including one Emma & Roe store.

Michael Hill New Zealand

OPERATING RESULTS (NZ \$000)	2019	2018	2017	2016	2015
Revenue	120,064	125,239	121,970	122,903	113,983
Gross margin	73,011	77,673	75,204	75,895	70,488
Gross margin as a % of revenue	60.8%	62.0%	61.7%	61.8%	61.8%
EBIT	24,125	27,800	27,836	27,136	23,545
As a % of revenue	20.1%	22.2%	22.8%	22.1%	20.7%
Number of stores	52	52	52	52	52
FX rate for profit translation	1.06	1.09	1.06	1.09	1.07

In New Zealand, retail segment revenue declined by 4.1% to NZ\$120.1m (FY18: NZ\$125.2m), with a decline in gross margin to 60.8% (FY18: 62.0%). In FY20, we expect that the New Zealand business will benefit from operational improvements, continued refinement of the property portfolio and improved cost efficiencies.

Two stores were opened in New Zealand as follows:

- DFO Onehunga, Auckland
- Tauranga Crossing, Tauranga

Two stores closed during the period. There were 52 stores trading at 30 June 2019.

Michael Hill Canada

OPERATING RESULTS (CA \$'000)	2019	2018	2017	2016	2015
Revenue	133,146	130,762	112,721	95,423	79,097
Gross margin	80,726	81,576	69,078	59,252	48,689
Gross margin as a % of revenue	60.6%	62.4%	61.3%	62.1%	61.6%
EBIT	9,797	14,605	12,386	8,929	6,041
As a % of revenue	7.4%	11.2%	11.0%	9.4%	7.6%
Number of stores	86	83	76	67	60
FX rate for profit translation	0.95	0.98	1.00	0.97	0.97

In Canada, the business saw retail segment revenue growth of 1.8% to CA\$133.1m (FY18: CA\$130.8m), with a decline in gross margin to 60.6% (FY18: 62.4%). A series of measures to improve productivity and sales were introduced in FY19H2 that are expected to drive performance improvement for FY20.

- Charlottetown, Prince Edward Island
- Quinte Mall, Ontario
- Rideau Centre, Ontario
- St Albert, Alberta

One store closed during the period. There were 86 stores trading at 30 June 2019.

Cash, Cash flow and Dividends

The Group has an equity ratio of 46.8% at 30 June 2019 (45.9% in 2018 restated), and a working capital ratio of 5.0:1 (4.6:1 in 2018). Net operating cash inflows were \$39.0m compared to \$54.9m the previous year. Net debt at 30 June 2019 was \$24.8m compared to \$28.0m at 30 June 2018.

The Group remains in a strong financial position to continue to invest in improvements to its systems, infrastructure and capabilities, and position the business for future growth opportunities.

Despite the one off costs, which impacted statutory profit after tax, through disciplined inventory and working capital management, the Group's debt levels reduced.

The Company has declared a final dividend for the year of AU1.5¢ per share, bringing the total dividends paid for the financial year to 4.0¢. The final dividend will be paid on 27 September 2019, unfranked with conduit foreign income and fully imputed.



FROM LEFT: GRAND ARPEGGIO AND GRAND ARIA FROM SIR MICHAEL HILL DESIGNER BRIDAL COLLECTION AND A THREE STONE EVERMORE

Outlook and Key Initiatives for FY20

With a strengthened leadership team in place, the focus will be on the retail fundamentals of the business and building on the framework of the five strategic priorities announced with the FY18 results:

- **OMNI-CHANNEL:**
Building capability to deliver a seamless customer experience.
- **CUSTOMER LOYALTY:**
Building data capability to better service customers.
- **UNIQUE BRANDED COLLECTIONS:**
Escalate our growth of branded collections.
- **BRAND POSITION:**
Strengthen and grow brand loyalty.
- **OPERATIONAL EXCELLENCE:**
Enhance execution capability and agility.

These strategic priorities are going to be key drivers to the success of our business. In addition to delivering these strategies, the company will be focused on a number of key initiatives throughout FY20:

- 1 CONTINUED FOCUS ON COSTS** - the cost out program delivered in FY19 will see annualised full-year benefits in FY20 of \$5m. Management has identified a further \$5m cost reduction program that will be delivered across FY20 and FY21.
- 2 RETAIL OPERATING MODEL** - the implementation of a more sophisticated and integrated customer focussed retail operating model is well underway. This model will drive regular product newness to our stores, a structured and consistent marketing platform, and exciting changes within stores for our customers. We anticipate that this initiative will drive improved customer transaction frequency and conversion rates.

3 RETAIL FUNDAMENTALS - a deliberate emphasis on the Company's core disciplines presents a significant opportunity. A much greater focus is being applied to retail execution and visual merchandising, enhancing our brand, inventory management, and cost control.

4 ACCELERATION OF THE BRANDED COLLECTIONS STRATEGY - as demonstrated in the second half of FY19, we have a clear pathway to drive exclusive Branded Collection sales to 50% over the coming years. This represents both a sales growth and margin opportunity with existing customers, and an avenue to attract new customers to the Michael Hill brand.

5 NEW MERCHANDISE RHYTHM - implementing new processes and a critical path to ensure that product newness is brought to market on a regular basis. A focus on margin mix and margin outcomes via deliberate product selection will be delivered by way of multiple strategies.

6 CANADIAN PRODUCTIVITY - Canada presents a significant opportunity from a productivity perspective. A plan to drive increased sales per square metre has been developed, and we will be implementing initiatives to deliver improved results over the first half of FY20.

7 ONLINE AS A CORE FOCUS - to improve our existing online customer experience and expanding our digital platform, while building capability for the future.



The Board believe that a strong Corporate Governance framework will underpin the Group's growth and success...

RISK MANAGEMENT

The Board believe that a strong Corporate Governance framework will underpin the Group's growth and success. The Company regularly reviews its risk management framework and has identified the following at risk areas and mitigating strategies:

RISK	STRATEGIES AND MITIGATION
Inadequate business continuity program and/or disaster recovery strategies	The process of updating the Group's business continuity plan and disaster recovery processes will continue into the coming year. Additional internal resources have been put in place and external consultants continue to be used to help with penetration testing and to provide other technical assessments.
Insufficient leadership talent to meet growth plans	The decision was made recently to appoint a Chief People Officer to the executive team in an effort to strengthen our focus on people planning, talent acquisition and development of this vital resource. We are confident our people and talent strategies will continue to deliver sufficient quality resources to the business.
Systems capability does not meet demands of business	A structured plan of system review involving significant investment has begun to facilitate the upgrade of our key business systems.
Risk of a disruptor or new competition entering our markets	We are committed to improving and differentiating the brand from our existing competitors to create a point of difference and increase market share. This in itself helps mitigate the risk of other competitors entering our key markets and taking material market share.
Breach of regulation or law in one of our jurisdictions in an increasingly complex legal compliance environment	The Company invests, via an in-house legal team who are focused on compliance, in our three markets and by utilising external legal firms for specialised legal advice when required.
Inability to adjust to the rapidly changing consumer segment and retail environment	The Group is in the process of investing in improved IT infrastructure and capabilities with a goal to meet the rapidly changing retail environment and focus on consumer demands.

Environmental regulation

The Group has determined that no particular or significant environmental regulations apply to it.

Non-IFRS Financial Information

This report contains certain non-IFRS financial measures of historical financial performance. Non-IFRS financial measures are financial measures other than those defined or specified under all relevant accounting standards. The measures therefore may not be directly comparable with other companies' measures. Many of the measures used are common practice in the industry in which the Group operates. Non-IFRS financial information should be considered in addition to, and is not intended to be a substitute for, or more important than, IFRS measures. The presentation of non-IFRS measures is in line with Regulatory Guide 230 issued by Australian Securities and Investments Commission (ASIC) to promote full and clear disclosure for investors and other users of financial information, and minimise the possibility of those users being misled by such information.

The measures are used by management and Directors for the purpose of assessing the financial performance of the Group and individual segments. The Directors also believe that these non-IFRS measures assist in providing additional meaningful information on the drivers of the business, performance and trends, as well as the position of the Group. Non-IFRS financial measures are also used to enhance the comparability of information between reporting periods by adjusting for non-recurring or controllable factors which affect IFRS measures, to aid the user in understanding the Group's performance. Consequently, non-IFRS measures are used by the Directors and management for performance analysis, planning, reporting and incentive setting. These measures are not subject to audit. The non-IFRS measures used in describing the business performance include:

- Same store sales
- Earnings before Interest, tax, depreciation and amortisation (EBITDA)
- Earnings before Interest and tax (EBIT)
- Underlying EBIT
- Significant item

CALCULATION OF UNDERLYING EBIT

Underlying EBIT has been calculated as follows:

	2019	2018
	\$000	restated \$000
EBIT from continuing operations	21,115	45,788
EBIT from discontinued operations	-	(36,937)
Group Statutory EBIT	21,115	8,851
Add back costs relating to:		
Emma & Roe and US closure costs	258	25,505
CEO transition costs	758	-
Employee restructure costs	1,987	-
Impairment of aged inventory	5,954	-
Revaluation of employee benefits	-	1,391
Remediation of employee underpayment	4,536	4,359
Underlying EBIT	34,608	40,106



Information on Directors

From left: Gary Smith, Emma Hill, Sir Michael Hill, Janine Allis and Robert Fyfe. Information on the Directors of Michael Hill International Limited in office during the financial year and until the date of this report follows.

Gary Warwick Smith

B.COM, F.C.A., F.A.I.C.D.

Gary was appointed a Director of the Company upon incorporation on 24 February 2016.

Gary has had extensive Director experience. He is Chairman of Flight Centre Travel Group, one of Australia's top 100 public companies and is a member of their Audit and Remuneration sub-committee. He is a Chartered Accountant and a Fellow of the Australian Institute of Company Directors.

OTHER CURRENT DIRECTORSHIPS OF LISTED ENTITIES

Flight Centre Travel Group Limited

FORMER DIRECTORSHIPS IN LAST 3 YEARS OF LISTED ENTITIES

none

RESPONSIBILITIES

Non-Executive and Independent Director

Chair Audit and Risk Management Committee

Member People Development and Remuneration Committee

INTERESTS IN SHARES AND OPTIONS

80,000

Ordinary Shares

Emma Jane Hill (Chair)

B.COM, M.B.A.

Emma was appointed a Director of the Company on 9 June 2016.

Emma has over 30 years' experience with subsidiaries of the Company commencing on the shop floor in Whangarei, New Zealand. She held a number of management positions in the Australian company before successfully leading the expansion of the Group into Canada as Retail General Manager in 2002.

In 2011 Emma was appointed as Deputy Chair of the listed New Zealand entity and was appointed by the Board as Executive Chair of that company in December 2015.

Emma holds a Bachelor of Commerce degree and an MBA from Bond University.

OTHER CURRENT DIRECTORSHIPS OF LISTED ENTITIES

none

FORMER DIRECTORSHIPS IN LAST 3 YEARS OF LISTED ENTITIES

none

RESPONSIBILITIES

Chair

Non-Executive Director

Member People Development and Remuneration Committee

INTERESTS IN SHARES AND OPTIONS

167,487,526

Ordinary Shares

Sir Richard Michael Hill

K.N.Z.M.

Sir Michael was appointed a Director of the Company on 9 June 2016.

Sir Michael is the founder of Michael Hill Jeweller and was appointed as a Director of Michael Hill New Zealand Limited on 30 March 1990. He had 23 years of jewellery retailing experience before establishing Michael Hill in 1979, which then listed on the New Zealand Stock Exchange in 1987. Sir Michael's visionary leadership has been the foundation for the Company's successful international expansion. In 2008 he was recognised as Ernst & Young's 'Entrepreneur of the Year' and in 2011 was appointed a Knight Companion of the New Zealand Order of Merit for services to business and the arts.

Sir Michael was appointed Founder President of the New Zealand listed entity in 2015 in recognition of his special connection with Michael Hill for over 35 years.

Sir Michael led the Group as Chairman from 1987 until December 2015.

OTHER CURRENT DIRECTORSHIPS OF LISTED ENTITIES

none

FORMER DIRECTORSHIPS IN LAST 3 YEARS OF LISTED ENTITIES

none

RESPONSIBILITIES

Non-Executive Director

INTERESTS IN SHARES AND OPTIONS

148,330,600

Ordinary Shares

Janine Suzanne Allis

Janine was appointed a Director of the Company on 9 June 2016.

Janine is the Founder and Executive Director of Retail Zoo Pty Ltd which currently owns three brands - Boost Juice, Salsa's Fresh Mex Grill and Cibo. The Retail Zoo network has over 500 stores in 13 countries.

Janine's strong retail experience was obtained by creating Boost Juice Bars and turning it into an iconic Australian brand with over 95% awareness rate in the Australian market. Drive and passion have translated into over \$2 billion in global sales from inception and has earned Janine many accolades, including Telstra Businesswoman of the Year, Amex Franchisor of the Year and ARA Retailer of the Year. She was inducted into the Australian Business Women Hall of Fame as well as BRW listing Janine in the top 15 people who have changed the way we do business in the last 20 years.

OTHER CURRENT DIRECTORSHIPS OF LISTED ENTITIES

none

FORMER DIRECTORSHIPS IN LAST 3 YEARS OF LISTED ENTITIES

none

RESPONSIBILITIES

Non-Executive and Independent Director

Member Audit and Risk Management Committee

INTERESTS IN SHARES AND OPTIONS

551,745

Ordinary Shares

Robert Ian Fyfe

B.ENG, F.E.N.Z

Rob was appointed a Director of the Company on 9 June 2016.

Rob served as CEO of Air New Zealand between 2005 and 2012, a period that saw a resurgence in Air New Zealand to become one of the most recognised and awarded airlines in the world and one of the best performers in a tough industry.

Prior to Air New Zealand, Rob had gained extensive general management experience in various retail businesses operating in New Zealand, Australia and Great Britain.

OTHER CURRENT DIRECTORSHIPS OF LISTED ENTITIES

Air Canada

FORMER DIRECTORSHIPS IN LAST 3 YEARS OF LISTED ENTITIES

none

RESPONSIBILITIES

Non-Executive and Independent Director

Chair People Development and Remuneration Committee

Member Audit and Risk Management Committee

INTERESTS IN SHARES AND OPTIONS

1,513,640

Ordinary Shares



Company Secretary

The Company Secretary is Andrew Lowe, who is also the Chief Financial Officer of the Group. Andrew was appointed to the position of Company Secretary on 1 March 2019, having held that position previously (15 December 2017 to 22 January 2018).

Andrew holds a Bachelor of Commerce, a Bachelor of Laws (Hons) and a Masters of Applied Finance, and is a qualified Chartered Accountant and a Chartered Taxation Adviser of the Taxation Institute of Australia. Andrew has extensive experience in finance and leadership roles across a range of listed corporate groups with Australian and offshore operations.

Prior to Andrew's appointment, Katherine Hammond was Company Secretary from 22 January 2018 and resigned with effect from 1 March 2019.



Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2019, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Meetings of committees			
	Meetings attended	Meetings held*	Audit and Risk Management		People Development and Remuneration	
			Meetings attended	Meetings held*	Meetings attended	Meetings held*
E J Hill	13	13	-	-	7	7
Sir R M Hill	9	13	-	-	-	-
G W Smith	11	13	4	4	6	7
R I Fyfe	12	13	4	4	7	7
J S Allis	10	13	3	4	-	-

* Number of meetings held during the time the Director held office or was a member of the committee during the year.

Committee membership

As at the date of this report, Michael Hill International Limited has an Audit and Risk Management Committee and a People Development and Remuneration Committee.

Audit and Risk Management Committee	People Development and Remuneration Committee
Gary Smith ^o	Rob Fyfe ^o
Janine Allis	Emma Hill
Rob Fyfe	Gary Smith

^o designates chair of the committee.





Our Remuneration objectives: To attract, motivate and retain executive talent and to create shareholder value through equity.

Audited Remuneration Report

The Directors present the 2019 Michael Hill International Limited remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded during the 2019 financial year. The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

Remuneration framework

REMUNERATION POLICY AND LINK TO PERFORMANCE

Our People Development and Remuneration Committee (the Committee) is a Committee of the Board and is made up of two independent non-executive Directors and the Chair of the Board of Directors. The Committee reviews and determines our remuneration policy and structure annually to ensure it remains aligned to business needs and meets the Group's remuneration principles. The Committee obtains independent advice every three years on the appropriateness of remuneration practices of the Group given trends in comparative companies both locally and internationally, and the objectives of the Group's remuneration strategy.

It is primarily responsible for making recommendations to the Board on:

- the over-arching executive remuneration framework
- operation of the incentive plans which apply to the senior executives (the executive team), including key performance indicators and performance hurdles
- remuneration levels of executives, and
- non-executive Director fees.

The Committee is responsible for assessing performance against key performance indicators ('KPIs') and determining the short-term incentive ('STI') and long-term incentive ('LTI') to be paid. In the event of serious misconduct or a material misstatement in the Company's financial statements, the Committee can cancel or defer performance-based remuneration.

The Committee's objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company. The role of the Committee is set out in more detail in the Corporate Governance Statement (link to website below). The ASX Corporate Governance Principles and Recommendations rules and principles may materially differ from NZX's Corporate Governance rules and NZX Code.

<http://investor.michaelhill.com/corporate-policies-compliance>

REMUNERATION OBJECTIVES

The following objectives inform the determination of remuneration related decisions:

- Attract, motivate and retain executive talent
- Reward the achievement of strategic objectives
- The creation of reward differentiation to drive performance values and behaviours
- Shareholder value creation through equity.

KEY MANAGEMENT PERSONNEL

Key management personnel ('KMP'), including Directors of the Company and other executives, have authority and responsibility for planning, directing and controlling the activities of the Group.

For the 2019 financial year, it was determined that the KMPs of Michael Hill International were:

- Chief Executive Officer (CEO) - Daniel Bracken (appointed 15 November 2018)
 - Chief Executive Officer (CEO) - Phil Taylor (ceased 21 September 2018)
 - Chief Financial Officer (CFO) - Andrew Lowe
 - Chief Operating Officer (COO) - Andrea Slingsby (COO is a new role, appointed 9 January 2019)
 - Chief Brand & Customer Officer (CB&CO) - Vanessa Brennan (ceased 9 January 2019) ¹
 - Chief Information Officer (CIO) - Matt Keays (ceased 9 January 2019) ²
 - Group Executive Supply Chain (GESC) - Galina Hirtzel (ceased 6 August 2018) ³
 - Group Executive Human Resources (GEHR) - Stewart Silk (ceased 3 September 2018) ⁴
- ¹ Ms Brennan ceased as a KMP on 9 January 2019 and remains employed by the Company. The remuneration details of the CB&CO contained in this remuneration report relate to the period the CB&CO was a KMP.
- ² Mr Keays ceased as a KMP 9 January 2019 and remains employed by the Company. The remuneration details of the CIO contained in this remuneration report relate to the period the CIO was a KMP.
- ³ Ms Hirtzel ceased as a KMP on 6 August 2018 and remains employed by the Company. The remuneration details of the GESC contained in this remuneration report relate to the period the GESC was a KMP.
- ⁴ Mr Silk ceased as a KMP on 3 September 2018 and was employed by the Company until 30 July 2019. The remuneration details of the GEHR contained in this remuneration report relate to the period the GEHR was a KMP.

EXECUTIVE REMUNERATION FRAMEWORK

The executive remuneration structure has three components: Total Fixed Remuneration (TFR), STI and LTI.

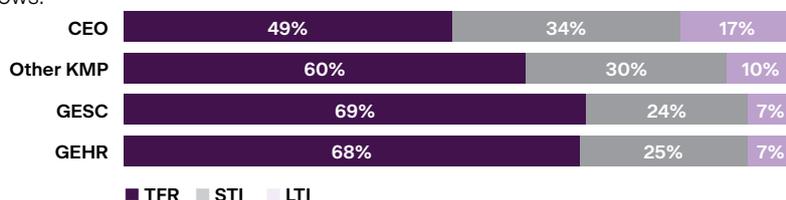
Compensation levels are reviewed annually by the Committee through a process that considers individual, segment and overall performance of the Group. In addition, external consultants provide analysis and advice every three years to ensure the Directors' and senior executives' compensation is competitive in the market place. A senior executive's compensation is also reviewed on promotion.

	TFR	STI	LTI
Determination	TFR is set based on relevant market relativities, reflecting responsibilities, performance, qualifications, experience and geographic location	On target performance is determined as a percentage of TFR and paid as cash	An issue of share rights is made to participants of the scheme, the quantum being a % of the STI earned
Delivery	Base salary plus any fixed elements including superannuation and leave entitlements	70% is directly aligned to achieving a Group EBIT target and other related items. 30% is based on achievement of individual performance and development plans	Alignment of executive incentives with the long term performance is achieved by way of a deferred remuneration component
Strategic intent	TFR will generally be positioned at the median compared to relevant market based data. Expertise and performance in the role are also considerations	Performance incentive is directed to achieving Board approved targets, reflective of market circumstances	LTI is intended to reward executive KMP for sustainable long-term growth aligned to shareholders' interests

The weighting and potential of STI and LTI for KMP is:

	CEO	CFO	COO	Other KMP
Short term incentive potential value	70% of TFR	50% of TFR	50% of TFR	50% of TFR
Long term incentive potential value	50% of STI earned	30% of STI earned	35% of STI earned	30% of TFR

Remuneration levels are reviewed annually by the Committee through a process that considers individual, segment and overall performance of the Group. The 2018-2019 remuneration policy settings for KMP for total target remuneration mix are as follows:



In FY19, the performance linked component of compensation comprises approximately 10.5% of total payments to senior executives (FY18: 10.7%).

Changes for FY20

A full remuneration review has been completed in 2019. This included analysis and advice from external remuneration consultants on the competitiveness and suitability of the current TFR, STI and LTI of KMP. It also considered available market information.

Total target remuneration mix for FY20 is below. It reflects the STI opportunity for the FY20 year that will be available if the performance conditions are satisfied at target, and the value of the LTI rights and options granted for the year, as determined at the grant date.

SHORT-TERM INCENTIVE SCHEME

The short term incentive scheme is detailed in performance and development plans ('PDPs') that are agreed at the start of the reporting period. The KPIs are in the form of a balanced scorecard, where performance against key deliverables across financial, strategy, business improvement, customer and people areas are measured.

The scheme is supported by an ongoing performance management system, along with integrated reporting for visibility and transparency of progress by each senior executive. The framework aligns the senior executive KPIs to delivery of the strategic plan, divisional business plans along with critical operational measures and leadership measures of each role. Performance against KPIs is formally measured on a biannual basis and informally in regular meetings. The STI component is paid on an annual basis if the Group financial performance target and performance hurdle/s are met. The STI for the individual KPI component is paid biannually post the performance review. The Committee review the PDPs of each Group Executive to determine achievement, entitlement and eligibility for payment.

The policy and framework cascades from the CEO to group executives and further down through the levels of management. This aims to ensure key aspects of the Group's strategic plan, divisional business plans, along with critical drivers of business outcomes are clearly identified at each level of leadership. This includes personal development plans and leadership performance.

LONG-TERM INCENTIVE SCHEME

The Company introduced a deferred compensation plan ('LTI') involving the grant of share rights to eligible participants in the 2015-16 financial year. This was approved by shareholders at the Company's Annual General Meeting held on 31 October 2016. Prior to that, options were issued under the Executive Incentive Plan (made in accordance with thresholds set in plans approved by shareholders). The ability to exercise the options is conditional on continuing employment with the Group. The options issued during the year relate to the entitlements set in prior years. Options previously issued are detailed in this report.

Under the LTI plan, an executive may be granted share rights by the Company. Each share right represents a right to receive one ordinary share in the Company, subject to the terms and conditions of the rules of the plan. An allocation of share rights is made to each eligible participant on an annual basis to a % value of the STI payment earned. The share rights progressively vest over a 3, 4 and 5-year period from the date of issue and are only retained on exiting the business in the event that the participant is deemed a 'Good Leaver' pursuant to the LTI plan rules. During the year, Mr Taylor retired from his position as CEO and, having been deemed a 'Good Leaver' the Board, waived the vesting conditions of the share rights already issued to him as at his date of resignation.

Feature

Opportunity/ Allocation	% value of the respective STI which is issued to the Executive by way of share rights which are granted and vest in 3 tranches. Each right represents a right to acquire one ordinary share in the Company.
Tranches	Year 3 - provided participant remains employed with the Company, 25% will vest. Year 4 - provided participant remains employed with the Company, 25% will vest. Year 5 - provided participant remains employed with the Company, 50% will vest.
Exercise	Once the rights have vested, Participants can exercise them. They can be exercised by completing and returning to the Company an Exercise Notice.
Expiry	Rights will expire on the date 15 years from the grant date.



CONSEQUENCES OF PERFORMANCE ON SHAREHOLDER WEALTH

In considering the Group's performance and benefits for shareholder wealth, the Committee have regard to the following indices in respect of the current financial year and the previous four financial years.

	2019	2018	2017	2016	2015
	\$000	Restated \$000	Restated \$000	Restated \$000	Restated \$000
NPAT	16,498	1,557	29,654	16,771	24,987
NPAT from continuing operations	16,498	31,765	41,138	23,524	30,452
EBIT*	21,115	8,854	43,840	43,050	38,108
EBIT from continuing operations*	21,115	45,787	58,055	50,416	44,605
Underlying EBIT*	34,608	40,106	48,117	47,058	42,061
Dividend payments	19,365	19,371	19,264	17,490	23,176
Share price as at 30 June (NZ\$ 2016 to 2014)	\$0.54	\$0.97	\$1.11	\$1.14	\$1.06
Return on shareholders equity	9.4%	17.4%	20.9%	12.9%	16.5%
Return on average total assets	4.3%	8.2%	10.5%	6.3%	8.8%

Please refer to note 3(b) regarding the restatement of prior period results.

* EBIT and Underlying EBIT are Non-IFRS Information and are unaudited. Please refer to Non-IFRS Information on page 29 for an explanation of Non-IFRS information and a reconciliation of EBIT and Underlying EBIT.

EBIT is considered the primary financial performance target in setting the STI. Profit amounts for 2015 to 2019 have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. This also complies with IFRS as issued by the International Accounting Standards Board.

The overall level of remuneration takes into consideration the performance of the Group over a number of years.

OTHER BENEFITS

Key management personnel do not receive additional benefits, such as non-cash benefits, other than statutory superannuation, as part of the terms and conditions of their appointment, except as detailed below for the CEO.

LOANS TO KEY MANAGEMENT PERSONNEL

The Company does not provide loans to any KMP or to other senior executives.

SERVICE CONTRACTS

It is the Group's policy that service contracts for KMP, excluding the Chief Executive Officer, are unlimited in term but capable of termination on three months' notice and that the Group retains the right to terminate the contract immediately, by making payment equal to three months' pay in lieu of notice.

The Group has entered into a service contract with two KMP that are capable of termination on three months' notice. The Group retains the right to terminate a contract immediately by making payment equal to three months' pay in lieu of notice for those two KMP. KMP are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The service contract outlines the components of remuneration but does not prescribe how remuneration levels are modified year to year. The Committee reviews remuneration levels each year to take into consideration cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the remuneration policy.



DIAMOND RING FROM THE SOUTHERN STAR COLLECTION

CEO CONTRACT

The Group has entered into a service contract with the CEO, Daniel Bracken, who was appointed CEO on 15 November 2018 and had a probationary period of six months. The service contract is terminable on six months notice. Otherwise, the Group may terminate Mr Bracken's position for serious misconduct or professional negligence. The remuneration payable to Mr Bracken was as follows:

- a) Total Fixed Remuneration – \$950,000 (inclusive of the statutory superannuation contributions but excluding leave provisions).
- b) Short terms incentives (STI) – 70% of base salary payable in cash on performance of agreed Group profit targets based on EBIT target and other related items achievement (70% of STI) and other agreed annual key indicators (30% of STI).
- c) Deferred compensation plan (LTI) – an allocation of share rights on an annual basis to a value of 50% of the STI payment earned in the preceding year ⁽¹⁾. The share rights progressively vest ⁽²⁾ over a 3 to 5-year period from the date of issue and are retained on exiting the business in the event that Mr Bracken is deemed a 'Good Leaver' pursuant to the LTI plan rules.

In addition, Mr Bracken was provided with support relating to his relocation and is entitled to the following benefits:

- a) coverage of costs associated with moving personal and household items.
- b) access to a relocation consultant to provide resettlement assistance.
- c) economy class airfares for his family's relocation to be used within the first 12 months of employment.

Mr Bracken will be restrained for up to 18 months following the cessation of his engagement with the Group from soliciting business, customers, suppliers or employees of the Group.

- 1 The number of share rights in each tranche is based on the prescribed dollar value for each tranche divided by the volume weighted average share price of Michael Hill International shares over 5 trading days following the Michael Hill International shares trading on an ex-dividend basis.
- 2 On vesting, each share right represents a right to receive one (1) ordinary share in the capital of the Company. No exercise price is payable upon the exercise of any share right.

DIRECTOR CONSULTING AGREEMENT

Michael Hill Group Services Pty Limited ACN 134 562 440, a subsidiary of Michael Hill International Limited (MHIL), previously entered into a consultancy agreement (Consultancy Agreement) with Robert Ian Fyfe providing mentoring support to Mr Taylor. Mr Fyfe is a non-executive Director of MHIL. Details of the Consultancy Agreement were disclosed to the ASX and NZX on 31 August 2017. The Board (with Rob abstaining) formed the view that the Consultancy Agreement is on arm's length commercial terms.

This consultancy agreement effectively terminated upon Mr Taylor's retirement announcement on 21 September 2018. Mr Fyfe's mentoring was non-prescriptive and Mr Fyfe did not participate in management decisions. Mr Fyfe and the Board consider that Mr Fyfe maintained an ability to bring independent and critical assessment of Mr Taylor's performance as CEO.

The income derived by Mr Fyfe (or entities Mr Fyfe controls) under the Consultancy Agreement accounted for less than 10% of Mr Fyfe's aggregate annual income for FY18. For FY18, a total amount of \$84,000 was paid pursuant to the Consultancy Agreement. This comprised an amount of \$64,000 paid to Rob Fyfe and an amount of \$20,000 paid to The People Shop Ltd. No amounts were paid pursuant to the Consultancy Agreement for FY19.

SERVICES FROM REMUNERATION CONSULTANTS

The Committee engaged a remuneration consultant during the 2016 financial year to review the amount and elements of KMP remuneration and provide recommendations in relation thereto.

During the 2019 financial year, there was an internal review completed and the Committee were satisfied with the results of this review. There is no intention to engage a remuneration consultant during the 2020 financial year.

NON-EXECUTIVE DIRECTORS

Total compensation for all non-executive Directors, last voted upon by shareholders on 29 June 2016, is not to exceed \$840,000 per annum and is set based on advice from external advisors with reference to fees paid to other non-executive Directors of comparable companies. Directors' base fees for the 2018-19 year were \$98,332 per annum. Where a Director serves as Chair on the People Development and Remuneration Committee they are entitled to an additional payment of \$20,420 per annum. Where a Director serves as Chair on the Audit and Risk Committee they are entitled to an additional payment of \$30,630 per annum. It is the Company's policy to increase directors' fees annually at the commencement of each financial year of the Company, in accordance with the consumer price index. All non-executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of Director.

The Board Chair receives up to twice the base fee. Non-executive Directors do not receive performance-related compensation. Directors' fees cover all main board activities and membership of committees.

Non-executive directors are not provided with retirement benefits apart from statutory superannuation.

DIRECTOR AND KMP REMUNERATION

Details of the nature and amount of each major element of remuneration of each Director of the Company, and other key management personnel of the consolidated entity are:

	Salary & fees	STI cash bonus (a)	Short-term		Total	Long-term		Post-employment	Share-based payments	Total	Proportion remuneration performance related	Value of options as proportion of remuneration
			Other (b)	Non-monetary benefits (relocation)		Long service leave	Superannuation benefits	Termination benefits	Options and rights (c)			
Non-executive Directors	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Emma Jane Hill												
2019	197,047	-	-	-	197,047	-	-	-	-	197,047	-	-
2018	193,610	-	-	-	193,610	-	-	-	-	193,610	-	-
Sir Richard Michael Hill												
2019	98,523	-	-	-	98,523	-	-	-	-	98,523	-	-
2018	96,805	-	-	-	96,805	-	-	-	-	96,805	-	-
Gary Warwick Smith												
2019	117,628	-	-	-	117,628	-	11,175	-	-	128,803	-	-
2018	115,804	-	-	-	115,804	-	11,001	-	-	126,805	-	-
Robert Ian Fyfe (b)												
2019	118,878	-	-	-	118,878	-	-	-	-	118,878	-	-
2018	116,805	-	84,000	-	200,805	-	-	-	-	200,805	-	-
Janine Suzanne Allis												
2019	89,799	-	-	-	89,799	-	8,533	-	-	98,332	-	-
2018	96,805	-	-	-	96,805	-	-	-	-	96,805	-	-
Total Director remuneration												
2019	621,875	-	-	-	621,875	-	19,708	-	-	641,583	-	-
2018	619,829	-	84,000	-	703,829	-	11,001	-	-	714,830	-	-

	Salary & fees	STI cash bonus (a)	Short-term		Total	Long-term		Post-employment Termination benefits	Share-based payments Options and rights (c)	Total	Proportion remuneration performance related	Value of options as proportion of remuneration
			Other (b)	Non-monetary benefits (relocation)		Long service leave	Superannuation benefits					
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Non-executive Directors												
Daniel Bracken, CEO (appointed 15/11/2018)												
2019	594,726	69,300	-	19,970	683,996	9,327	15,385	-	-	708,708	9.78	-
Phil Taylor, CEO (ceased 21/9/2018)												
2019	192,680	58,508	-	-	251,188	8,830	6,731	-	71,794	338,543	17.28	21.21
2018	720,306	119,407	-	-	839,713	20,625	19,427	-	313,940	1,193,705	10.00	26.30
Andrew Lowe, CFO												
2019	403,807	42,273	-	-	446,080	8,107	24,355	-	5,067	483,609	8.74	1.05
2018	180,200	47,320	-	-	227,520	2,890	15,981	-	2,979	249,370	18.98	1.19
Andrea Slingsby, COO (appointed 9/1/2019)												
2019	217,708	25,900	-	-	243,608	3,597	11,538	-	-	258,743	10.01	-
Vanessa Brennan, CB&CO (appointed 15/1/2018) (ceased 9/1/2019)												
2019	236,298	37,014	-	-	273,312	3,637	12,981	-	3,963	293,893	12.59	1.35
2018	192,980	70,000	-	-	262,980	2,976	17,018	-	4,113	287,087	24.38	1.43
Matt Keays, CIO (ceased 9/1/2019)												
2019	174,788	13,372	-	-	188,160	3,128	12,981	-	8,154	212,423	6.30	3.84
2018	324,316	30,802	-	-	355,118	5,596	25,000	-	14,461	400,175	7.70	3.61
Galina Hirtzel, GESC (ceased 6/8/2018)												
2019	30,160	2,982	-	-	33,142	445	2,885	-	1,908	38,380	7.77	4.97
2018	281,606	24,609	-	-	306,215	6,243	23,355	-	34,682	370,495	6.64	9.36
Stewart Silk, GEHR (ceased 3/9/2018)												
2019	44,962	-	-	-	44,962	625	4,327	-	2,714	52,628	-	5.16
2018	216,018	6,830	-	-	222,848	5,462	22,443	-	32,689	283,442	2.41	11.53
Total KMP remuneration												
2019	1,895,129	249,349	-	19,970	2,164,448	37,696	91,183	-	93,600	2,386,927	10.45	3.92
2018	1,915,426	298,968	-	-	2,214,394	43,792	123,224	-	402,864	2,784,274	10.74	14.47
Total Director and KMP remuneration												
2019	2,517,004	249,349	-	19,970	2,786,323	37,696	110,891	-	93,600	3,028,510	8.23	3.09
2018	2,535,255	298,968	84,000	-	2,918,223	43,792	134,225	-	402,864	3,499,104	8.75	11.80

Notes in relation to the table of Director and KMP remuneration:

- The short-term incentive bonus is for performance during the respective financial year using the criteria set out on page 36. The amount was determined on 15 August 2019 after performance reviews were completed and approved by the People Development and Remuneration Committee.
- The amount of \$200,805 in respect of Robert Ian Fyfe's 2018 salary & fees comprises an amount of \$116,805 in respect of director fees and an amount of \$84,000 in respect of services provided pursuant to a consultancy agreement (Consultancy Fees); the Consultancy Fees comprised an amount of \$64,000 paid to Rob Fyfe and an amount of \$20,000 paid to The People Shop Ltd.
- The fair value of options is calculated at the date of grant using the Binomial option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised as an expense in each reporting period. The amounts displayed above for each of Ms Brennan, Mr Keays, Ms Hirtzel and Mr Silk relate to compensation for services during the period from 1 July 2018 to the date that person ceased being a KMP (For Ms Brennan - 9 January 2019; Mr Keays - 9 January 2019; for Ms Hirtzel - 6 August 2018; for Mr Silk - 3 September 2018).

ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each KMP are detailed below.

Short-term incentive bonus	Target bonus available \$	Included in remuneration \$ (a)	Amounts forfeited \$ (b)	Vested in year %
KMPs				
Daniel Bracken	424,459	69,300	355,159	100%
Phil Taylor	130,249	58,508	71,741	100%
Andrew Lowe	225,000	42,273	182,727	100%
Andrea Slingsby	117,808	25,900	91,908	100%
Vanessa Brennan (c)	81,251	37,014	44,237	100%
Matt Keays (c)	63,959	13,372	50,587	100%
Galina Hirtzel (c)	8,820	2,982	5,838	100%
Stewart Silk (c)	15,255	-	15,255	100%

a) Amounts included in remuneration for the financial year represent the amount related to the financial year based on achievement of personal goals and satisfaction of specified performance criteria. The People Development and Remuneration Committee approved these amounts on 14 August 2019.

b) The amounts forfeited due to the performance or service criteria not being met in relation to the current financial year.

c) The amounts displayed above for each of Ms Brennan, Mr Keays, Ms Hirtzel and Mr Silk relate to compensation for services during the period from 1 July 2018 to the date that person ceased being a KMP (For Ms Brennan - 9 January 2019; for Mr Keays - 9 January 2019; for Ms Hirtzel - 6 August 2018; for Mr Silk - 3 September 2018).



ROSE GOLD AND WHITE GOLD RINGS FROM THE EVERMORE COLLECTION

Additional statutory information

EQUITY INSTRUMENTS

All options refer to options over ordinary shares of Michael Hill International Limited, which are exercisable on a one-for-one basis under the Executive Incentive Plan.

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS ISSUED AS COMPENSATION

MODIFICATION OF TERMS OF EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period. The exercise price of any future option grants will be set by using the same method, with reference to the Australian Securities Exchange ('ASX'). Upon exercise of any option previously granted with a NZ\$ exercise price, the \$ exercise price will be converted to AU\$ with reference to the Reserve Bank of Australian foreign exchange rate on that date.

UNISSUED SHARES

As at the date of this report, there were 2,500,000 unissued ordinary shares under options. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

ANALYSIS OF OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

No options were held by KMPs as at the date of this report.

SHARE RIGHTS

The number of share rights issued to KMP and senior executives during the last financial year was 224,670 share rights. Of these, share rights issued to KMP are set out below.

KMP	Number of share rights issued	Fair value per share right \$
Daniel Bracken	-	-
Phil Taylor	-	-
Andrew Lowe	17,298	0.54
Andrea Slingsby	-	-
Vanessa Brennan	-	-
Matt Keays	-	-
Galina Hirtzel	-	-
Stewart Silk	-	-

The above relates to share rights issued during tenure as KMP during the period from 1 July 2018 to the date that person ceased being a KMP (For Ms Brennan - 9 January 2019; Mr Keays - 9 January 2019; for Ms Hirtzel - 6 August 2018; for Mr Silk - 3 September 2018).

RECONCILIATION OF OPTIONS AND SHARE RIGHTS HELD BY KMP

The table below shows a reconciliation of options held by each KMP during the 2019 financial year. All vested options are exercisable during the period commencing on the date immediately following the announcement of the Company's annual financial results for the 5th year following the vesting year and ending on 30 September 2028.

	Balance at the start of the year		Vested	Exercised	Forfeited	Ceased to be KMP	Balance at the end of the year	
	Vested	Unvested					Vested and exercisable	Un-vested
Phil Taylor	1,500,000	-	-	-	-	(1,500,000)	-	-
Galina Hirtzel	-	900,000	-	-	-	(900,000)	-	-
Stewart Silk	-	900,000	-	-	-	(900,000)	-	-
Total	1,500,000	1,800,000	-	-	-	(3,300,000)	-	-

No options were exercised during the period.

No amounts are unpaid on any shares issued on the exercise of options.

This table below details share rights that were issued, vested and forfeited during the year for each KMP.

	Balance at start of the year	Granted during the year	Vested	Forfeited	Ceased as KMP	Balance at end of year (unvested)
	Number	Number	Number	Number	Number	Number
Daniel Bracken	-	-	-	-	-	-
Phil Taylor (a)	622,163	-	-	-	(622,163)	-
Andrew Lowe	-	17,298	-	-	-	17,298
Andrea Slingsby	-	-	-	-	-	-
Vanessa Brennan (b)	-	-	-	-	-	-
Matt Keays (b)	35,261	-	-	-	(35,261)	-
G Hirtzel (b)	30,219	-	-	-	(30,219)	-
S Silk (b)	25,362	-	-	-	(25,362)	-
Total	713,005	17,298	-	-	(713,005)	17,298

Share rights relating to the current reporting period are anticipated to be granted in late 2019. The number of shares will depend on the Michael Hill International Limited's share price over the five days prior to the grant date.

- a) Mr Taylor ceased as a KMP on 21 September 2019 and retired from the Company on 18 March 2019. As at the date of Mr Taylor's retirement, the Company had granted to him 311,487 share rights pursuant to the rules of the CFO Retention Plan, the Interim CEO Remuneration Package and the Employee Incentive Scheme he participated in as CEO with other executives (as detailed in the Company's last Remuneration Report). The vesting conditions of those 311,487 granted share rights (of 3 years' continuous employment from the date of grant) had not been met as at the date of Mr Taylor's retirement. However, Mr Taylor was deemed a 'Good Leaver' under the rules of each of those plans and the Board accordingly waived the vesting conditions in relation to the share rights. 311,487 ordinary class shares in the Company were issued to Mr Taylor on 9 May 2019.
- b) The amounts displayed above for each of Mr Keays, Ms Hirtzel and Mr Silk relate to compensation for services during the period from 1 July 2018 to the date that person ceased being a KMP (For Mr Keays - 9 January 2019; for Ms Hirtzel - 6 August 2018; for Mr Silk - 3 September 2018).

VOTING OF SHAREHOLDERS AT LAST YEAR'S ANNUAL GENERAL MEETING

Michael Hill International Limited received 99.7% of "yes" votes on its remuneration report for the 2018 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

INSURANCE OF OFFICERS AND INDEMNITIES

The Company's Constitution provides that it may indemnify any person who is, or has been, an officer of the Group, including the Directors, the Secretaries and other officers, against liabilities incurred whilst acting as such officers to the extent permitted by law. The Company has entered into a Deed of Indemnity, Insurance and Access with each of the Company's Directors, Company Secretary and certain other officers. No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the year.

The Company has paid a premium for insurance for officers of the Group. This insurance is against a liability for costs and expenses incurred by officers in defending civil or criminal proceedings involving them as such officers, with some exceptions. The contract of insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young Australia. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young Australia received or are due to receive the following amounts for the provision of non-audit services:

	2019	2018
	\$	\$
Ernst & Young firm advisory fees	127,512	170,231
Total remuneration for non-audit services	127,512	170,231

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 46.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made on 15 August 2019 in accordance with a resolution of Directors as required by section 298 of the Corporations Act 2001.



E. J. Hill, Chair
Brisbane
15 August 2019





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Auditor's Independence Declaration to the Directors of Michael Hill International Limited

As lead auditor for the audit of the financial report of Michael Hill International Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

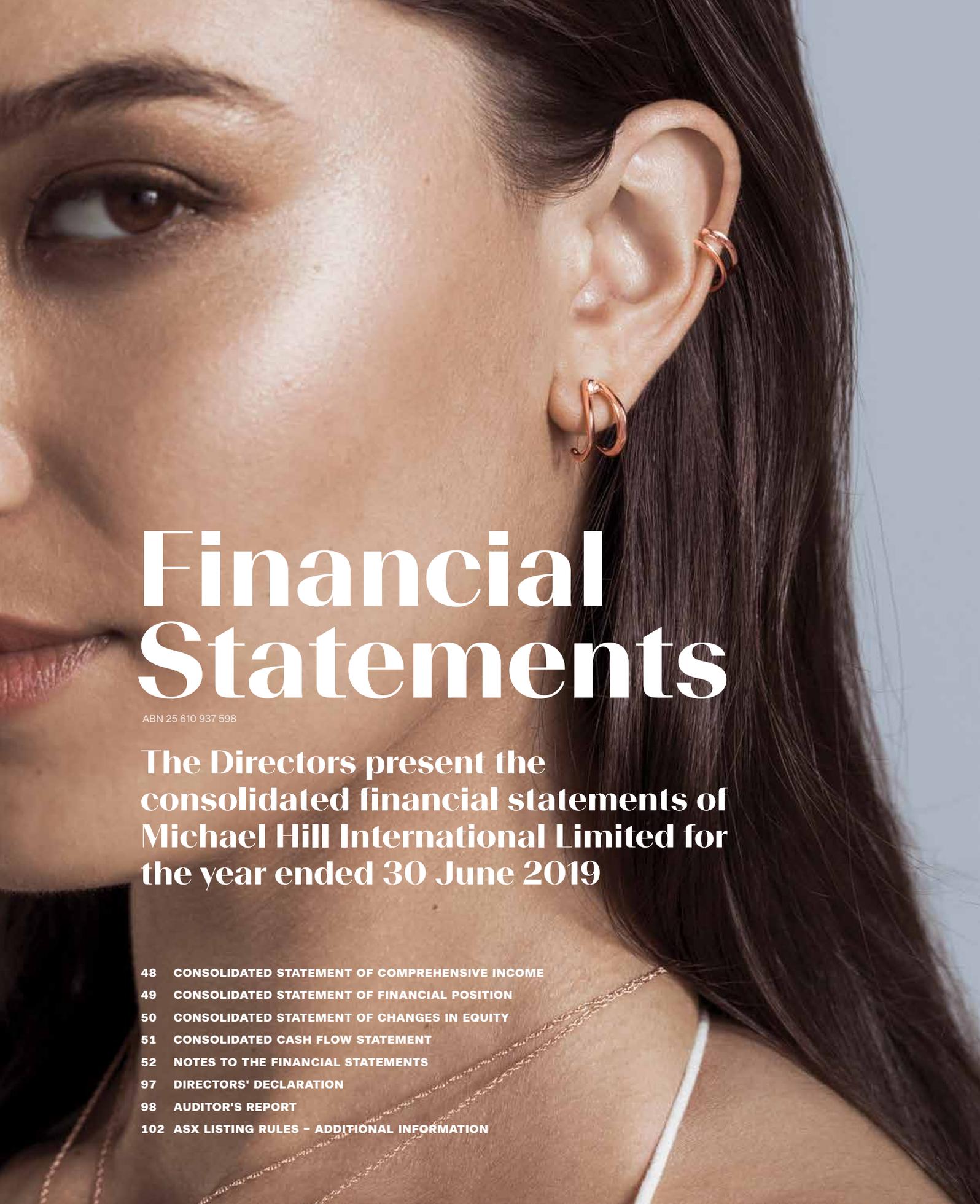
This declaration is in respect of Michael Hill International Limited and the entities it controlled during the financial year.

Ernst & Young
Ernst & Young

Alison de Groot
Alison de Groot
Partner
15 August 2019



COLOURED STONE ENGAGEMENT RINGS
FROM THE EVERMORE COLLECTION



Financial Statements

ABN 25 610 937 598

The Directors present the consolidated financial statements of Michael Hill International Limited for the year ended 30 June 2019

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Consolidated statement of comprehensive income

	NOTES	2019 \$000	2018 Restated \$000
Revenue from continuing operations	5	569,500	575,539
Other income	6(a)	1,555	1,074
Cost of goods sold		(216,468)	(208,657)
Employee benefits expense	6(b)	(163,177)	(156,298)
Occupancy costs		(60,587)	(58,074)
Marketing expenses		(33,732)	(31,433)
Selling expenses		(24,636)	(26,708)
Impairment of property, plant and equipment	9(b)	(289)	(348)
Impairment of other assets		(1,823)	(134)
Depreciation and amortisation expense	6(b)	(19,366)	(18,694)
Loss on disposal of property, plant and equipment		(619)	(522)
Other expenses		(29,083)	(29,948)
Finance costs	6(b)	(2,464)	(2,690)
Profit before income tax		18,811	43,107
Income tax expense	7	(2,313)	(11,342)
Profit from continuing operations		16,498	31,765
Profit/(loss) from discontinued operations	14	-	(30,208)
Profit for the year		16,498	1,557
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Gains on cash flow hedges	10(b)	(323)	996
Currency translation differences arising during the year	10(b)	4,911	320
Other comprehensive income for the year, net of tax		4,588	1,316
Total comprehensive income for the year		21,086	2,873
Total comprehensive income for the year is attributable to: Owners of Michael Hill International Limited		21,086	2,873
Total comprehensive income for the year attributable to owners of Michael Hill International Limited arises from:			
Continuing operations		21,086	33,081
Discontinuing operations		-	(30,208)
		21,086	2,873
Earnings per share for profit attributable to the ordinary equity holders of the Company, attributable to continuing operations:			
Basic earnings per share	22	4.26¢	8.20¢
Diluted earnings per share	22	4.25¢	8.19¢
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	22	4.26¢	0.40¢
Diluted earnings per share	22	4.25¢	0.40¢

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

Consolidated statement of financial position

	NOTES	2019 \$000	2018 Restated \$000
ASSETS			
Current assets			
Cash and cash equivalents	8(a)	7,923	7,220
Trade and other receivables	8(b)	29,656	25,381
Contract assets	5(b)	701	799
Right of return assets	5(b)	291	-
Inventories	9(a)	179,503	192,074
Derivative financial instruments	12(a)	-	245
Current tax receivables	9(e)	2,295	-
Other current assets		2,935	2,889
Total current assets		223,304	228,608
Non-current assets			
Trade and other receivables	8(b)	6,985	2,665
Property, plant and equipment	9(b)	63,213	66,666
Deferred tax assets	9(d)	67,708	68,022
Intangible assets	9(c)	15,439	12,626
Contract assets	5(b)	1,438	1,695
Other non-current assets		1,106	1,193
Total non-current assets		155,889	152,867
Total assets		379,193	381,475
LIABILITIES			
Current liabilities			
Trade and other payables	8(d)	44,548	49,340
Contract liabilities	5(b)	26,054	-
Derivative financial instruments	8(f)	468	390
Current tax liabilities	9(f)	1,367	2,696
Provisions	9(g)	31,441	29,808
Deferred revenue	9(h)	1,252	26,476
Total current liabilities		105,130	108,710
Non-current liabilities			
Contract liabilities	5(b)	55,813	-
Borrowings	8(e)	32,704	35,213
Provisions	9(g)	6,947	4,907
Deferred revenue	9(h)	1,847	57,720
Total non-current liabilities		97,311	97,840
Total liabilities		202,441	206,550
Net assets		176,752	174,925
EQUITY			
Contributed equity	10(a)	10,984	10,266
Reserves	10(b)	5,805	1,829
Retained profits	10(b)	159,963	162,830
Total equity		176,752	174,925

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

Consolidated statement of changes in equity

Attributable to owners of Michael Hill International Limited	Notes	Contributed equity	Share based payments reserve	Foreign currency translation reserve	Cash flow hedge reserve	Retained profits	Total equity
		\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2017		10,015	1,136	285	(1,141)	191,888	202,183
Correction of error (net of tax)	3(b)	-	-	-	-	(11,244)	(11,244)
Total equity at the beginning of the financial year		10,015	1,136	285	(1,141)	180,644	190,939
Profit for the year		-	-	-	-	4,610	4,610
Correction of error (net of tax)	3(b)	-	-	-	-	(3,053)	(3,053)
Restated profit for the year		-	-	-	-	1,557	1,557
Currency translation differences		-	-	320	-	-	320
Currency forward contracts	8(f)	-	-	-	337	-	337
Interest rate swaps	8(f)	-	-	-	659	-	659
Total comprehensive income for the year		-	-	320	996	1,557	2,873
Transactions with members in their capacity as owners:							
Dividends paid	13(b)(i)	-	-	-	-	(19,371)	(19,371)
Option expense through share based payments reserve	20(c)	-	42	-	-	-	42
Transfer option reserve to contributed equity on exercise of options		251	(251)	-	-	-	-
Share rights expense through share based payments reserve	20(c)	-	442	-	-	-	442
		251	233	-	-	(19,371)	(18,887)
Balance at 30 June 2018		10,266	1,369	605	(145)	162,830	174,925
Profit for the year		-	-	-	-	16,498	16,498
Currency translation differences		-	-	4,911	-	-	4,911
Currency forward contracts	8(f)	-	-	-	(390)	-	(390)
Interest rate swaps	8(f)	-	-	-	67	-	67
Total comprehensive income for the year		-	-	4,911	(323)	16,498	21,086
Transactions with members in their capacity as owners:							
Dividends paid	13(b)(i)	-	-	-	-	(19,365)	(19,365)
Option expense through share based payments reserve	20(c)	-	11	-	-	-	11
Issue of share capital on vesting of share rights	10(a)	490	(490)	-	-	-	-
Transfer option reserve to contributed equity on forfeiture of options	10(a)	228	(228)	-	-	-	-
Share rights expense through share based payments reserve	20(c)	-	95	-	-	-	95
		718	(612)	-	-	(19,365)	(19,259)
Balance at 30 June 2019		10,984	757	5,516	(468)	159,963	176,752

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes. See note 3(b) for details regarding the restatement as a result of an error and note 2(x) for details about restatements for changes in accounting policies.

Consolidated cash flow statement

	NOTES	2019 \$000	2018 Restated \$000
Cash flows from operating activities			
Receipts from customers (inclusive of GST and sales taxes)		618,416	671,165
Payments to suppliers and employees (inclusive of GST and sales taxes)		(536,855)	(570,280)
		81,561	100,885
Interest received		160	10
Other revenue		1,303	1,078
Interest paid		(2,474)	(2,794)
Income tax paid		(5,245)	(6,448)
Net GST and sales taxes paid		(36,336)	(37,838)
Net cash inflow from operating activities	11	38,969	54,893
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		432	549
Payments for property, plant and equipment	9(b)	(10,753)	(17,890)
Payments for intangible assets	9(c)	(5,381)	(6,665)
Net cash (outflow) from investing activities		(15,702)	(24,006)
Cash flows from financing activities			
Proceeds from borrowings		128,800	116,500
Repayment of borrowings		(132,000)	(126,500)
Dividends paid to Company's shareholders	13(b)	(19,365)	(19,371)
Net cash (outflow) from financing activities		(22,565)	(29,371)
Net increase in cash and cash equivalents		702	1,516
Cash and cash equivalents at the beginning of the financial year		7,220	5,676
Effects of exchange rate changes on cash and cash equivalents		1	28
Cash and cash equivalents at the end of the financial year	8(a)	7,923	7,220

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

Notes to the financial statements

Note 1 Corporate information

The consolidated financial statements of Michael Hill International Limited and its subsidiaries (collectively, the Group) for the year ended 30 June 2019 were authorised for issue in accordance with a resolution of the Directors on 15 August 2019. Michael Hill International Limited (the Company or Parent) is a for profit company limited by shares incorporated in Australia. The Company is listed on the Australian Securities Exchange ('ASX') as its primary listing, and maintains a secondary listing on the New Zealand Stock Exchange ('NZX').

Note 2 Summary of significant accounting policies

(a) BASIS OF PREPARATION

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand (\$000), except when otherwise indicated.

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements provide comparative information in respect of the previous period.

Compliance with IFRS

The consolidated financial statements of the Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(b) PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING

Subsidiaries

Subsidiaries are all entities (including special purpose) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the activities of the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the

extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income. Investments in subsidiaries are accounted for at cost in the individual financial statements of Michael Hill International Limited. Refer to note 15.

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

(c) SEGMENT REPORTING

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

(d) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Group financial statements are presented in Australian dollars, which is the Group's 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 of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(iii) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the statement of financial position;
- income and expenses for each statement of profit or loss and statement 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 in 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.

(e) **CURRENT VERSUS NON-CURRENT CLASSIFICATION**

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(f) **REVENUE RECOGNITION**

The accounting policies for the Group's revenue from contracts with customers are explained in note 5.

Interest income

Interest income is recognised using the effective interest method.

(g) **TAXES**

Current income tax

The income tax expense or credit for the year is the tax payable on the current year'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 year in the countries where the Group operates and generates

taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current 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 income tax

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.

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 tax 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.

Tax consolidation group

Michael Hill International Limited and its wholly-owned Australian controlled entities form a tax consolidation group. As a consequence, one income tax return is completed for the Australian tax group and is treated for income tax purposes as one taxpayer.

The tax balances have been attributed for reporting purposes to each of the entities on the basis of their individual results. Amounts of tax due to and receivable from the Australian Taxation Office are made by Michael Hill International Limited as nominated member of the Australian tax consolidated group. The current tax balance for the Australian tax group has been allocated between the members based on each entity's current tax movement for the period. Where tax losses are incurred by Australian tax group members, these are offset within the group.

Notes to the financial statements cont.

Note 2 Summary of significant accounting policies continued

(h) **GOODS AND SERVICES TAX (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except:

- When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable; or
- When receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

(i) **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 cost. The finance cost is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or 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 not transferred to the Group as lessee are classified as operating leases (note 17). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the year of the lease.

(j) **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, 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. Subsequent to an impairment occurring, if the recoverable amount from assets exceeds the carrying value, the impairment loss is reversed to the extent that it has been recognised.

The pre-tax discount rates used in determining the recoverable amount ranged between 11.5% and 13.0% (2018: 10.5% and 11.5%), depending on the geographical segment of the assets.

(k) **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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position when utilised.

(l) **INVENTORIES**

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

(m) **DISCONTINUED OPERATIONS**

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of profit or loss.

(n) **FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) **Financial assets**

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under AASB 15. Refer to the accounting policies in section 5(c).

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

Whilst there are four categories, two are relevant in the current reporting period for the Group, being:

- Financial assets at amortised cost (debt instruments); and
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade receivables included under current and non-current financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments which the Group had not irrevocably elected to classify at fair value through OCI.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or

Notes to the financial statements cont.

Note 2 Summary of significant accounting policies continued

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Changes in accounting policies and disclosures (note 2(x)(i)).
- Trade receivables including contract assets (note 8).

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by AASB 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings at amortised cost

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 8.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(o) DERIVATIVES AND HEDGING ACTIVITIES

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.
- Hedges of a net investment in a foreign operation. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below.

Fair value hedge

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as other expense.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss.

Cash flow hedge

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as interest rate swaps for its exposure to volatility in interest rates. The ineffective portion relating to foreign currency contracts is recognised as other expense and the ineffective portion relating to interest rate swaps is recognised in other operating income or expenses. Refer to note 12 for more details.

Notes to the financial statements cont.

Note 2 Summary of significant accounting policies continued

When forward contracts are used to hedge forecast transactions, the group designates the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within OCI in the cash flow hedge reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

(p) **PROPERTY, PLANT AND EQUIPMENT**

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will

flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting year 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 (see note 9(b)).

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

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 2(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(q) **INTANGIBLE ASSETS**

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 software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

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

(r) **PROVISIONS**

Provisions 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 can be 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.

Present obligations arising from onerous contracts are required to be recognised and measured as a provision. An onerous contract is considered to exist where the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Leases recognised as onerous during the reporting period are reported at note 9(g).

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting year. 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 the passage of time is recognised as interest expense.

(s) **EMPLOYEE BENEFITS**

(i) **Short-term obligations**

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the year in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting year and are measured at the amounts expected to be paid when the liabilities are settled.

Provisions for employee benefits are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date.

(ii) **Long-term obligations**

The liabilities for long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the year in which the employees render the related service are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting year 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 the Milliman G100 discount rates at the end of the reporting period. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting year, regardless of when the actual settlement is expected to occur.

(iii) **Share-based payments**

Employee options

Options have previously been issued to Executives of Michael Hill International Limited in accordance with the Company's constitution. The Board of Directors passed resolutions approving the issue of the options. The fair value of options granted was recognised as an employee benefit expense with a corresponding increase in equity.

The fair value was measured at grant date and is recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date for options issued during prior financial years was independently determined using a Binomial option pricing model, which is an iterative model for options that can be exercised at times prior to expiry. The model takes into account the grant date, exercise price, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. It also assumes the options will be exercised at the mid-point of the exercise period. No options were granted during the 2019 financial year.

The fair value of options granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (eg the entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (eg profitability, sales growth targets and remaining an employee of the entity over a specified period); and
- including the impact of any non-vesting conditions (eg the requirement for employees to save or holdings shares for a specific period of time).

Notes to the financial statements cont.

Note 2 Summary of significant accounting policies continued

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each year, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, 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.

Share rights

Share rights are granted to eligible senior executives in accordance with the Company's deferred compensation plan ('LTI'). The fair value of rights granted is recognised as an employee benefit expense with a corresponding increase in equity.

The fair value was measured at grant date and is recognised over the period during which the employees become unconditionally entitled to the rights. The valuation methodology to calculate fair value is detailed in note 20(b).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each year, the entity revises its estimates of the number of share rights that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Upon the exercise of the share rights, the balance of the share-based payments reserve relating to those rights is transferred to share capital.

(iv) Profit-sharing and bonus plans

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

(v) Retirement benefit obligations

All Australian and Canadian employees of the Group are entitled to benefits from the Group's superannuation plan on retirement, disability or death or can direct the group to make contributions to a defined contribution plan of their choice. The Group's superannuation plan has a defined benefit section which receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

(t) 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.

Where any Group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Michael Hill International Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Michael Hill International Limited.

(u) 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 year but not distributed at the end of the reporting year.

(v) EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners 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 and excluding treasury shares.

(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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(w) ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

(x) **CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

The Group applied AASB 15 and AASB 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The adoption of AASB 9 has not had a significant effect on the Group's accounting policies related to financial assets, financial liabilities and derivative financial instruments. No adjustments were required to be made to the opening financial statement balances.

(i) **Classification and measurement**

Under AASB 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, 1 July 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 July 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of AASB 9 did not have a significant impact on the Group. The Group continued measuring at fair value all financial assets previously held at fair value under AASB 139. The following are the changes in the classification of the Group's financial assets:

- Trade receivables and Other non-current financial assets previously classified as Loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as Debt instruments at amortised cost.

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

(ii) **Impairment**

The adoption of AASB 9 has changed the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

The adoption of the ECL requirements of AASB 9 resulted in an immaterial change to the Group's financial assets. Therefore, no adjustment to Retained Earnings was required.

(iii) **Hedge accounting**

The Group applied hedge accounting prospectively. At the date of initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of AASB 9, the Group designated the change in fair value of the entire forward contracts in its cash flow hedge relationships. Upon adoption of the hedge accounting requirements of AASB 9, the Group designates only the spot element of forward contracts as the hedging instrument. The forward element is recognised in OCI and accumulated as a separate component of equity under Cost of hedging reserve. This change only applies prospectively from the date of initial application of AASB 9 and has no impact on the presentation of comparative figures.

Under AASB 139, all gains and losses arising from the Group's cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss. However, under AASB 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. This change only applies prospectively from the date of initial application of AASB 9 and has no impact on the presentation of comparative figures.

AASB 15 Revenue from Contracts with Customers

AASB 15 supersedes AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Notes to the financial statements cont.

Note 2 Summary of significant accounting policies continued

AASB 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group has adopted AASB 15 using the cumulative effect method (with practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 July 2018). Accordingly, the information presented for 2018 has not been restated - i.e. it is presented as previously reported, under AASB 118, AASB 111 and related interpretations. There was no adjustment made to opening retained earnings.

The following table summarises the impacts of adopting AASB 15 on the Group's statement of financial position as at 30 June 2019 and statement of profit or loss for the year ended 30 June 2019. There was no material impact on the Group's statement of cash flows for the year ended 30 June 2019.

	As reported 30 Jun 2019	Reclassification Opening balance	Reclassification Current year	Amounts without adoption of AASB 15 1 July 2018
	\$000	\$000	\$000	\$000
Inventories	179,503	-	701	180,204
Contract assets	701	-	(701)	-
Current tax receivables	2,295	-	(322)	1,973
Other current assets	40,805	-	-	40,805
Non-current assets	155,889	-	-	155,889
Total assets	379,193	-	(322)	378,871
Current contract liabilities	26,054	(26,623)	569	-
Current provisions	31,441	929	(247)	32,123
Current deferred revenue	1,252	25,694	(476)	26,470
Other current payables	46,383	-	-	46,383
Non current contract liabilities	55,813	(55,490)	(323)	-
Non current deferred revenue	1,847	55,490	(637)	56,700
Other non current liabilities	39,651	-	-	39,651
Total liabilities	202,441	-	(1,113)	201,328
Reserves	5,805	-	(5)	5,800
Retained profits	159,963	-	796	160,759
Total equity	176,752	-	791	177,543
Revenue from contracts with customers	569,500	-	1,118	570,618
Profit before income tax	18,811	-	1,118	19,929
Income tax expense	(2,313)	-	322	(1,991)
Profit from continuing operations	16,498	-	796	17,294
Profit for the year	16,498	-	796	17,294
Total comprehensive income for the year	21,086	-	796	21,882

(i) Sale of goods - retail

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

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

The refund liability and corresponding return of asset was presented in the current year in line with AASB 15, with the corresponding comparative balance presented in note 9(g) as Provisions.

(ii) **Sales of goods - Lifetime Diamond Warranty**

The Group offers a Lifetime Diamond Warranty (LTDW) which forms part of deferred revenue until the service is performed or at such a time the owner or product lifetime ceases. The LTDW is a service-type warranty provided to retail customers on diamond purchases, which provides assurance against lost, chipped or broken diamonds during normal wear. The Group recognises the deferred income in revenue in the statement of comprehensive income once these services are performed. An estimate is used as a basis to establish the amount of service revenue to recognise in the consolidated statement of comprehensive income.

Since the Group has adopted the cumulative effect method and applied the practical expedient, the LTDW provision recognised related to completed contracts were recognised under AASB 137 Provisions. Therefore, no adjustments to prior period or opening balances were recognised relating to LTDW upon transition.

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

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

This is consistent with the treatment under AASB 118.

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

Interest revenue is recognised on the in-house customer finance program when consideration is deferred. The Group concluded that there is a significant financing component for those contracts where the customer elects to pay in arrears considering the length of time between the customer's payment and the time of entering into the contract. The transaction price for such contracts is adjusted to take into consideration the significant financing component. It is calculated as the difference between the nominal cash and cash equivalents received from customers and the discounted cashflows, on both interest and non-interest bearing products. Interest revenue is brought to account over the term of the finance agreement, and the rate used for non-interest bearing products is in line with current, comparable market rates.

This is consistent with the treatment under AASB 118.

(y) **STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Australian Accounting Standards and Interpretations that are issued, but are not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new standards and interpretations, if applicable, when they become effective.

AASB 16 Leases

AASB 16 was issued in January 2016 and it replaces AASB 117 Leases, AASB Interpretation 4 Determining whether an Arrangement contains a Lease, AASB Interpretation-115 Operating Leases-Incentives and AASB Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset in the statement of comprehensive income.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The standard is not applicable until financial years commencing on or after 1 January 2019 but is available for early adoption provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as AASB 16. The Group has not early adopted AASB 16 Leases.

The Group intends to use a modified retrospective adoption approach and expect to elect the package of practical expedients, including the use of hindsight to determine the lease term. As the Group continues to evaluate this standard and the effect on related disclosures, the primary effect of adoption will be to record right-of-use assets and corresponding lease obligations for current operating leases. The adoption is expected to have a material financial impact on the Group's consolidated balance sheet, consolidated cash flow statement and statement of comprehensive income. While the assessment is significantly progressed, there are material items still under consideration (such as discount rates used and treatment of holdover leases) before the quantitative impact of this standard can be disclosed.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

Notes to the financial statements cont.

Note 3 Significant estimates, judgements and errors

(a) SIGNIFICANT ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies. 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 estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with the assistance of an external valuer using the Black Scholes model. The related assumptions are detailed in note 20. 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.

Make good provisions

A provision has been made for the present value of anticipated costs of future restoration of leased store and office premises. The provision includes future cost estimates associated with dismantling and closure of stores and offices. The calculation of this provision requires assumptions such as discount rates, lease exit 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 9(g) Provisions.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience, lease terms (for display assets) 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.

Revenue recognition

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

Due to management reviews conducted during the year, an adjustment to the revenue recognition pattern has been deemed necessary. As a result of this, an additional \$1,770,000 has been recognised as revenue in the current financial year. Of this, (\$69,000) relates to the current financial year, and \$1,839,000 relates to prior financial years. The change in estimate will result in lower revenue in future periods by the corresponding amount.

Taxation and recovery of deferred tax assets

The Group is subject to income taxes in Australia 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.

Employee benefits

Provisions for employee benefits are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date.

(b) **CORRECTION OF PRIOR PERIOD ERROR**

During the reporting period, the Group conducted a review of Australian retail employment contracts and rostering practices. This review identified non-compliance with some requirements of the General Retail Industry Award for a number of the Group's store-based workforce in Australia. The Group has now commenced a more detailed review of all employee records, rostering practices and payments.

The remediation of these issues, which occurred over the last six financial years, is estimated to be a one-off cost of up to \$25m. In order to reflect this in prior periods, \$11.2m after tax is included in the restatement of opening retained earnings as at 1 July 2017 as required by AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. \$3.1m after tax has been included in the 2018 financial year, and \$3.1m after tax has been included in the current financial year.

Critical accounting estimates and judgements have been made in the calculations as to the number of overtime hours, allowance payments and the valuation based on assume work patterns. Any reviews of the estimates will be recognised in the period the revisions are verified.

The error has been corrected by restating each of the affected financial statement line items for the prior years as follows:

	30 June 2018	Increase/ (decrease)	30 June 2018 Restated	30 June 2017	Increase/ (decrease)	1 July 2017 Restated
	\$000	\$000	\$000	\$000	\$000	\$000
Balance sheet (extract)						
Deferred tax assets	61,895	6,127	68,022	57,893	4,819	62,712
Current provisions	9,386	20,423	29,808	4,670	16,063	20,733
Net assets	189,221	(14,296)	174,925	202,183	(11,244)	190,939
Retained profits	177,126	(14,296)	162,830	191,887	(11,244)	180,643
Total equity	189,221	(14,296)	174,925	202,183	(11,244)	190,939

	2018	Increase/ (decrease)	2018
	\$000	\$000	Restated \$000
Consolidated statement of profit or loss (extract)			
Employee benefits expense	151,939	4,360	156,298
Profit/(loss) before income tax	47,467	(4,360)	43,107
Income tax expense	12,649	(1,307)	11,342
Profit/(loss) for the year	4,610	(3,053)	1,557
Profit is attributable to:			
Owners of Michael Hill International Limited	5,926	(3,053)	2,873

Basic and diluted earnings per share for the prior year have also been restated. The amount of the correction for both basic and diluted earnings per share for continuing and total operations was a decrease of \$0.79 cents per share.

Notes to the financial statements cont.

Additional information

This section provides additional information about those individual line items in the financial statements that the Directors consider most relevant in the context of the operations of the entity, including:

- (a) accounting policies that are relevant for an understanding of the items recognised in the financial statements.
- (b) analysis and sub-totals, including segment information
- (c) information about estimates and judgements made in relation to particular items.

Note 4	Segment information	page 66
Note 5	Revenue	page 68
Note 6	Other income and expense items	page 70
Note 7	Income tax expense	page 70
Note 8	Financial assets and financial liabilities	page 72
Note 9	Non-financial assets and liabilities	page 75
Note 10	Equity	page 79
Note 11	Cash flow information	page 80

Note 4 Segment information

(a) DESCRIPTION OF SEGMENTS AND PRINCIPAL ACTIVITIES

Management have determined the operating segments based on the reports reviewed by the Board and Executive team that are used to make strategic decisions. The Board and executive team consider, organise and manage the business primarily from a brand perspective. For the Michael Hill brand, they also consider, organise and manage the business from a geographic perspective, being the country of origin where the sale and service was performed.

During the prior financial year, the Company announced the closure of the Emma & Roe brand and the Michael Hill United States segment. These segments had been substantially closed and consequently these segments were classified as a discontinued operation for the 2018 financial year and are therefore not presented in the segment disclosures below. The Emma & Roe brand operations were absorbed into the Australian segment during the 2019 financial year although they are immaterial to the segment's result. The US operations were absorbed into the Corporate & other segment.

The amounts provided to the Board and executive team in respect of total assets and liabilities are measured in a manner consistent with the financial statements. These reports do not allocate total assets or total liabilities based on the operations of each segment or by geographical location.

The Group's continuing operations are in three geographical segments: Australia, New Zealand and Canada.

The Corporate and other segment includes revenue and expenses that do not relate directly to the relevant Michael Hill retail segments. These predominately relate to corporate costs and Australian based support costs, but also include manufacturing activities, warehouse and distribution, interest and company tax. Inter-segment pricing is at arm's length or market value.

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 by brand and geographic areas.

Major customers

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

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period.

(b) SEGMENT RESULTS

	Australia \$000	New Zealand \$000	Canada \$000	Corporate and other \$000	Group \$000
Segment information 2019					
Operating revenue	313,587	112,964	140,402	2,547	569,500
Gross profit	194,052	68,655	85,131	5,194	353,032
Gross profit %	61.9%	60.8%	61.0%	-	62.0%
EBITDA*	41,421	25,159	16,001	(42,100)	40,481
Depreciation and amortisation	(8,504)	(2,446)	(5,759)	(2,657)	(19,366)
EBIT*	32,917	22,713	10,242	(44,757)	21,115
EBIT as a % of revenue	10.5%	20.1%	7.0%	-	3.7%
Interest income	-	1	-	159	160
Finance costs	42	(5)	-	(2,501)	(2,464)
Net profit before tax	32,959	22,709	10,242	(47,099)	18,811
Income tax expense	-	-	-	-	(2,313)
Net profit after tax	32,959	22,709	10,242	(47,099)	16,498

	Australia \$000	New Zealand \$000	Canada \$000	Corporate and other Restated \$000	Group Restated \$000
Segment information 2018					
Continuing operations					
Operating revenue	325,709	115,376	133,000	1,454	575,539
Gross profit	206,303	71,560	82,967	6,052	366,882
Gross profit %	63.3%	62.0%	62.0%	-	63.7%
EBITDA*	56,935	28,063	19,986	(40,503)	64,481
Depreciation and amortisation	(8,314)	(2,464)	(5,077)	(2,839)	(18,694)
EBIT*	48,621	25,599	14,909	(43,342)	45,787
EBIT as a % of revenue	14.9%	22.2%	11.0%	-	8.0%
Interest income	2	1	-	7	10
Finance costs	59	10	-	(2,759)	(2,690)
Net profit before tax	48,682	25,609	14,909	(46,093)	43,107
Income tax expense	-	-	-	-	(11,342)
Net profit after tax	48,682	25,609	14,909	(46,093)	31,765

*EBIT and EBITDA are Non-IFRS Information and are unaudited. Please refer to Non-IFRS Information on page 29 for an explanation of Non-IFRS information and a reconciliation of EBIT from continuing operations and Normalised EBIT.

Notes to the financial statements cont.

Note 5 Revenue

	2019 \$000	2018 \$000
From continuing operations:		
Sales revenue		
Revenue from sale of goods and repair services	533,282	541,349
Revenue from professional care plans	32,923	31,929
Interest and other revenue from in-house customer finance program	3,293	2,261
Lifetime Diamond Warranty	2	-
	569,500	575,539

(a) DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

	Australia \$000	New Zealand \$000	Canada \$000	Corporate and other \$000	Total \$000
Timing of revenue recognition 2019					
At a point in time	295,480	107,064	130,132	606	533,282
Over time	18,107	5,900	10,270	1,941	36,218
	313,587	112,964	140,402	2,547	569,500

	NOTES	2019 \$000	2018* \$000
(b) ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS			
Right of return assets	5(b)(i)	291	424
Deferred expenditure	5(b)(ii)	2,139	2,494
Total contract assets		2,430	2,918
Deferred service revenue	5(c)(i)	77,803	80,176
Deferred interest free revenue	5(c)(iv)	2,247	1,008
Rights of return liabilities	5(c)(v)	682	929
Lifetime Diamond Warranty	5(c)(vi)	1,135	-
Total contract liabilities		81,867	82,113

* Reclassified and remeasured amounts - see note 2(x) for explanations

(i) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

	2019 \$000
Revenue recognised that was included in the contract liability balance at the beginning of the year	26,229
Revenue recognised from performance obligations satisfied in previous years	1,770

(ii) **Right of return assets**

The following table shows contracts assets recorded under our change of mind returns policy.

	2019
	\$000
Reclassification on initial recognition	424
Additional amounts recognised	270
Amounts incurred and charged	(424)
Exchange differences	21
Closing right of return asset	291

(iii) **Assets recognised from costs to fulfil a contract**

Direct and incremental bonuses associated with the sale of PCPs are deferred and amortised in proportion to the PCP revenue recognised. Management reviews trends in current and estimated future services provided under the plan to assess whether changes are required to the cost recognition rates used. This is presented within other assets in the consolidated statement of financial position.

	2019
	\$000
Reclassification on initial recognition	2,494
Additional amounts recognised	588
Amounts incurred and charged	(986)
Exchange differences	43
Total deferred expenditure	2,139

(c) **ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS**

(i) **Sale of goods**

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

(ii) **Repair services**

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

(iii) **Deferred service revenue**

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

(iv) **Deferred interest free revenue**

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

(v) **Rights of return assets and liabilities**

Rights of return recognises the estimated returned sales under the Group's return policy, being 30 day change of mind in Australia and New Zealand and 60 day change of mind in Canada. Management estimates the returned sales based on historical sale return information and any recent trends that may suggest future claims could differ from historical amounts. For sales that are expected to be returned, the Group recognises a right of return liability. The associated inventory value for sales that are expected to be returned is recognised as a right of return asset.

(vi) **Lifetime Diamond Warranty**

LTDW is a warranty provided to customers with the purchase of jewellery items set with a diamond (excluding watches). This has been deemed a service-type warranty and is calculated with reference to the estimated value of service provided to customers and the stand-alone value of customers obtaining the service independently. Income in relation to the LTDW is recognised in line with the estimated pattern of customers utilising this service-type warranty.

The Group adopted the modified retrospective method. Previously, the LTDW was recognised as a provision under AASB 137. This is presented in Other provisions note 9(g).

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

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

Notes to the financial statements cont.

Note 6 Other income and expense items

	NOTES	2019 \$000	2018 \$000
(a) OTHER INCOME			
Insurance recoveries		7	-
Net foreign exchange gains		92	-
Interest income		160	10
Other items		1,296	1,064
		1,555	1,074
(b) BREAKDOWN OF EXPENSES BY NATURE			
Total depreciation	9(b)	16,932	16,266
Total amortisation	9(c)	2,434	2,428
Total depreciation and amortisation		19,366	18,694
Finance costs			
Bank and interest charges		2,472	2,762
Interest expense - make good provision	9(g)	(8)	(72)
Total finance costs		2,464	2,690
Net foreign exchange losses included in other expenses		-	1,029
Employee benefits expense			
Employee wages		142,463	135,716
Employee wage on costs and post-retirement benefits		16,295	16,223
Provision for employee remediation		4,419	4,359
Total employee benefits expense		163,177	156,298

Note 7 Income tax expense

	NOTES	2019 \$000	2018 Restated \$000
(a) INCOME TAX EXPENSE			
Current tax			
Current tax on profits for the year		5,265	5,723
Derecognised tax losses		(468)	3,651
Adjustments for current tax of prior periods		(3,363)	3,908
Foreign income tax offsets not recognised		154	(1,055)
Total current tax expense		1,588	12,227
Deferred income tax			
(Increase) / Decrease in deferred tax assets	9(d)	356	(3,967)
Derecognised tax losses		-	64
Adjustments for deferred tax of prior periods		369	(3,708)
Total deferred tax expense/(benefit)		725	(7,611)
Income tax expense		2,313	4,616

(b) **NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE**

	2019	2018
	\$000	Restated \$000
Profit from continuing operations before income tax expense	18,811	43,107
Profit from discontinuing operation before income tax expense	-	(36,934)
	18,811	6,173
Tax at the Australian tax rate of 30.0% (2018 - 30.0%)	5,643	1,852
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non deductible expenditure	269	163
Non-assessable intragroup markups	4	(551)
Sundry items	68	8
	5,984	1,472
Difference in overseas tax rates	(338)	288
Adjustments for current tax of prior periods	(3,363)	3,908
Adjustments for deferred tax of prior periods	369	(3,644)
Tax losses not recognised	(468)	3,651
Foreign income tax offset not recognised	154	(1,055)
Change in tax rate on deferred tax balance	(25)	(4)
Income tax expense	2,313	4,616
Income tax expense is attributable to:		
Profit from continuing operations	2,313	11,342
Profit from discontinued operation	-	(6,726)
	2,313	4,616

(c) **TAX LOSSES**

	2019	2018
	\$000	\$000
Unused United States tax losses for which no deferred tax asset has been recognised	33,647	32,203
Potential tax benefit @ 25.0%	10,094	8,051
Unused New Zealand tax losses for which no deferred tax asset has been recognised	2,708	2,623
Potential tax benefit @ 28.0%	758	735

The unused tax losses incurred in the United States and New Zealand are available indefinitely for offsetting against future taxable profits of the countries in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is unknown when the New Zealand losses may be used to offset taxable profits and the United States losses are not expected to be used.

Notes to the financial statements cont.

Note 8 Financial assets and financial liabilities

The Group holds the following financial instruments:	NOTES	2019 \$000	2018 \$000
Financial assets* at amortised cost			
Cash and cash equivalents	8(a)	7,923	7,220
Trade receivables	8(b)	36,641	28,046
Derivative financial instruments used for hedging	12(a)	-	245
		44,564	35,511
Total current financial assets		37,579	32,846
Total non current financial assets		6,985	2,665
		44,564	35,511
Financial liabilities at amortised cost			
Trade and other payables*	8(d)	44,548	49,340
Borrowings	8(e)	32,704	35,213
Derivative financial instruments used for hedging	12(a)	468	390
		77,720	84,943
Total current financial liabilities		45,016	49,730
Total non current financial liabilities		32,704	35,213
		77,720	84,943

* See note 2(y) for details about the impact from changes in accounting policies.

The Group's exposure to various risks associated with the financial instruments is discussed in note 12. The maximum exposure to credit risk at the end of the reporting year is the carrying amount of each class of financial assets mentioned above. Derivatives not designated as hedging instruments reflect the change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases. Derivatives designated as hedging instruments reflect the change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable forecast purchases in US dollars (USD). Debt instruments at amortised cost include trade receivables, trade payables and borrowings.

(a) CASH AND CASH EQUIVALENTS	2019 \$000	2018 \$000
Current assets		
Cash at bank and on hand	7,923	7,220

Interest rates for the bank accounts have been between 0.00% and 1.15% during the year (2018: between 0.00% and 1.15%).

(b) TRADE & OTHER RECEIVABLES	Notes	Current \$000	Non-current \$000	2019 Total \$000	Current \$000	Non-current \$000	2018 Total \$000
Trade receivables		4,822	-	4,822	4,912	-	4,912
Provision for expected credit loss		(409)	-	(409)	(819)	-	(819)
	12(c)(ii)	4,413	-	4,413	4,093	-	4,093
In-house customer finance		20,145	7,337	27,482	17,681	2,864	20,545
Provision for expected credit loss		(928)	(352)	(1,280)	(1,231)	(199)	(1,430)
	12(c)(i)	19,217	6,985	26,202	16,450	2,665	19,115
Sundry debtors		6,026	-	6,026	4,838	-	4,838
		29,656	6,985	36,641	25,381	2,665	28,046

Further information relating to loans to related parties and key management personnel is set out in note 19.

(i) **Trade receivables**

Trade receivables from sales made to customers through third party credit providers are non-interest bearing and are generally on 0-30 day terms.

(ii) **In-house customer finance**

In October 2012, Michael Hill launched an in-house customer finance program in the Canadian and United States markets. The terms available to customers range from an interest bearing revolving line of credit through to interest free terms of between 6 and 24 months, although 12 to 18 months is the typical financing period.

The receivables from the in-house customer finance program are comprised of a large number of transactions with no one customer representing a significant balance. The finance portfolio consists of contracts of similar characteristics that are evaluated collectively for impairment. See note 2(n)(i) for the accounting policy regarding the provision for expected credit losses.

Sundry debtors

Sundry debtors relates to supplier credits, security deposits and other sundry receivables.

Effective interest rates

Other than in-house customer finance, all receivables are non-interest bearing. The majority of in-house customer finance receivables are also non-interest bearing. In-house customer finance receivables are recognised net of significant financing components.

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

(iii) **Impairment and risk exposure**

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 12(b) and 12(c).

(c) **CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES**

	2019 \$000	2018 \$000
Movements in non-current interest-bearing loans and liabilities		
Carrying amount at start of year	35,213	45,034
Outwards cash flows	(132,000)	(126,500)
Inwards cash flows	128,800	116,500
Foreign exchange movements	691	179
Carrying amount at end of year	32,704	35,213

(d) **TRADE AND OTHER PAYABLES**

	2019 \$000	2018 Restated \$000
Current liabilities		
Trade payables	20,691	24,686
Annual leave liability	8,480	8,938
Accrued expenses	5,002	7,154
Other payables	10,375	8,562
	44,548	49,340

Trade payables are unsecured and are usually paid within 45 days of recognition. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

(e) **BORROWINGS**

	Current \$000	Non- current \$000	2019 Total \$000	Current \$000	Non- current \$000	2018 Total \$000
Bank loans	-	32,704	32,704	-	35,213	35,213
Total secured borrowings	-	32,704	32,704	-	35,213	35,213

Notes to the financial statements cont.

Note 8 Financial assets and financial liabilities continued

The Group's objectives when managing capital are to ensure sufficient liquidity to support its financial obligations and execute the Group's operational and strategic plans. The Group continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. Accordingly, the Group entered into a three year agreement with ANZ on 26 June 2018 that provides for a \$110,000,000 multi option borrowing facility, the availability of which is adjusted throughout the year in line with business requirements. At balance date, \$70,000,000 was available, and of that, \$32,704,000 was utilised.

The Group also has access to various uncommitted credit facility lines serving working capital needs that, at balance date, totalled \$1,955,000. No amounts were drawn under these credit facility lines as at balance date.

(f) RECOGNISED FAIR VALUE MEASUREMENTS

Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements at 30 June 2019	Notes	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial liabilities					
Derivatives used for hedging					
- Foreign exchange contracts	12(a)	-	145	-	145
- Interest rate swaps	12(a)	-	323	-	323
Total financial liabilities		-	468	-	468
Recurring fair value measurements at 30 June 2018					
Financial assets					
Derivatives designated as hedging instruments					
- Foreign exchange contracts		-	245	-	245
Total financial assets		-	245	-	245
Financial liabilities					
Derivatives designated as hedging instruments					
- Interest rate swaps	12(a)	-	390	-	390
Total financial liabilities		-	390	-	390

There were no transfers between levels during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Note 9 Non-financial assets and liabilities

This note provides information about the Group's non-financial assets and liabilities, including:

(a) INVENTORIES	2019 \$000	2018 \$000
Raw materials	6,732	10,243
Finished goods	176,670	181,282
Packaging and other consumables	2,033	2,887
Provision for impairment	(5,932)	(2,338)
	179,503	192,074

All inventories are held at the lower of cost or net realisable value.

(b) PROPERTY, PLANT & EQUIPMENT	Plant and equipment \$000	Fixtures and fittings \$000	Motor vehicles \$000	Leasehold improvements \$000	Display materials \$000	Total \$000
At 1 July 2017						
Cost or fair value	37,944	34,169	796	82,602	13,816	169,327
Accumulated depreciation	(23,010)	(18,570)	(364)	(41,844)	(6,103)	(89,891)
Net book amount	14,934	15,599	432	40,758	7,713	79,436
Year ended 30 June 2018						
Opening net book amount	14,934	15,599	432	40,758	7,713	79,436
Exchange differences	(70)	(27)	(4)	84	17	-
Additions	4,339	3,146	45	8,196	2,164	17,890
Additions - make good	-	-	-	(1,154)	-	(1,154)
Disposals	(391)	(216)	(72)	(392)	(71)	(1,142)
Depreciation charge	(4,429)	(3,925)	(148)	(7,257)	(1,806)	(17,565)
Impairment loss (i)	(1,490)	(3,010)	-	(5,016)	(1,283)	(10,799)
Closing net book amount	12,893	11,567	253	35,219	6,734	66,666
At 30 June 2018						
Cost or fair value	38,744	34,667	569	81,642	13,958	169,580
Accumulated depreciation	(25,851)	(23,100)	(316)	(46,423)	(7,224)	(102,914)
Net book amount	12,893	11,567	253	35,219	6,734	66,666
Year ended 30 June 2019						
Opening net book amount	12,893	11,567	253	35,219	6,734	66,666
Exchange differences	284	256	5	1,373	214	2,132
Additions	2,618	1,695	-	4,952	1,488	10,753
Additions - make good	-	-	-	1,794	-	1,794
Disposals	(762)	(24)	(59)	(20)	(46)	(911)
Transfers	13	-	-	(13)	-	-
Depreciation charge	(3,929)	(3,500)	(110)	(7,429)	(1,964)	(16,932)
Impairment loss (i)	(211)	(12)	-	(64)	(2)	(289)
Closing net book amount	10,906	9,982	89	35,812	6,424	63,213
At 30 June 2019						
Cost	32,867	33,153	366	85,774	15,449	167,609
Accumulated depreciation	(21,961)	(23,171)	(277)	(49,962)	(9,025)	(104,396)
Net book amount	10,906	9,982	89	35,812	6,424	63,213

Notes to the financial statements cont.

Note 9 Non-financial assets and liabilities continued

(i) Impairment loss

As per the Group's accounting policies, the Group impairs assets where the recoverable amount is less than the carrying amount. This also includes assets held at stores facing closure. Any assets held at an impaired store that are able to redeployed throughout the Group are not impaired. This cost has been reported in Other expenses in the statement of comprehensive income.

(ii) Depreciation methods and useful lives

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

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

(c) INTANGIBLE ASSETS

At 1 July 2017

	Patents, trademarks and other rights \$000	Computer software \$000	Total \$000
Cost	79	22,472	22,551
Accumulated amortisation	-	(13,767)	(13,767)
Net book amount	79	8,705	8,784

Year ended 30 June 2018

Opening net book amount	79	8,705	8,784
Exchange differences	-	2	2
Additions	-	6,665	6,665
Amortisation charge*	-	(2,597)	(2,597)
Impairment charge	-	(228)	(228)
Closing net book amount	79	12,547	12,626

At 30 June 2018

Cost	79	28,941	29,020
Accumulated amortisation	-	(16,394)	(16,394)
Net book amount	79	12,547	12,626

Year ended 30 June 2019

Opening net book amount	79	12,547	12,626
Exchange differences	-	6	6
Additions	-	5,381	5,381
Disposals	-	(140)	(140)
Amortisation charge*	-	(2,434)	(2,434)
Closing net book amount	79	15,360	15,439

At 30 June 2019

Cost	79	30,852	30,931
Accumulated amortisation	-	(15,492)	(15,492)
Net book amount	79	15,360	15,439

* Amortisation of \$2,434,000 (2018: \$2,428,000) is included in depreciation and amortisation expense in the statement of comprehensive income. The prior year amount above also includes amortisation for discontinued operations (see note Discontinued operations).

(d) DEFERRED TAX BALANCES			2019		2018	
			\$000		Restated \$000	
Deferred tax assets						
The balance comprises temporary differences attributable to:						
Doubtful debts			450		555	
Fixed assets and intangibles			5,655		10,508	
Intangible assets from intellectual property transfer			24,593		26,438	
Deferred expenditure			(601)		(697)	
Prepayments			(21)		(6)	
Deferred service revenue			4,223		3,850	
Unearned income			1,738		1,653	
Provisions			16,926		14,755	
Unrealised foreign exchange losses			(156)		117	
Sundry items			989		1,481	
Inventories			13,912		9,368	
Net deferred tax assets			67,708		68,022	
Expected settlement:						
Deferred tax assets expected to be recovered within 12 months			31,180		23,759	
Deferred tax assets expected to be recovered after more than 12 months			36,528		44,263	
			67,708		68,022	
Movements:						
Opening balance at 1 July			68,022		62,712	
Credited / (charged) to the income statement			(356)		3,968	
Tax losses recognised			-		(2,340)	
Prior year adjustment			(369)		3,707	
Foreign exchange differences			411		(25)	
Closing balance at 30 June			67,708		68,022	
(e) CURRENT TAX RECEIVABLES			2019		2018	
			\$000		\$000	
Current tax receivables			2,295		-	
(f) CURRENT TAX LIABILITIES						
Current tax liabilities			1,367		2,696	
(g) PROVISIONS						
	Current	Non-current	2019 Total	Current Restated	Non-current	2018 Total
	\$000	\$000	\$000	\$000	\$000	\$000
Employee benefits (i)	28,140	2,069	30,209	23,977	2,063	26,040
Assurance-type warranties (i)	1,674	-	1,674	2,972	-	2,972
Make good provision (i)	133	4,878	5,011	356	2,844	3,200
Restructuring costs (i)	1,014	-	1,014	1,897	-	1,897
Diamond warranty (i)	480	-	480	600	-	600
Other provisions (i)	-	-	-	6	-	6
	31,441	6,947	38,388	29,808	4,907	34,715

Notes to the financial statements cont.

Note 9 Non-financial assets and liabilities continued

(i) Information about individual provisions and significant estimates

Employee benefits

Employee benefits includes provision for long service leave, revaluation of employee benefits in New Zealand and the provision for remediation as noted in note 3(b). Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting year.

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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Assurance-type warranties

Provision is made for the estimated sale returns for the Group's return policies, being 12 month guarantee on the quality of workmanship and the 3 year watch guarantee. In addition, all Michael Hill watches sold before 30 June 2018 included a lifetime battery replacement guarantee. Management estimates the provision based on historical sale return information and any recent trends that may suggest future claims could differ from historical amounts.

Make good provision

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

Restructuring

A provision has been raised for the estimated lease surrender cost for the remaining Emma & Roe store and staffing exit costs from structure changes.

Diamond warranty

Provision is made for the estimated costs for the Group's diamond warranty offered with the purchase of selected diamond jewellery lines. Management estimates the provision based on costs incurred in recent years and will review the adequacy of the provision each reporting date as more data becomes available.

Other provisions

Other provisions relates to a provision for an onerous lease.

(ii) Movements in provisions

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

	Employee benefits	Restructuring obligations	Returns provision	Make good provision	Diamond warranty	Other provisions	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Carrying amount at start of year	26,040	1,897	2,972	3,200	600	6	34,715
Reclassification as contract liability	-	-	(929)	-	-	-	(929)
Additional provisions recognised	5,107	748	434	2,157	-	-	8,446
Amounts incurred and charged	(982)	(1,631)	(803)	(372)	(120)	(6)	(3,914)
Exchange differences	44	-	-	26	-	-	70
Carrying amount at end of year	30,209	1,014	1,674	5,011	480	-	38,388

(h) DEFERRED REVENUE	2019			2018		
	Current	Non-current	Total	Current	Non-current	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Deferred service revenue	-	-	-	24,686	55,276	79,962
Lease incentive income	962	1,847	2,809	782	2,230	3,012
Deferred interest free revenue	-	-	-	1,008	214	1,222
Sundry deferred revenue	290	-	290	-	-	-
	1,252	1,847	3,099	26,476	57,720	84,196

Pursuant to the adoption of IFRS 15 Revenue from Contracts with Customers, Deferred Service Revenue has been classified as a contract liability from the 2019 financial year. Further details of reclassification upon adoption is included at note 2(x)(ii).

Note 10 Contributed equity

	2019 Shares	2018 Shares	2019 \$000	2018 \$000
(a) SHARE CAPITAL				
Ordinary shares - fully paid	387,750,000	387,438,513	10,984	10,266
Total share capital	387,750,000	387,438,513	10,984	10,266

	Notes	No. of shares	\$000
(i) Movements in ordinary shares:			
Opening balance 1 July 2017		387,438,513	10,015
Options expired	10(a)(ii)	-	251
Balance 30 June 2018		387,438,513	10,266
Options forfeited	10(a)(ii)	-	228
Rights issued	10(a)(iv)	311,487	490
Balance 30 June 2019		387,750,000	10,984

(ii) Ordinary shares

Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up 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.

(iii) Options

Information relating to the Michael Hill International 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 20(a).

(iv) Rights issue

Information relating to share rights issued under the Company's deferred compensation plan, including details of rights issued, exercised and lapsed during the financial year and rights outstanding at the end of the financial year, is set out in note 20(b).

(b) RESERVES AND RETAINED PROFITS

Nature and purpose of other reserves

Cash flow hedges

The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income, as described in note 2(o). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Share-based payments

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remunerations. Refer to note 20 for further details of these plans.

Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 2(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Notes to the financial statements cont.

Note 11 Cash flow information

	NOTES	2019 \$000	2018 Restated \$000
Reconciliation of profit after income tax to net cash inflow from operating activities			
Profit for the year		16,498	1,557
Adjustment for:			
Depreciation	6(b)	16,932	17,565
Amortisation	6(b)	2,434	2,597
Impairment - property, plant and equipment		289	11,029
Impairment - other assets		1,823	563
Non-cash employee benefits expense - share-based payments		106	484
Other non-cash expenses		-	(78)
Make good interest		(8)	-
Net loss on sale of non-current assets		619	450
Net exchange differences		(9)	966
Change in operating assets and liabilities:			
(Increase) / decrease in trade and other receivables		(8,419)	(1,348)
(Increase) / decrease in inventories		12,102	12,169
(Increase) / decrease in deferred tax assets		227	(5,275)
(Increase) / decrease in other non current assets		(309)	(826)
(Increase) / decrease in other current assets		896	273
(Decrease) / increase in trade and other payables		(485)	6,618
(Decrease) / increase in current tax liabilities		(3,517)	3,665
(Decrease) / increase in provisions		(110)	2,030
(Decrease) / increase in deferred revenue		(100)	2,454
Net cash inflow from operating activities		38,969	54,893

RISK

This section of the notes discusses the Group's exposure to various risks and shows how these could affect the Group's financial position and performance.

Note 12 Financial risk management **page 81**

Note 13 Capital management **page 86**

Note 12 Financial risk management

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

Risk	Exposure arising from	Measurement	Management
Market risk - foreign exchange	Future commercial transactions Recognised financial assets and liabilities not denominated in AUD	Cash flow forecasting Sensitivity analysis	Forward foreign exchange contracts
Market risk - interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Interest rate swaps
Credit risk	Cash and cash equivalents and trade receivables	Aging analysis	Diversification of bank deposits, credit limits and letters of credit
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

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) **DERIVATIVES**

The Group is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are foreign currency risk and interest rate risk.

The Group's risk management strategy and how it is applied to manage risk are explained below.

(i) **Classification of derivatives**

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting year.

The Group's accounting policy for its cash flow hedges is set out in note 2(o). Further information about the derivatives used by the Group is provided in note 12(b) below.

Derivatives not designated as hedging instruments

The Group uses foreign currency-denominated borrowings and foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to six months.

(ii) **Fair value measurements**

For information about the methods and assumptions used in determining the fair value of derivatives please refer to note 8(f).

(iii) **Hedging reserves**

The Group's hedging reserves are disclosed in the statement of changes in equity.

There were no reclassifications from the cash flow hedge reserve to profit or loss during the year in relation to the foreign currency forwards and options.

Notes to the financial statements cont.

Note 12 Financial risk management continued

(iv) Amounts recognised in profit or loss

During the year, the following amounts were recognised in profit or loss in relation to foreign currency transactions and interest rate swaps:

	2019 \$000	2018 \$000
Net foreign exchange gain/(loss) included in other gains/(losses)	92	(1,029)
Total net foreign exchange (losses) recognised in profit before income tax for the year	92	(1,029)

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of interest rate risk, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness. It may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and
- differences in critical terms between the interest rate swaps and loans.

There was no ineffectiveness during 2019 or 2018 in relation to the interest rate swaps.

(b) 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.

Exposure

The Group's exposure to foreign currency risk at the end of the reporting year, expressed in transactional currency, was as follows:

	30 June 2019			30 June 2018		
	USD \$000	NZD \$000	CAD \$000	USD \$000	NZD \$000	CAD \$000
Cash and cash equivalents	16	33	28	6	52	48
Trade receivables	1,590	2	-	266	-	-
Trade payables	1,567	-	113	5,811	53	101
Forward exchange contracts:						
Buy foreign currency (cash flow hedges)	12,000	-	-	7,000	-	-

Sensitivity

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

Most trade payables are repaid within 45 days so there is minimal equity impact arising from foreign currency exposures.

	Impact on pre-tax profit		Impact on other components of equity	
	2019 \$000	2018 \$000	2019 \$000	2018 \$000
US\$ Trade payables				
us\$ exchange rate - increase 10%*	-	-	1,697	372
us\$ exchange rate - decrease 10%*	-	-	(1,752)	(1,542)

(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 fixed interest cover of between 50% and 100% of core debt up to 12 months, between 50% and 75% of core debt between 1 and 3 years, and between 25% and 50% of core debt between 3 and 5 years.

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

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

The exposure of the Group's borrowing to interest rate changes and the contractual re-pricing dates of the borrowings at the end of the reporting year are as follows:

	2019		2018	
	\$000	% of total loans	\$000	% of total loans
Variable rate borrowings	32,704	100.0%	35,213	100.0%

An analysis by maturities is provided in note 12(d) below. The percentage of total loans shows the proportion of loans that are currently at variable rates in relation to the total amount of borrowings.

Instruments used by the group

Swaps in place cover approximately 76.4% (2018: 71.0%) of the variable rate principal outstanding.

As at the end of the reporting year, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	2019		2018	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	\$000	%	\$000
Bank overdrafts and bank loans	2.54%	32,704	2.97%	35,213
Interest rate swaps (notional principal amount)	3.91%	25,000	3.91%	25,000
Net exposure to cash flow interest rate risk		7,704		10,213

An analysis by maturities is provided in note 12(d) below. The percentage of total loans shows the proportion of loans that are currently at variable rates in relation to the total amount of borrowings.

Amounts recognised in profit or loss and other comprehensive income

The cash flow hedges were assessed to be highly effective. Fair value adjustments are included in Derivative financial instruments.

Sensitivity

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates. Other components of equity change as a result of an increase/decrease in the fair value of the cash flow hedges of borrowings. All other non-derivative financial liabilities have a contractual maturity of less than 6 months.

	Impact on post-tax profit		Impact on other components of equity	
	2019	2018	2019	2018
	\$000	\$000	\$000	\$000
Interest rates - increase by 100 basis points (100 bps)*	(109)	(102)	(2)	(9)
Interest rates - decrease by 100 basis points (100 bps)*	109	102	2	8

* Holding all other variables constant, this represents the impact of the interest rate swaps held at the end of the reporting period and variable borrowings if the interest rate was to increase or decrease by 10%.

Notes to the financial statements cont.

Note 12 Financial risk management continued

(c) 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.

(i) Credit quality and impaired in-house customer finance

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

An impairment analysis is performed at each reporting date. The maximum exposure to credit risk is the carrying value of in-house customer finance program as disclosed in note 8(b)(ii). The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low.

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

	2019 \$000	2018 \$000
Performing:		
Current, aged 0 - 30 days	26,511	19,566
Past due, aged 31 - 90 days	508	460
Non-performing:		
Past due, aged more than 90 days	463	519
	27,482	20,545

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

	2019 \$000	2018 \$000
Opening balance	1,430	1,118
Amounts written off	(2,263)	(2,162)
Additional provisions recognised	2,028	2,451
Exchange differences	85	23
	1,280	1,430

(ii) Impaired trade receivables

A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. The amount written off during the period amounted to \$615,000 (2018: \$415,000).

The ageing of these receivables is as follows:

	2019 \$000	2018 \$000
0 - 30 days	3,677	3,750
31 - 60 days	574	375
61 - 90 days	171	201
91 + days	400	586
	4,822	4,912

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

	2019 \$000	2018 \$000
At 1 July	819	502
Amounts written off	(615)	(415)
Additional provisions recognised	201	733
Exchange differences	4	(1)
At 30 June	409	819

(d) **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.

(i) **Financing arrangements**

The Group's objectives when managing capital are to ensure sufficient liquidity to support its financial obligations and execute the Group's operational and strategic plans. The Group continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. Accordingly, the Group entered into an agreement with ANZ on 26 June 2018 that provides for a \$110,000,000 multi option borrowing facility, the availability of which is adjusted throughout the year in line with business requirements. At balance date, \$70,000,000 was available. The Group had access to the following undrawn borrowing facilities at the end of the reporting year:

	2019 \$000	2018 \$000
Floating rate		
- Expiring beyond one year (bank overdrafts)	1,955	1,924
- Expiring beyond one year (bank loans)	32,704	35,213
	34,659	37,137

(ii) **Maturities of financial liabilities**

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

- all non-derivative financial liabilities, and
- net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting year.

Contractual maturities of financial liabilities	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows
	\$000	\$000	\$000	\$000	\$000	\$000
At 30 June 2019						
Non-derivatives						
Trade payables	44,548	-	-	-	-	44,548
Borrowings	-	-	32,704	-	-	32,704
Total non-derivatives	44,548	-	32,704	-	-	77,252
Derivatives						
Gross settled (forward foreign exchange contracts)	145	-	-	-	-	145
Net settled (interest rate swaps)	52	158	113	-	-	323
	197	158	113	-	-	468
At 30 June 2018						
Non-derivatives						
Trade payables	49,340	-	-	-	-	49,340
Borrowings	-	-	35,213	-	-	35,213
Total non-derivatives	49,340	-	35,213	-	-	84,553
Derivatives						
Net settled (interest rate swaps)	-	-	302	88	-	390
	-	-	302	88	-	390

Notes to the financial statements cont.

Note 13 Capital management

(a) RISK MANAGEMENT

The Group's objectives when managing capital are to:

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

There are a number of external bank covenants in place relating to debt facilities. These covenants are calculated and reported to the bank quarterly. The principal covenants relating to capital management are the EBIT fixed cover charge ratio, the consolidated debt to EBITDA and consolidated debt to capitalisation. There have been no breaches of these covenants.

(b) DIVIDENDS

(i) Ordinary shares

Final dividend for the year ended 30 June 2018 of 2.5¢ (2017 - 2.5¢) per fully paid share paid on 28 Sept 2018 (2017 - 29 Sept 2017).

Interim dividend for the year ended 30 June 2019 of 2.5¢ (2018 - 2.5¢) per fully paid share paid on 27 March 2019 (2018 - 29 March 2018).

	2019 \$000	2018 \$000
	9,679	9,685
	9,686	9,686
	19,365	19,371

(ii) Dividends not recognised at the end of the reporting period

Since year end the Directors have declared the payment of a final dividend of AU1.5¢ per fully paid ordinary share* (2018 - AU2.5¢). The final dividend will be unfranked and fully imputed. The aggregate amount of the dividend expected to be paid on 27 September 2019 out of retained earnings, but not recognised as a liability at year end, is

	5,816	9,686
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* This will be declared as conduit foreign income, therefore Australian withholding tax will not be deducted from the dividend payment for foreign (non-Australian tax resident) shareholders.

(iii) Franking and imputation credits

Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2018 - 30.0%)

Imputation credits available for subsequent reporting periods based on the New Zealand tax rate of 28.0% (2018 - 28.0%)

	2019 \$000	2018 \$000
	1,487	1,822
	17,885	23,893

The dividends paid during the current financial period and corresponding previous financial period were partly franked or imputed.

The above franking credit amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking credits that will arise from the payment and refund of income tax payable.

The above imputation credit amounts represent the balance of the imputation account as at the end of the financial year, adjusted for imputation credits that will arise from the payment and refund of income tax payable.

As the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be unfranked, there will be no reduction in the franking account.

The impact on the imputation credit account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, is estimated to be a reduction in the imputation credit account of NZ\$2,381,000 (2018: NZ\$4,075,000). The amount of imputation credits is dependent on the NZD exchange rate at the time of the dividend.

Note 14 Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of profit or loss.

FINANCIAL PERFORMANCE AND CASH FLOW INFORMATION	2019	2018
	\$000	\$000
Emma & Roe		
Revenue	-	16,935
Expenses	-	(26,939)
Impairment of other assets	-	(429)
Impairment of property, plant and equipment and other assets	-	(7,038)
Store exit costs	-	(6,038)
(Loss) before income tax	-	(23,509)
Income tax expense	-	6,737
(Loss) after income tax of discontinued operation	-	(16,772)
(Loss) from discontinued operation	-	(16,772)
Net cash (outflow) from operating activities	-	(12,656)
Net cash (outflow) from investing activities	-	(3)
Net cash inflow from financing activities	-	12,675
Net increase in cash generated by the subsidiary	-	16
Michael Hill United States		
Revenue	-	11,845
Expenses	-	(16,309)
Impairment of property, plant and equipment and other assets	-	(3,641)
Store exit costs	-	(5,333)
Other gains/(losses) (revaluation of contingent consideration receivable)	-	13
(Loss) before income tax	-	(13,425)
Income tax expense	-	(11)
(Loss) from discontinued operation	-	(13,436)
Net cash (outflow) from operating activities	-	(1,521)
Net cash (outflow) from investing activities	-	(65)
Net cash inflow / (outflow) from financing activities	-	987
Net decrease in cash generated by the subsidiary	-	(599)
Total profit/(loss) from discontinued operations	-	(30,208)

Notes to the financial statements cont.

Note 15 Interests in other entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(b):

Subsidiaries	Country of Incorporation	Ownership interest held by the group	
		2019 %	2018 %
Michael Hill Jeweller (Australia) Pty Limited	Australia	100	100
Michael Hill Wholesale Pty Limited	Australia	100	100
Michael Hill Manufacturing Pty Limited	Australia	100	100
Michael Hill Franchise Pty Limited	Australia	100	100
Michael Hill Franchise Services Pty Limited	Australia	100	100
Michael Hill Finance (Limited Partnership)	Australia	100	100
Michael Hill Group Services Pty Limited	Australia	100	100
Michael Hill Charms Pty Limited	Australia	100	100
Michael Hill Online Pty Limited	Australia	100	100
Emma & Roe Pty Limited	Australia	100	100
Emma & Roe Online Pty Ltd	Australia	100	100
Durante Holdings Pty Limited	Australia	100	100
Michael Hill New Zealand Limited (formerly known as Michael Hill International Limited)	New Zealand	100	100
Michael Hill Jeweller Limited	New Zealand	100	100
Michael Hill Finance (NZ) Limited	New Zealand	100	100
Michael Hill Franchise Holdings Limited	New Zealand	100	100
MHJ (US) Limited	New Zealand	100	100
Emma & Roe NZ Limited	New Zealand	100	100
Michael Hill Online Holdings Limited	New Zealand	100	100
Michael Hill Jeweller (Canada) Limited	Canada	100	100
Michael Hill LLC	United States	100	100

Note 16 Contingent liabilities and contingent assets

(a) CONTINGENT LIABILITIES

The Group had contingent liabilities in respect of guarantees to bankers and other financial institutions in respect of store occupancy agreements and the New Zealand stock exchange at 30 June 2019 of \$137,000 (30 June 2018 - \$472,000).

From time to time, Companies within the Group are party to various legal actions as well as inquiries from regulators and government bodies that have arisen in the normal course of business. The Directors have given consideration to such matters which are or may be subject to claims or litigation at year end and are of the opinion that that any liabilities arising over and above already provided in the financial statements from such action would not have a material effect on the Group's financial performance.

The Group is not aware of any significant events occurring subsequent to balance date that have not been disclosed.

(b) CONTINGENT ASSETS

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

Note 17 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.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:*

	2019 \$000	2018 \$000
Within one year	39,948	40,752
Later than one year but not later than five years	92,457	88,701
Later than five years	22,665	24,407
	155,070	153,860

* Includes the lease commitment for an Emma & Roe store where the store closure is still in progress via negotiated outcomes with the respective landlord.

Note 18 Events occurring after the reporting period

DIVIDENDS

On 15 August 2019, the Directors have declared the payment of a final dividend for the year ended 30 June 2019. Refer to note 13(b)(ii) for details.

No other matters or circumstances have occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

Note 19 Related party transactions

(a) SUBSIDIARIES

The ultimate parent and controlling entity of the Group is Michael Hill International Limited. Interests in subsidiaries are set out in note 15(a).

(b) KEY MANAGEMENT PERSONNEL COMPENSATION

	2019 \$	2018 \$
Short-term employee benefits	2,164,448	2,214,394
Long-term benefits	37,696	43,792
Post-employment benefits	91,183	123,224
Share-based payments	93,600	402,864
	2,386,927	2,784,274

Detailed remuneration disclosures are provided in the remuneration report on pages 35 to 45.

(c) TRANSACTIONS WITH OTHER RELATED PARTIES

The following transactions occurred with related parties

	2019 \$	2018 \$
Sales and purchases of goods and services		
Services rendered for graphic design of the annual report by a related party of board members	13,225	12,447
Consulting Agreement with a Director (Robert Ian Fyfe)	-	84,000

All transactions with related parties were in the normal course of business and provided on commercial terms. Further details regarding the Consulting Agreement with a Director is included within the Director's Report.

Notes to the financial statements cont.

Note 20 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 Company's constitution.

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

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

The exercise price of the options previously granted was set at 30% above the weighted average price at which the Company's shares were 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.

The exercise price of any future option grants will be set using the same method, with reference to the Australian Securities Exchange.

Set out below are summaries of options granted under the plan:

	2019		2018	
	Average exercise price per share	Number of options	Average exercise price per share option	Number of options
As at 1 July NZD options	1.56	3,400,000	1.47	4,650,000
Forfeited during the year	1.53	(1,500,000)	-	-
Expired during the year	-	-	1.25	(1,250,000)
As at 30 June NZD options	1.58	1,900,000	1.56	3,400,000
As at 1 July AUD options	1.78	400,000	2.12	200,000
Granted during the year	1.11	200,000	1.44	200,000
As at 30 June AUD options	1.56	600,000	1.78	400,000

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Grant date	Expiry date	Exercise price	Share options 30 June 2019	Share options 30 June 2018
22 September 2009	30 September 2019	NZ\$0.94	100,000	100,000
5 November 2009	30 September 2019	NZ\$0.94	-	150,000
17 September 2010	30 September 2020	NZ\$0.88	100,000	250,000
16 November 2011	30 September 2021	NZ\$1.16	100,000	250,000
19 September 2012	30 September 2022	NZ\$1.41	100,000	250,000
18 September 2013	30 September 2023	NZ\$1.82	100,000	250,000
29 November 2013	30 September 2023	NZ\$1.82	1,000,000	1,750,000
10 November 2014	30 September 2024	NZ\$1.63	200,000	200,000
22 January 2016	30 September 2025	NZ\$1.14	200,000	200,000
22 September 2016	30 September 2026	AU\$2.12	200,000	200,000
5 October 2017	30 September 2027	AU\$1.44	200,000	200,000
22 September 2018	30 September 2028	AU\$1.11	200,000	-
Total			2,500,000	3,800,000

The weighted average remaining contractual life of share options outstanding at the end of the period was 5.1 years (2018: 5.1 years).

The range of exercise prices for options outstanding at the end of the year was NZ\$0.88 - NZ\$1.82 and AU\$1.11 - AU\$2.12. Refer to the table above for detailed information on each issue.

The exercise price will be converted to Australian dollars using the Reserve Bank of Australia exchange rate on the day the option is exercised.

Fair value of options granted

The fair value at grant date for the options issued during the 2019 financial year were independently determined using a Binomial option pricing model, which is an iterative model for options that can be exercised at times prior to expiry. The model takes into account the grant date, exercise price, the expected life, the expiry date, the share price at grant date, expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The expected life assumes the option is exercised at the mid-point of the exercise period, and reflects the ability to exercise early and the non-transferability of the option.

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 model inputs for options granted during the year ended 30 June 2019 and 30 June 2018 included:

	June 2019 22 September 2018	June 2018 5 October 2017
Number of options	200,000	200,000
Dividend yield	5.00%	5.00%
Expected volatility	25%	25%
Risk-free interest rate	4.78%	4.78%
Expected life of options (years)	7.5	7.5
Option exercise price	AU\$1.11	AU\$1.44
Share price at grant date	AU\$0.85	AU\$1.09
Weighted average fair value per option	NZ14.0¢	NZ14.8¢

(b) SHARE RIGHTS

The Company introduced a deferred compensation plan ("LTI") involving the granting of share rights to eligible participants in 2016 and was approved by shareholders at the Company's Annual General Meeting held on 31 October 2016.

Under the plan, a senior executive may be granted share rights by the Company. Each share right represents a right to receive one ordinary share in the Company, subject to the terms and conditions of the rules of the plan. An allocation of share rights is made to each eligible participant on an annual basis to a value of 30% of the STI payment earned in the preceding year. The share rights progressively vest over a 3, 4 and 5 year period from the date of issue and are only retained on exiting the business in the event that the participant is deemed a 'Good Leaver' pursuant to the LTI plan rules.

During the year, the Board agreed to grant 224,670 share rights to eligible participants of the deferred compensation plan.

All share rights were issued on the basis that they are divided into three tranches and vest over 3, 4 and 5 years, respectively.

	2019 average exercise price per share right \$	2019 Number of rights	2018 average exercise price per share right \$	2018 Number of rights
Outstanding as at 1 July	1.30	919,102	1.66	382,551
Granted	0.54	224,670	1.05	536,551
Vested	1.57	(311,487)	-	-
Forfeited	1.05	(310,676)	-	-
Outstanding at 30 June	0.54	521,609	1.30	919,102

In prior financial years, the number of share rights in each tranche is based on the prescribed dollar value for each tranche divided by the volume weighted average share price ('VWAP') of Michael Hill International shares over 5 trading days following the Michael Hill International shares trading on an ex-dividend basis.

Notes to the financial statements cont.

Note 20 Share-based payments continued

Share rights issued during the 2019 financial year used the Black-Scholes model to determine the fair value of share rights using the following inputs as at 30 June 2019:

	June 2019
Number of options	224,670
Share price	\$0.67
Annualised volatility	40%
Expected dividend yield	6.50%
Risk free rate	1.50%
Fair value of share right	\$0.54

(c) EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

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

	2019	2018
	\$000	\$000
Options issued under employee option plan	11	42
Share rights issued under CEO and LTI plan	95	442
	106	484

Note 21 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:

	2019	2018
	\$	\$
Ernst & Young		
(i) Audit and other assurance services:		
Audit and review of financial statements	477,223	411,910
(ii) Other services:		
Advisory fees	127,512	170,231
Total remuneration of Ernst & Young Australia	604,735	582,141
Total auditors' remuneration	604,735	582,141

Note 22 Earnings per share

	2019	2018 Restated
(a) BASIC EARNINGS PER SHARE		
From continuing operations	4.26¢	8.20¢
From discontinued operations	-	(7.80¢)
Total basic earnings per share attributable to the ordinary equity holders of the Company	4.26¢	0.40¢
(b) DILUTED EARNINGS PER SHARE		
From continuing operations	4.25¢	8.19¢
From discontinued operations	-	(7.79¢)
Total basic earnings per share attributable to the ordinary equity holders of the Company	4.25¢	0.40¢
(c) RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
	2019	2018 Restated
	\$000	\$000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:		
From continuing operations	16,498	31,765
From discontinued operations	-	(30,208)
	16,498	1,557
Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company:		
From continuing operations	16,498	31,765
From discontinued operations	-	(30,208)
Used in calculating diluted earnings per share	16,498	1,557
(d) WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR		
	2018 Number	2017 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	387,483,743	387,438,513
Adjustments for calculation of diluted earnings per share:		
Options	-	500,000
Share rights	854,613	-
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	388,338,356	387,938,513
(e) INFORMATION CONCERNING THE CLASSIFICATION OF SECURITIES		
Options and share rights		
Options and share rights 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 and share rights have not been included in the determination of basic earnings per share. Details are set out in note 20(a).		

Notes to the financial statements cont.

Note 23 Parent entity financial information

(a) SUMMARY FINANCIAL INFORMATION

The individual financial statements for Michael Hill International Limited (the parent) show the following aggregate amounts:

	2019 \$000	2018 \$000
Balance sheet		
Current assets	41,146	39
Non-current assets	338,180	338,473
Total assets	379,326	338,512
Current liabilities	243	3,517
Total liabilities	243	3,517
Shareholders' equity		
Issued capital	291,126	290,408
Reserves - Acquisition reserve	40,907	40,907
- Option and share rights reserve	757	1,370
Retained earnings	46,293	2,310
	379,083	334,995
Profit or loss for the year	43,578	20,000
Total comprehensive income	43,578	20,000

(b) GUARANTEES ENTERED INTO BY THE PARENT ENTITY

The Parent has issued the following guarantees in relation to the debts of its subsidiaries:

- Pursuant to Class Order 2016/785, Michael Hill International Limited and the subsidiaries listed below entered into a deed of cross guarantee on 30 June 2016. The effect of the deed is that Michael Hill International Limited has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Michael Hill International Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.
- The subsidiaries subject to the deed are: Durante Holdings Pty Ltd, Michael Hill Group Services Pty Ltd, Michael Hill Jeweller (Australia) Pty Ltd, Michael Hill Manufacturing Pty Ltd, Michael Hill Wholesale Pty Ltd, Michael Hill Franchise Services Pty Ltd, Michael Hill Franchise Pty Ltd, Michael Hill New Zealand Ltd, Michael Hill Jeweller Ltd, Michael Hill Franchise Holdings Ltd, Michael Hill Finance (NZ) Ltd, Michael Hill Online Pty Ltd, Michael Hill Charms Pty Ltd, Emma & Roe Pty Ltd, Emma & Roe Online Pty Ltd, Michael Hill Online Holdings Ltd and Emma & Roe NZ Ltd.

(c) CONTINGENT LIABILITIES OF THE PARENT ENTITY

The Parent entity had contingent liabilities in respect of guarantees to bankers and other financial institutions in respect of overdraft facilities and fixed assets at 30 June 2019 of \$72,000 (2018: \$72,000).

Note 24 Deed of cross guarantee

Pursuant to ASIC Class Order 2016/785, 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: Durante Holdings Pty Ltd, Michael Hill Group Services Pty Ltd, Michael Hill Jeweller (Australia) Pty Ltd, Michael Hill Manufacturing Pty Ltd, Michael Hill Wholesale Pty Ltd, Michael Hill Franchise Services Pty Ltd, Michael Hill Franchise Pty Ltd, Michael Hill New Zealand Ltd, Michael Hill Jeweller Ltd,

Michael Hill Franchise Holdings Ltd, Michael Hill Finance (NZ) Ltd, Michael Hill Online Pty Ltd, Michael Hill Charms Pty Ltd, Emma & Roe Pty Ltd, Emma & Roe Online Pty Ltd, Michael Hill Online Holdings Ltd and Emma & Roe NZ Ltd.

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

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

(a) **CONSOLIDATED STATEMENT OF PROFIT OR LOSS, STATEMENT OF COMPREHENSIVE INCOME AND SUMMARY OF MOVEMENTS IN CONSOLIDATED RETAINED EARNINGS**

Set out below is a consolidated statement of profit or loss, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings for the year ended 30 June 2019 of the closed group consisting of Michael Hill International Limited and the entities noted above.

Consolidated statement of profit or loss	2019	2018
	\$000	Restated \$000
Revenue from sales of goods and services	430,052	461,319
Sales to Group companies not in Closed Group	48,004	34,803
Other income	988	231
Cost of goods sold	(206,255)	(200,608)
Employee benefits expense	(125,720)	(138,258)
Occupancy costs	(45,645)	(53,293)
Marketing expenses	(24,133)	(26,647)
Selling expenses	(21,333)	(23,788)
Impairment of investment	-	(14,361)
Depreciation and amortisation expense	(13,714)	(14,535)
Loss in disposal of property, plant and equipment	(498)	(377)
Other expenses	(15,468)	(21,854)
Finance costs	(2,574)	(3,003)
Profit before income tax	23,704	(371)
Income tax expense	(4,203)	(2,981)
Profit for the year	19,501	(3,352)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	11,336	(4,413)
Other comprehensive income for the period, net of tax	11,336	(4,413)
Total comprehensive income for the year	30,837	(7,765)
Statement of changes in equity		
Equity at the beginning of the financial year	463,296	501,191
Correction of prior year error (net of tax) in opening retained earnings	-	(11,244)
Total comprehensive income / (loss)	30,837	(7,765)
Share rights through share based payments reserve	95	440
Option expense through share based payment reserve	11	45
Dividends paid	(19,365)	(19,371)
Total equity at the end of the financial year	474,874	463,296

Notes to the financial statements cont.

Note 24 Deed of cross guarantee continued

(b) CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Set out below is a consolidated statement of financial position as at 30 June 2019 of the Closed Group consisting of Michael Hill International Limited and the entities noted above.

	2019	2018
	\$000	Restated \$000
Current assets		
Cash and cash equivalents	3,704	2,977
Trade and other receivables	9,004	8,070
Inventories	137,750	153,164
Current tax receivables	(358)	(2,095)
Loans to related parties	244,716	237,783
Other current assets	2,904	2,641
Total current assets	397,720	402,540
Non-current assets		
Property, plant and equipment	34,617	38,214
Deferred tax assets	55,713	62,903
Intangible assets	15,386	12,525
Investments in subsidiaries	87,834	85,727
Other non-current assets	2,062	2,310
Total non-current assets	195,612	201,679
Total assets	593,332	604,219
Current liabilities		
Trade and other payables	20,488	42,558
Provisions	25,824	27,920
Deferred revenue	19,597	19,804
Total current liabilities	65,909	90,282
Non-current liabilities		
Provisions	6,947	4,908
Deferred revenue	45,602	45,733
Total non-current liabilities	52,549	50,641
Total liabilities	118,458	140,923
Net assets	474,874	463,296
Equity		
Contributed equity	309,975	309,256
Reserves	(750)	(3,643)
Retained profits	165,649	157,683
Total equity	474,874	463,296

Directors' declaration

In the Directors' opinion:

- (a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) the financial statements and notes of the Group for the financial year ended 30 June 2019, are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date;
- (c) as at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 24 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee described in note 24.

Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.



E.J. Hill, Chair
Brisbane, 15 August 2019



**Building a better
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Independent Auditor's Report to the Members of Michael Hill International Limited

OPINION

We have audited the financial report of Michael Hill International Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001.

BASIS FOR OPINION

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

EXISTENCE OF INVENTORY

Why significant

The existence of inventories was a key audit matter due to the size of the recorded asset (30 June 2019: \$179,503,000) which represents 47% (2018:50%) of the Group's total assets, the nature of the inventory and its location.

Inventories are primarily kept in the Group's retail stores situated in three countries and the dispatch and manufacturing warehouses. Inventories comprise a significant number of physically small but high value items.

The Group accounts for inventories in accordance with the policy disclosed in Note 2(l) and further disclosure is included in Note 9(a) of the financial report.

How our audit addressed the key audit matter

Our audit procedures included the following:

- Assessed the effectiveness of controls relevant to the conduct of physical stocktaking.
- Attended full stock counts throughout the year at the dispatch and manufacturing warehouse and at a sample of retail stores across all countries to assess whether inventories had been appropriately counted at each location and whether movements in to and out of each location prior to and subsequent to the counts had been appropriately recorded.
- Considered the work performed by the Group's Internal Audit function in relation to stock counts performed at the retail stores and considered the impact of their findings in our audit approach. We assessed whether their work could be used for the purpose of our audit which included an assessment of the competence of the Internal Audit function.
- For the dispatch and manufacturing warehouse stock counts we selected samples of stock receipts prior to and after the stock count including transfers to stores, to assess whether these were appropriately recorded in the correct period.
- We performed store-by-store inventory analysis of any unusual fluctuations outside of our set expectations of the year-end balance compared to prior year.

PROFESSIONAL CARE PLAN (PCP) REVENUE RECOGNITION

Why significant

The recognition of professional care plan (PCP) revenue was considered a key audit matter due to the significant degree of estimation involved in determining the appropriate revenue recognition pattern for both the lifetime and 3 year plans offered to the Group's customers.

The estimation is based on a combination of comparative market data and an analysis of services (through historical repairs data) made under these plans since inception in October 2010. The estimation is reviewed by the Group at least on an annual basis.

As disclosed in Note 3(a) of the financial report, the Group's performance obligation for its lifetime plans are satisfied over time. In measuring the progress toward complete satisfaction of the performance obligation the Group uses customer usage history and industry information. As such, the determination of the pattern of revenue recognition is judgmental.

The pattern of recognising revenue, is disclosed in Note 5(c)(iii) of the financial report and is based on an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group. As circumstances change over time, the Group updates its measure of progress to reflect any changes in the outcome of the performance obligation. In accordance with Australian Accounting Standards such changes are reflected in the current year results.

This change in estimate has been disclosed in Note 3(a) to the financial report.

EMPLOYEE REMEDIATION

Why significant

The Group has recorded a Provision for Employee Remediation as both a current year and prior period accounting matter. A review of the Group's Australian retail employment contracts and rostering showed non-compliance with certain requirements of the General Retail Industry Award ("GRIA") for a number of the Group's store-based workforce in Australia. The non-compliance resulted in the underpayment of certain of current and former employees. The Group intends to remediate this issue in the next financial period.

The provision for employee remediation was a key audit matter because of the estimation uncertainty and judgements used in determining the payroll shortfall to be used in calculating the provision and the nature of the matter.

The Group estimates the provision for the cumulative amount of additional payroll costs, payable to current and former employees, for the six financial year period ended 30 June 2019 is \$24.8 million. As outlined in Note 3(b), the income statement impact of the provision affects the current year by \$3.1 million after tax, the comparative financial year by \$3.1 million and opening retained earnings at 1 July 2017 by \$11.2 million.

How our audit addressed the key audit matter

Our audit procedures included the following:

- Considered the Group's PCP revenue recognition accounting policies and assessed compliance with the requirements of Australian Accounting Standards.
- Assessed the effectiveness of controls relating to PCP revenue recognition.
- Assessed the appropriateness of the balance of the PCP revenue recognised during the year and the closing deferred PCP contract liability at year end based on the change in usage pattern.
- Assessed the Group's calculation supporting the change in estimate relating to revenue recognition, which included agreeing assumptions to samples of the underlying PCP repairs usage data.
- Considered the changes in the PCP revenue recognition and the closing deferred PCP contract liability at year-end as a result of the Group's exit from the United States in 2018 is aligned with the Australian Accounting Standards.

How our audit addressed the key audit matter

In assessing the Provision for Employee Remediation, our procedures included the following:

- Developed an understanding of the non-compliance with the requirements of the GRIA and held discussions with management and the Group's legal counsel to determine the nature of the matter and assessed the accounting treatment was aligned with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.
- Developed an understanding of the basis for management's estimate of the provision and the nature of the estimation uncertainty at reporting date.
- Tested the completeness of management's model by agreeing the inputs to the supporting documentation.
- Tested the mathematical accuracy of the provision calculation and assessed if it was in line with the requirements of Australian Accounting Standards.
- Assessed the adequacy of the disclosures made in the financial statements including the significant judgements and estimates adopted by management.

INFORMATION OTHER THAN THE FINANCIAL REPORT AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises the information included in the Group's 2019 Annual Report, other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL REPORT

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
 - Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.
- We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON THE AUDIT OF THE REMUNERATION REPORT

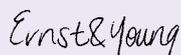
Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Michael Hill International Limited for the year ended 30 June 2019 complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Alison de Groot, Partner
Brisbane
15 August 2019

ASX Listing Rules – Additional Information

Additional information required by the ASX Listing Rules and not shown elsewhere in the Annual Report is as follows:

Twenty largest shareholders as at 12 september 2019

	Fully Paid Ordinary Shares	% of Fully Paid Ordinary Shares
Hoglett Hamlett Limited*	148,330,600	38.25
New Zealand Central Securities Depository Ltd	38,577,074	9.95
J P Morgan Nominees Australia Pty Limited	20,108,965	5.19
Mole Hill Limited*	19,156,926	4.94
Squeakidin Limited*	19,156,926	4.94
HSBC Custody Nominees (Australia) Limited	14,390,376	3.71
Forsyth Barr Custodians Limited	11,370,544	2.93
BNP Paribas Noms (NZ) Ltd	5,448,789	1.41
FNZ Custodians Limited	3,408,549	0.88
Citicorp Nominees Pty Limited	2,998,250	0.77
Morgan Stanley Australia Securities (Nominee) Pty Ltd	2,652,497	0.68
BNP Paribas Noms Pty Ltd	2,522,899	0.65
ASB Nominees Limited	2,488,884	0.64
Mr Philip Roy Taylor	2,311,487	0.60
Wayne Kenneth Butler & Christina Anne Butler	1,760,000	0.45
Custodial Services Limited	1,697,509	0.44
Vanward Investments Limited	1,466,180	0.38
Leveraged Equities Finance Limited	1,423,000	0.37
Dorchester Trustee Limited & DDS Trustee Services Ltd	1,230,000	0.32
Tao Xie	1,174,730	0.30
Total	301,674,185	77.80
Total Remaining Holders Balance	86,094,920	22.20

* Denotes entities in which a member or members of the Hill family have an ownership interest.

Distribution Of Security Holders as at 12 september 2019

	Number of fully paid ordinary shares	No. of holders of fully paid ordinary shares	Number of unlisted options	No. of holders of unlisted options	Number of unlisted share rights	No. of holders of unlisted share rights
1-1,000	388,831	589	-	-	-	-
1,001-5,000	4,088,918	1,318	-	-	-	-
5,001-10,000	7,454,566	900	-	-	-	-
10,001-100,000	43,596,242	1,381	-	-	348,931	7
100,001 - over	332,240,548	149	1,500,000	2	125,715	1
Total	387,769,105	4,337	1,500,000	2	474,646	8

Unmarketable parcels as at 12 september 2019

	Minimum parcel size	Holders	Units
Minimum \$500.00 parcel at \$0.49 per unit	1,021	591	391,060

Substantial holders as defined by the ASX Listing Rules, as at 12 September 2019

	Latest Notice Date	Shares
Hoglett Hamlett Limited and others*	13 October 2016	148,330,600
Mark Simon Hill	13 October 2016	167,487,526
Emma Jane Hill	13 October 2016	167,487,526
Fisher Funds Management Limited	26 September 2017	38,514,923
Accident Compensation Corporation	8 November 2018	24,690,553

* Includes: Hoglett Hamlett Limited (New Zealand incorporated company with company number 5994887), Sir Richard Michael Hill, Lady Ann Christine Hill and Veritas Hill Limited (New Zealand incorporated company with company number 2303840).



Corporate directory

DIRECTORS

E.J. Hill BCom, MBA (Chair)
Sir R.M. Hill KNZM
G.W. Smith BComm, FCA, FAICD
R.I. Fyfe BEng, FENZ
J.S. Allis

COMPANY SECRETARY

A. Lowe
BCom, LLB (Hons), MAppFin, CA, CTA

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