	Notes	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Revenue from continuing operations	3	**443,710**	412,679	**11,198**	321,910
Other income	4	**1,176**	237	**425**	83
Cost of goods sold		**(169,882)**	(164,765)	**-**	-
Employee benefits expense		**(110,265)**	(102,155)	**94**	(261)
Occupancy costs	6	**(44,469)**	(39,953)	**-**	-
Depreciation and amortisation expense	6	**(10,080)**	(9,833)	**(13)**	(20)
Loss on disposal of property, plant and equipment	6	**(467)**	(71)	**-**	-
Other expenses		**(73,248)**	(69,656)	**(1,213)**	(22,866)
Finance expenses		**(5,561)**	(6,334)	**-**	-
Profit before income tax		**30,914**	20,149	**10,491**	298,846
Income tax (expense)/benefit	7	**(4,405)**	46,639	**117**	662
Profit for the year		**26,509**	66,788	**10,608**	299,508
Other comprehensive income					
Currency translation differences arising during the year	21a	**(2,061)**	260	**-**	-
Total comprehensive income for the year		**24,448**	67,048	**10,608**	299,508
Total comprehensive income for the year is attributable to:					
Owners of Michael Hill International Limited		**24,448**	67,048	**10,608**	299,508
		Cents	Cents		
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:					
Basic earnings per share	23	**6.93**	17.46		
Diluted earnings per share	23	**6.92**	17.44		

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

	Notes	Group **2010** **$'000**	Group 2009 $'000	Parent **2010** **$'000**	Parent 2009 $'000
ASSETS					
Current assets					
Cash and cash equivalents	8	**6,270**	23,529	**14**	8
Trade and other receivables	9	**5,451**	6,420	**6,236**	21,190
Inventories	10	**150,875**	119,105	**-**	-
Current tax receivables	11	**3,311**	2,405	**263**	3,351
Total current assets		**165,907**	151,459	**6,513**	24,549
Non-current assets					
Property, plant and equipment	12	**34,898**	35,280	**1**	14
Deferred tax assets	13	**57,758**	58,591	**4**	2
Intangible assets	14	**280**	471	**-**	-
Investments in subsidiaries	15	**-**	-	**296,869**	279,375
Total non-current assets		**92,936**	94,342	**296,874**	279,391
Total assets		**258,843**	245,801	**303,387**	303,940
LIABILITIES					
Current liabilities					
Trade and other payables	16	**43,776**	35,628	**156**	53
Provisions	17	**2,189**	1,672	**-**	-
Total current liabilities		**45,965**	37,300	**156**	53
Non-current liabilities					
Borrowings	18	**51,707**	60,487	**-**	-
Provisions	19	**1,248**	1,275	**-**	-
Total non-current liabilities		**52,955**	61,762	**-**	-
Total liabilities		**98,920**	99,062	**156**	53
Net assets		**159,923**	146,739	**303,231**	303,887
EQUITY					
Contributed equity	20	**3,850**	3,850	**3,850**	3,850
Reserves	21,(a)	**2,775**	4,626	**610**	400
Retained profits	21,(b)	**153,298**	138,263	**298,771**	299,637
		159,923	146,739	**303,231**	303,887
Total equity		**159,923**	146,739	**303,231**	303,887

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

Group	Notes	**Attributable to members of Michael Hill International Limited** Contributed equity $'000	Reserves $'000	Retained profits $'000	**Total equity $'000**
Balance at 1 July 2008		3,850	4,186	82,965	91,001
Total comprehensive income		-	260	66,788	67,048
		3,850	4,446	149,753	158,049
Transactions with owners in their capacity as owners:					
Option expense through share based payments reserve	21(a)	-	180	-	180
Dividends paid	22	-	-	(11,490)	(11,490)
		-	180	(11,490)	(11,310)
Balance at 30 June 2009		3,850	4,626	138,263	146,739
Total comprehensive income		-	(2,061)	26,509	24,448
		3,850	2,565	164,772	171,187
Transactions with owners in their capacity as owners:					
Option expense through share based payments reserve	21(a)	-	210	-	210
Dividends paid	22	-	-	(11,474)	(11,474)
		-	210	(11,474)	(11,264)
Balance at 30 June 2010		3,850	2,775	153,298	159,923

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

Parent	Notes	**Contributed equity $'000**	**Reserves $'000**	**Retained profits $'000**	**Total equity $'000**
Balance at 1 July 2008		3,850	220	11,619	15,689
Total comprehensive income		-	-	299,508	299,508
		3,850	220	311,127	315,197
Transactions with owners in their capacity as owners:					
Option expense through share based payments reserve	21,(a)	-	180	-	180
Dividends paid	22	-	-	(11,490)	(11,490)
		-	180	(11,490)	(11,310)
Balance at 30 June 2009		3,850	400	299,637	303,887
Total comprehensive income		-	-	10,608	10,608
		3,850	400	310,245	314,495
Transactions with owners in their capacity as owners:					
Option expense through share based payments reserve	21,(a)	-	210	-	210
Dividend paid	22	-	-	(11,474)	(11,474)
		-	210	(11,474)	(11,264)
Balance at 30 June 2010		3,850	610	298,771	303,231

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

		Group		Parent	
		2010	2009	**2010**	2009
	Notes	**$'000**	$'000	**$'000**	$'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		**487,600**	452,095	**-**	-
Payments to suppliers and employees (inclusive of goods and services tax)		**(443,994)**	(375,149)	**(3)**	(3)
		43,606	76,946	**(3)**	(3)
Interest received		**265**	306	**-**	-
Other revenue		**350**	959	**-**	-
Interest paid		**(5,564)**	(6,347)	**-**	-
Income tax paid		**(1,934)**	(7,383)	**-**	-
Net goods and services tax paid		**(23,972)**	(16,838)	**-**	-
Net cash inflow / (outflow) from operating activities	27	**12,751**	47,643	**(3)**	(3)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**258**	217	**-**	-
Payments for property, plant and equipment		**(10,331)**	(10,545)	**-**	-
Net cash (outflow) from investing activities		**(10,073)**	(10,328)	**-**	-
Cash flows from financing activities					
Proceeds from borrowings		**35,918**	48,792	**-**	-
Repayment of borrowings		**(44,216)**	(60,381)	**-**	-
Dividends paid to company's shareholders	22	**(11,474)**	(11,490)	**(11,474)**	(11,490)
Intercompany advance		**-**	-	**11,483**	11,459
Net cash (outflow) / inflow from financing activities		**(19,772)**	(23,079)	**9**	(31)
Net (decrease) / increase in cash and cash equivalents		**(17,094)**	14,236	**6**	(34)
Cash and cash equivalents at the beginning of the financial year		**23,529**	10,013	**8**	11
Effects of exchange rate changes on cash and cash equivalents		**(165)**	(720)	**-**	31
Cash and cash equivalents at end of year	8	**6,270**	23,529	**14**	8

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

1 Summary of significant accounting policies

(a) Basis of preparation

The financial statements for the year ended 30 June 2010 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit orientated entities.

Compliance with IFRS

New Zealand Accounting Standards include New Zealand equivalents to International Financial Reporting Standards (NZIFRS). Compliance with NZ IFRS ensures that the consolidated financial statements and notes of Michael Hill International Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in NZ-IAS 32 Financial Instruments: Presentation.

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

Entities reporting

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

The Parent company and the consolidated entity are designated as profit-orientated entities for financial reporting purposes.

Statutory base

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 19 August 2010.

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

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. In the Directors' opinion, there are no significant accounting estimates and judgements in preparing the accounts.

Financial statement presentation

The group has applied the revised NZ IAS 1 Presentation of Financial Statement which became effective on the 1 January 2009. The revised standard required the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Michael Hill International Limited ('company' or 'parent entity') as at 30 June 2010 and the results of all subsidiaries for the year then ended. Michael Hill International Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. 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 minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Investments in subsidiaries are accounted for at cost in the individual financial statements of Michael Hill International Limited.

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

The group has formed a Trust to administer the Group's employee share scheme. The Trust is consolidated as the substance of the relationship is that the trust is controlled by the Group. Shares held by the Trust are disclosed as treasury shares and deducted from contributed equity.

(c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

1 Summary of significant accounting policies (continued)

(iii) **Group companies**

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

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

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

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

(e) Revenue recognition

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

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

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

(ii) **Interest income**

Interest income is recognised using the effective interest method.

(f) Income tax

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

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

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

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

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

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

1 Summary of significant accounting policies (continued)

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

(g) Leases

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

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 28). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(h) Impairment of assets

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

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

(i) Cash and cash equivalents

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

(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

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

(k) Inventories

Raw materials and stores, work in progress 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.

1 Summary of significant accounting policies (continued)

(l) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

(m) Investments and other financial assets

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

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

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

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (note 9).

(iii) Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available for sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Regular purchases and sales of investments are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve.

1 Summary of significant accounting policies (continued)

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

(n) Derivatives

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

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in movements in the hedging reserve in shareholders' equity are shown in:

(i) Fair value hedge

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

(ii) Cash flow hedge

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

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

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

(o) Fair value estimation

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

The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

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

(p) Property, plant and equipment

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

1 Summary of significant accounting policies (continued)

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

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Plant & equipment	5 - 6 years
- Motor Vehicles	4 - 5 years
- Furniture, fittings & equipment	6 years
- Leasehold Improvements	6 - 10 years

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

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

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

(q) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Each of these cash generating units represents the Group's investment in each country of operation by each primary reporting segment.

(ii) Computer software

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

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

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

(r) Trade and other payables

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

Deferred income represents lease incentives for entering new lease agreements. These amounts are taken to revenue over the life of the lease.

(s) Borrowings

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

1 Summary of significant accounting policies (continued)

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

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

(t) Provisions

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

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

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

(u) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

(iii) Retirement benefit obligations

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

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

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Michael Hill International Limited Employee Share Scheme and from time to time options are issued to executives of Michael Hill International Limited in accordance with the company constitution. The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity.

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

1 Summary of significant accounting policies (continued)

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

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

(v) Profit-sharing and bonus plans

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

(v) Contributed equity

Ordinary shares are classified as equity.

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

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

(w) Dividends

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

(x) Earnings per share

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

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

(y) Standards, amendments and interpretations to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are not mandatory for 30 June 2010 reporting periods. The new standards have been reviewed and there are no standards that will have an impact on the group.

2 Financial risk management

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

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

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

(a) Market risk

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

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

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

	30 June 2010			30 June 2009		
	USD	**AUD**	**CAD**	USD	AUD	CAD
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Cash and cash equivalents	**446**	**1,683**	**1,407**	2,205	4,547	1,623
Trade receivables	**-**	**1,317**	**508**	5	1,600	314
Commercial Bills	**-**	**42,700**	**-**	-	49,400	-
Trade payables	**6,263**	**2,480**	**400**	5,043	3,663	242

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

Group sensitivity
The Group's principal foreign currency exposures arise from the purchase of overseas sourced products that are primarily invoiced in US dollars. Based on the US dollar trade payables due for payment at 30 June 2010, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's pre tax profit for the year would have been NZ$989,000 lower / NZ$809,000 higher (2009: NZ$846,000 lower / NZ$692,000 higher).

The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of Australia, Canada and United States. The effect on the FX translation reserve is contained in note 21.

(ii) **Cash flow and fair value interest rate risk**
The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain a minimum 50% in fixed rate instruments. All the Group's borrowings are denominated in Australian Dollars.

2 Financial risk management (continued)

An analysis by maturities and a summary of the terms and conditions is in note 18.

Group sensitivity

At 30 June 2010, if interest rates had changed by -/+100 basis points from the year end rates with all other variables held constant, pre tax profit for the year would have been NZ$517,000 lower/higher (2009: NZ$605,000 lower/higher), mainly as a result of higher/lower interest expense on commercial bills.

(b) Credit risk

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

(c) Liquidity risk

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

Please see note 18 for more information on the Group's borrowings, financing arrangements and interest rate exposures.

(d) Cash flow and fair value risk

As the Group has no significant interest-bearing assets, the Group’s income and operating cash flows are substantially independent of changes in market interest rates.

(e) Capital risk management

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

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

3 Revenue

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
From continuing operations:				
Sales revenue	**443,331**	411,999	**-**	-
Interest revenue	**235**	290	**-**	-
Intercompany dividends	**-**	-	**11,198**	321,910
Rent Income	**107**	104	**-**	-
Other revenue	**37**	286	**-**	-
	443,710	412,679	**11,198**	321,910

4 Other income

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Net foreign exchange gains (net loss in 2009 - see note 6)	**941**	-	**308**	-
Other income	**235**	237	**117**	83
	1,176	237	**425**	83

5 Correction of original valuation of the sale of intellectual property

Due to an adjustment to the original valuation of the intellectual property sold from the New Zealand subsidiary, Michael & Co Limited, to the Australian subsidiary, Michael Hill Franchise Pty Limited, the consolidated income tax benefit was overstated by $2.745m for the year ended 30 June 2009.

In the Group's financial statements, the error had the effect of overstating the consolidated deferred tax asset, total assets, consolidated retained earnings and total equity by $2.745m as at 30 June 2009. The error also had the effect of overstating the consolidated income tax benefit and profit for the year ended 30 June 2009 by $2.745m.

In the parent's entity financial statements, the error had the effect of overstating investments in subsidiaries, total assets, retained earnings and total equity by $20.222m as at 30 June 2009. The error also had the effect of overstating revenue and profit for the year by $20.222m for the year ended 30 June 2009. All resulting effects on the parent entity are eliminated upon group consolidation.

The error has been corrected by restating each of the affected financial statement line items for the prior year, as described above.

Basic and diluted earnings per share for the prior year have also been restated. The amount of the correction for basic earnings per share was a reduction of $0.72 cents per share and a reduction of $0.71 cents for diluted earnings per share.

6 Expenses

	Group		Parent	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Profit before income tax includes the following specific expenses:				
Depreciation				
Leasehold improvements	**5,509**	5,270	**-**	-
Furniture & fittings	**1,556**	1,534	**-**	-
Plant and equipment	**2,591**	2,293	**1**	2
Motor vehicles	**220**	304	**12**	18
Total depreciation	**9,876**	9,401	**13**	20
Amortisation				
Software	**204**	432	**-**	-
Total amortisation	**204**	432	**-**	-
Total depreciation and amortisation	**10,080**	9,833	**13**	20
Impairment of property, plant and equipment	**166**	246	**-**	-
Net loss on disposal of property, plant and equipment	**467**	71	**-**	-
Rental expense relating to operating leases	**44,469**	39,953	**-**	-
Defined contribution superannuation expense	**6,530**	5,684	**-**	-
Net foreign exchange losses (net gain in 2010 - see note 4)	**-**	1,822	**-**	133
Donations	**65**	96	**-**	-
Adjustment to intellectual property valuation (see note 5)	**-**	-	**-**	20,222

6 Expenses (continued)

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

	Group		Parent	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
(a) Assurance services				
Audit services				
PricewaterhouseCoopers Australian Firm				
Audit and review of financial reports and other audit work	**330**	308	**-**	-
Total remuneration for audit services	**330**	308	**-**	-
Total remuneration for assurance services	**330**	308	**-**	-
(b) Taxation services				
PricewaterhouseCoopers Australian Firm				
Tax compliance services, including review of company income tax returns	**261**	204	**-**	-
Corporate planning and related tax advice for the Group	**370**	788	**-**	-
Related practices of PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns	**161**	308	**-**	-
Corporate planning and related tax advice for the Group	**238**	614	**-**	-
Total remuneration for taxation services	**1,030**	1,914	**-**	-
(c) Advisory services				
PricewaterhouseCoopers Australian Firm				
System reviews	**33**	87	**-**	-
Total remuneration for advisory services	**33**	87	**-**	-
	1,393	2,309	**-**	-

7 Income tax expense

(a) Income tax expense

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Current tax	**3,307**	4,906	**(263)**	(659)
Deferred tax	**811**	(50,963)	**(2)**	(3)
Under / (over) provided in prior years	**287**	(582)	**148**	-
Income tax expense / (benefit)	**4,405**	(46,639)	**(117)**	(662)
Deferred income tax expense / (revenue) included in income tax expense comprises decrease / (increase) in deferred tax assets (note 13)	**811**	(50,963)	**(2)**	(3)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Profit from continuing operations before income tax expense	**30,914**	20,149	**10,491**	298,846
Tax at the New Zealand tax rate of 30%	**9,274**	6,045	**3,147**	89,654
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non deductible entertainment expenditure	**86**	67	**1**	-
Non deductible legal expenditure	**-**	191	**-**	191
Investment allowance	**(73)**	(170)	**-**	-
Share of partnership	**(6,555)**	(3,946)	**-**	-
Dividends not assessable	**-**	-	**(3,360)**	(96,573)
Capital loss not assessable	**-**	-	**-**	6,066
Sundry items	**82**	93	**(53)**	-
	2,814	2,280	**(265)**	(662)
Difference in overseas tax rates	**96**	(44)	**-**	-
Change in tax rate on deferred tax balance	**55**	6	**-**	-
Under provision in prior years	**114**	266	**148**	-
Prior year deferred tax not previously recognised	**-**	168	**-**	-
Tax losses not recognised	**1,326**	882	**-**	-
Future tax deductions for intellectual property rights	**-**	(50,197)	**-**	-
	1,591	(48,919)	**148**	-
Income tax expense / (benefit)	**4,405**	(46,639)	**(117)**	(662)

(c) Tax losses

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Unused tax losses for which no deferred tax has been recognised	**7,360**	2,939	**-**	-
Potential tax benefit @ 34%	**2,502**	999	**-**	-

All unused tax losses were incurred by the USA entity.

8 Current assets - Cash and cash equivalents

	Group		Parent	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**5,020**	12,529	**14**	8
Deposits at call	**1,250**	11,000	**-**	-
	6,270	23,529	**14**	8

(a) Cash at bank and on hand

Cash at bank and on hand are non-interest bearing.

(b) Deposits at call

Deposits at call bear a floating interest rate of 2.6% (2009: 2.50%).

9 Current assets - Trade and other receivables

	Group		Parent	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Trade receivables	**2,756**	4,006	**-**	-
Provision for doubtful receivables	**(644)**	(1,098)	**-**	-
	2,112	2,908	**-**	-
Other receivables	**1,610**	1,892	**-**	-
Prepayments	**1,729**	1,620	**-**	-
Related party receivables	**-**	-	**6,236**	21,190
	5,451	6,420	**6,236**	21,190

(a) Trade receivables

Trade receivables are from sales made to customers mainly through third party credit providers.

(b) Bad and doubtful trade receivables

All trade receivables past due have been impaired.

The Group has recognised a loss of $340,000 (2009: $796,000) in respect of bad and doubtful trade receivables during the year ended 30 June 2010. The loss has been included in ‘other expenses’ in the income statement.

(c) Other receivables

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

(d) Related party receivables

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

(e) Effective interest rates

All receivables are non-interest bearing.

10 Current assets - Inventories

	Group		Parent	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Raw materials	**9,436**	7,234	**-**	-
Finished goods	**133,985**	104,527	**-**	-
Packaging	**1,770**	2,043	**-**	-
Display materials	**5,684**	5,301	**-**	-
	150,875	119,105	**-**	-

Inventory expense

Inventories recognised as an expense during the year ended 30 June 2010 amounted to $169,882,000 (2009: $164,765,000).

All inventories are held at cost.

11 Current assets - Current tax receivables

	Group		Parent	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Income tax	**3,311**	2,405	**263**	3,351
	3,311	2,405	**263**	3,351

12 Non-current assets - Property, plant and equipment

Group	Plant and equipment $'000	Fixtures and fittings $'000	Motor vehicles $'000	Leasehold improvements $'000
At 1 July 2008				
Cost	14,231	10,775	1,606	36,878
Accumulated depreciation	(6,776)	(4,708)	(748)	(15,967)
Net book amount	7,455	6,067	858	20,911
Year ended 30 June 2009				
Opening net book amount	7,455	6,067	858	20,911
Exchange differences	(189)	(166)	(17)	(439)
Additions	2,853	1,795	384	5,513
Additions - make good asset	-	-	-	190
Disposals	(5)	(10)	(241)	(32)
Depreciation charge	(2,293)	(1,534)	(304)	(5,270)
Impairment charge	(41)	(48)	-	(157)
Closing net book amount	7,780	6,104	680	20,716
At 30 June 2009				
Cost	16,718	12,250	1,282	41,601
Accumulated depreciation	(8,938)	(6,146)	(602)	(20,885)
Net book amount	7,780	6,104	680	20,716

Group	Total $'000
At 1 July 2008	
Cost	63,490
Accumulated depreciation	(28,199)
Net book amount	35,291
Year ended 30 June 2009	
Opening net book amount	35,291
Exchange differences	(811)
Additions	10,545
Additions - make good asset	190
Disposals	(288)
Depreciation charge	(9,401)
Impairment charge	(246)
Closing net book amount	35,280
At 30 June 2009	
Cost	71,851
Accumulated depreciation	(36,571)
Net book amount	35,280

12 Non-current assets - Property, plant and equipment (continued)

Group	Plant and equipment $'000	Fixtures and fittings $'000	Motor vehicles $'000	Leasehold improvements $'000
Year ended 30 June 2010				
Opening net book amount	7,780	6,104	680	20,716
Exchange differences	(46)	(56)	-	75
Additions	2,979	1,372	280	5,700
Additions - make good asset	-	-	-	81
Disposals	(129)	(124)	(199)	(273)
Depreciation charge	(2,591)	(1,556)	(220)	(5,509)
Impairment charge *	(30)	(1)	-	(135)
Closing net book amount	7,963	5,739	541	20,655
At 30 June 2010				
Cost	18,949	13,053	999	45,112
Accumulated depreciation	(10,986)	(7,314)	(458)	(24,457)
Net book amount	7,963	5,739	541	20,655

Group	Total $'000
Year ended 30 June 2010	
Opening net book amount	35,280
Exchange differences	(27)
Additions	10,331
Additions - make good asset	81
Disposals	(725)
Depreciation charge	(9,876)
Impairment charge *	(166)
Closing net book amount	34,898
At 30 June 2010	
Cost	78,113
Accumulated depreciation	(43,215)
Net book amount	34,898

12 Non-current assets - Property, plant and equipment (continued)

Parent	**Plant and equipment $'000**	**Motor vehicles $'000**	**Total $'000**
At 1 July 2008			
Cost	31	89	120
Accumulated depreciation	(27)	(59)	(86)
Net book amount	4	30	34
Year ended 30 June 2009			
Opening net book amount	4	30	34
Additions	-	-	-
Disposals	-	-	-
Depreciation charge	(2)	(18)	(20)
Closing net book amount	2	12	14
At 30 June 2009			
Cost	31	89	120
Accumulated depreciation	(29)	(77)	(106)
Net book amount	2	12	14

Parent	**Plant and equipment $'000**	**Motor vehicles $'000**	**Total $'000**
Year ended 30 June 2010			
Opening net book amount	2	12	14
Additions	-	-	-
Disposals	-	-	-
Depreciation charge	(1)	(12)	(13)
Closing net book amount	1	-	1
At 30 June 2010			
Cost	31	89	120
Accumulated depreciation	(30)	(89)	(119)
Net book amount	1	-	1

* The impairment charged to the property, plant and equipment assets are as a result of losses made by the applicable stores.

13 Non-current assets - Deferred tax assets

	Group		Parent	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
The balance comprises temporary differences attributable to:				
Doubtful debts	**188**	329	**-**	-
Fixed assets	**50,969**	52,563	**4**	2
Unearned income	**228**	73	**-**	-
Employee benefits	**2,319**	2,224	**-**	-
Retirement benefit obligations	**236**	145	**-**	-
Provision for warranties and legal costs	**320**	173	**-**	-
Other provisions	**770**	847	**-**	-
Unrealised foreign exchange losses	**22**	473	**-**	-
Operating leases	**1,007**	875	**-**	-
Inventories	**-**	-	**-**	-
Prepayments	**(115)**	(147)	**-**	-
Tax losses	**1,814**	1,036	**-**	-
Net deferred tax assets	**57,758**	58,591	**4**	2
Movements:				
Opening balance at 1 July	**58,591**	7,822	**2**	(1)
Credited/(charged) to the income statement (note 7)	**(811)**	50,963	**2**	3
Prior year adjustment	**(4)**	(28)	**-**	-
Foreign exchange differences	**(18)**	(166)	**-**	-
Closing balance at 30 June	**57,758**	58,591	**4**	2
Expected settlement				
Within 12 months	**4,410**	2,979	**4**	(1)
In excess of 12 months	**53,348**	55,612	**-**	3
	57,758	58,591	**4**	2

14 Non-current assets - Intangible assets

Group	**Computer software $'000**	**Total $'000**
At 1 July 2008		
Cost	3,959	3,959
Accumulated amortisation	(3,075)	(3,075)
Net book amount	884	884
Year ended 30 June 2009		
Opening net book amount	884	884
Exchange differences	19	19
Amortisation charge *	(432)	(432)
Closing net book amount	471	471
At 30 June 2009		
Cost	4,005	4,005
Accumulated amortisation	(3,534)	(3,534)
Net book amount	471	471

Group	**Patents, trademarks and other rights $'000**	**Computer software $'000**	**Total $'000**
Year ended 30 June 2010			
Opening net book amount	-	471	471
Exchange differences	-	(1)	(1)
Additions	14	-	14
Amortisation charge *	-	(204)	(204)
Closing net book amount	14	266	280
At 30 June 2010			
Cost	14	3,961	3,975
Accumulated amortisation	-	(3,695)	(3,695)
Net book amount	14	266	280

* Amortisation of $204,000 (2009: $432,000) is included in depreciation and amortisation expense in the income statement.

The parent has no intangible assets.

15 Non-current assets - Investments in subsidiaries

	Group		**Parent**	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Shares in subsidiaries	**-**	-	**296,869**	279,375

The subsidiaries of Michael Hill International Limited are set out in note 25. All investments in subsidiary companies are eliminated on consolidation.

16 Current liabilities - Trade and other payables

	Group		Parent	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Trade payables	**28,162**	25,084	**98**	-
Accrued expenses	**6,709**	1,593	**-**	-
Deferred Income	**760**	504	**-**	-
Other payables	**8,145**	8,447	**58**	53
	43,776	35,628	**156**	53

17 Current liabilities - Provisions

	Group		Parent	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Employee benefits - long service leave	**1,195**	995	**-**	-
Returns provision	**923**	625	**-**	-
Make good provision	**71**	52	**-**	-
	2,189	1,672	**-**	-

(a) Employee benefits - long service leave

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

(b) Returns provision

Provision is made for the estimated sale returns for the Group's 30 day change of mind policy. Management estimates the provision based on historical sale return information and any recent trends that may suggest future claims could differ from historical amounts.

(c) Make good provision

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

17 Current liabilities - Provisions (continued)

(d) Movements in provisions

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

	Employee benefits $'000	Returns provision $'000	Make good provision $'000	Total $'000
Group - 2010				
Current				
Carrying amount at start of year	995	625	52	1,672
Additional provisions recognised	372	929	20	1,321
Amounts incurred and charged	(158)	(631)	-	(789)
Exchange differences	(14)	-	(1)	(15)
Carrying amount at end of year	1,195	923	71	2,189

18 Non-current liabilities - Borrowings

	Group		Parent	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Secured				
Bank loans	**51,707**	60,487	**-**	-
Total non-current borrowings	**51,707**	60,487	**-**	-

(a) Assets pledged as security

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

18 Non-current liabilities - Borrowings (continued)

(b) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Credit standby arrangements				
Total facilities				
Bank overdrafts	**4,211**	4,224	**-**	-
Commercial bill acceptance facility	**92,117**	93,143	**-**	-
	96,328	97,367	**-**	-
Used at balance date				
Bank overdrafts	**-**	-	**-**	-
Commercial bill acceptance facility	**51,707**	60,487	**-**	-
	51,707	60,487	**-**	-
Unused at balance date				
Bank overdrafts	**4,211**	4,224	**-**	-
Commercial bill acceptance facility	**40,410**	32,656	**-**	-
	44,621	36,880	**-**	-

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

(c) Interest rate risk exposures

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

Exposures arise predominantly from liabilities bearing variable interest rates as the Group intends to hold fixed rate liabilities to maturity.

The carrying amount of commercial bills reflects fair value.

2010	Floating interest rate $'000	Fixed interest rate 1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Over 4 to 5 years $'000	Over 5 years $'000	Total $'000
Commercial bill acceptance facility	-	39,598	9,687	-	2,422	-	-	51,707
	-	39,598	9,687	-	2,422	-	-	51,707
Weighted average interest rate	- %	6.72 %	6.83 %	- %	7.54 %	- %	- %	

18 Non-current liabilities - Borrowings (continued)

2009	Floating interest rate	Fixed interest rate 1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Commercial bill acceptance facility	-	15,550	32,693	9,795	-	2,449	-	60,487
	-	15,550	32,693	9,795	-	2,449	-	60,487
Weighted average interest rate	- %	7.45 %	7.18 %	6.83 %	- %	7.54 %	- %	

19 Non-current liabilities - Provisions

	Group **2010** **$'000**	Group 2009 $'000	Parent **2010** **$'000**	Parent 2009 $'000
Employee benefits - long service leave	**1,012**	1,109	**-**	-
Make good provision	**236**	166	**-**	-
	1,248	1,275	**-**	-

(a) Employee benefits - long service leave

The basis used to measure the liability for long service leave is set out in note 17(a).

(b) Make good provision

The basis used to calculate the make good provision is set out in note 17(c).

(c) Movements in provisions

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

	Employee benefits $'000	**Make good provision $'000**	**Total $'000**
Group - 2010			
Non-current			
Carrying amount at start of year	1,109	166	1,275
Additional provisions recognised	-	84	84
Amounts incurred and charged	(87)	(12)	(99)
Exchange differences	(10)	(2)	(12)
Carrying amount at end of year	1,012	236	1,248

20 Contributed equity

	2010 Shares	2009 Shares	2010 $'000	2009 $'000
(a) Share capital				
Ordinary shares				
Fully paid (b)	**383,053,190**	383,053,190	**4,141**	4,141
Treasury stock held for Employee Share Scheme (c)	**(584,290)**	(584,290)	**(291)**	(291)
	382,468,900	382,468,900	**3,850**	3,850

(b) Fully paid ordinary share capital

Date	Details	Number of shares	Issue price	$'000
1 July 2008	Opening balance	383,053,190		4,141
30 June 2009	**Balance**	**383,053,190**		**4,141**
1 July 2009	Opening balance	383,053,190		4,141
30 June 2010	**Balance**	**383,053,190**		**4,141**

(c) Treasury stock

Treasury shares are shares in Michael Hill International Limited that are held by the Michael Hill Trustee Company Limited for the purpose of issuing shares under the Michael Hill International Employee Share Scheme (see note 25).

	Parent 2010 Shares	Parent 2009 Shares	Parent 2010 $'000	Parent 2009 $'000
Balance 1 July	**584,290**	584,290	**291**	291
Balance 30 June	**584,290**	584,290	**291**	291

(d) Ordinary shares

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

(e) Employee share scheme

Information relating to the Michael Hill International Limited Employee Share Scheme, including details of shares issued under the scheme, is set out in note 26.

20 Contributed equity (continued)

(f) Options

Information relating to the Michael Hill International Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 26.

21 Reserves and retained profits

	Group		Parent	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
(a) Reserves				
Share-based payments reserve	**610**	400	**610**	400
Foreign currency translation reserve	**2,165**	4,226	**-**	-
	2,775	4,626	**610**	400
Share-based payments reserve				
Balance 1 July	**400**	220	**400**	220
Option expense (note 26(c))	**210**	180	**210**	180
Balance 30 June	**610**	400	**610**	400
Foreign currency translation reserve				
Balance 1 July	**4,226**	3,966	**-**	-
Currency translation differences arising during the year	**(2,061)**	260	**-**	-
Balance 30 June	**2,165**	4,226	**-**	-

(i) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

(b) Retained profits

	Group		Parent	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Balance 1 July	**138,263**	82,965	**299,637**	11,619
Net profit for the year	**26,509**	66,788	**10,608**	299,508
Dividends	**(11,474)**	(11,490)	**(11,474)**	(11,490)
Balance 30 June	**153,298**	138,263	**298,771**	299,637

22 Dividends

	Parent	
	2010	2009
	$'000	$'000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2009 of 1.5 cents (2008 - 2.0 cents) per fully paid share paid on 12 October 2009 (2008 - 13 October 2008).	**5,737**	7,661
Interim dividend for the year ended 30 June 2010 of 1.5 cents (2009 - 1.0 cent) per fully paid share paid on 1 April 2010 (2009 - 2 April 2009).	**5,737**	3,829
Total dividends provided for or paid	**11,474**	11,490
(b) Dividends not recognised at year end		
Since year end, the Directors have declared the payment of a final dividend of 2.5 cents per fully paid ordinary share (2009 - 1.5 cents). No imputation credits are attached to the final dividend. The aggregate amount of the proposed dividend expected to be paid on 11 October 2010 out of retained profits at 30 June 2010, but not recognised as a liability at year end, is	**9,562**	5,737

(c) Imputed dividends

The dividends are fully imputed. Supplementary dividends of $0 (2009: $331,000) were paid to shareholders not tax-resident in New Zealand for which the Group received a foreign investor tax credit entitlement.

The final dividend recommended after 30 June 2010 will not be imputed out of existing imputation credits or out of imputation credits arising from the payment of income tax in the year ending 30 June 2010.

insert table here

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

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

The consolidated amounts include imputation credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

The impact on the imputation account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the imputation account to nil (2009: $nil).

23 Earnings per share

	Group	
	2010 Cents	2009 Cents
(a) Basic earnings per share		
Profit attributable to the ordinary equity holders of the company	**6.93**	17.46
(b) Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company	**6.92**	17.44

(c) Reconciliations of earnings used in calculating earnings per share

	Group	
	2010 $'000	2009 $'000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**26,509**	66,788
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**26,509**	66,788

(d) Weighted average number of shares used as the denominator

	Group	
	2010 Number	2009 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**382,468,900**	382,468,900
Adjustments for calculation of diluted earnings per share:		
Treasury Stock	**584,290**	584,290
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**383,053,190**	383,053,190

(e) Information concerning the classification of securities

(i) **Options**
Options granted to employees under the Michael Hill International Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 26.

(ii) **Treasury Stock**
Treasury stock held under the Michael Hill International Limited Employee Share Scheme are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. Treasury stock have not been included in the determination of basic earnings per share. Details relating to treasury stock are set out in note 20.

24 Related party transactions

(a) Directors

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

(b) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2010 and 2009 is set out below. The key management personnel are all the directors of the company and the five executives with the greatest authority for the strategic direction and management of the company.

	Short-term benefits $'000	Post-employment benefits $'000	Other long-term benefits $'000	Termination benefits $'000	Share-based payments $'000	Total $'000
2010	**3,800**	**290**	**-**	**-**	**160**	**4,250**
2009	2,227	133	-	-	156	2,516

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

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

(i) Employee Share Scheme

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

(d) Subsidiaries

The ultimate parent and controlling entity of the group is Michael Hill International Limited. Interests in subsidiaries are set out in note 25.

The following transactions occurred with related parties:

	Group		Parent	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Interest revenue				
Subsidiaries	**-**	-	**117**	83
	-	-	**117**	83
Dividend revenue				
Subsidiaries	**-**	-	**11,198**	321,910
	-	-	**11,198**	321,910
Payments made on behalf of parent entity				
Director's fees	**-**	-	**526**	521
Other expenses	**-**	-	**772**	1,989
	-	-	**1,298**	2,510
Other transactions				
Opening balance	**-**	-	**21,192**	10,522
Loans advanced	**-**	-	**3,682**	321,993
Loans repaid	**-**	-	**(18,638)**	(311,323)
Closing Balance	**-**	-	**6,236**	21,192

25 Subsidiaries

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

Name of entity	**Country of incorporation**	**Class of shares**	**Equity holding**	
			2010 **%**	2009 %
Michael Hill Jeweller Limited	New Zealand	Ordinary	**100**	100
Michael & Company Limited (liquidated during 2010)	New Zealand	Ordinary	**-**	100
Michael Hill Trustee Company Limited	New Zealand	Ordinary	**100**	100
Michael Hill Finance (NZ) Limited	New Zealand	Ordinary	**100**	100
Michael Hill Franchise Holdings Limited	New Zealand	Ordinary	**100**	100
MHJ (US) Limited	New Zealand	Ordinary	**100**	100
Michael Hill Jeweller (Australia) Pty Limited	Australia	Ordinary	**100**	100
Michael Hill Wholesale Pty Limited	Australia	Ordinary	**100**	100
Michael Hill Manufacturing Pty Limited	Australia	Ordinary	**100**	100
Michael Hill Franchise Pty Limited	Australia	Ordinary	**100**	100
Michael Hill Franchise Services Pty Limited	Australia	Ordinary	**100**	100
Michael Hill Finance (Limited Partnership)	Australia	-	**100**	100
Michael Hill Group Services Pty Limited	Australia	Ordinary	**100**	100
Michael Hill Jeweller (Canada) Limited	Canada	Ordinary	**100**	100
Michael Hill LLC	United States	Ordinary	**100**	100

26 Share-based payments

(a) Employee Option Plan

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

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

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

The ten year options are exercisable at any time during the final five years.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of the options granted is set at 15% (six year options) or 30% (ten year options) above the weighted average price at which the company's shares are traded on the New Zealand Stock Exchange for the calendar month following the announcement by the Group to the New Zealand Stock Exchange of its annual results.

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

26 Share-based payments (continued)

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Group and parent - 2010								
7 November 2007	30 Sept 2017	$1.253	4,250,000	-	-	-	4,250,000	-
24 August 2009	30 Sept 2019	$0.94	-	200,000	-	-	200,000	-
5 November 2009	30 Sept 2019	$0.94	-	150,000	-	-	150,000	-
Total			4,250,000	350,000	-	-	4,600,000	-
Weighted average exercise price			$1.253	$0.94	$-	$-	$1.229	$-
Group and parent - 2009								
7 November 2007	30 Sept 2017	$1.253	4,750,000	-	-	(500,000)	4,250,000	-
Total			4,750,000	-	-	(500,000)	4,250,000	-
Weighted average exercise price			$1.253	$-	$-	$1.253	$1.253	$-

Options granted during the 2010 financial year are detailed below. No options were granted during the 2009 financial year.

The weighted average remaining contractual life of share options outstanding at the end of the period was 7.4 years (2009 - 8.25 years).

Details of options granted

On the 7th November 2007, the Directors authorised the issue of 4,750,000 options to subscribe for ordinary shares in the Company to six senior management personnel in the Group, including 2,000,000 to Mike Parsell in his capacity of CEO of the Group. The issue of options for Mike Parsell was subject to the approval of the shareholders at the annual meeting on the 8th November 2007, in accordance with the Company's constitution. The motion to issue options to Mike Parsell was passed at the annual meeting. The exercise price of $1.253 for all 4,750,000 options was set at 30% above the weighted average price of the Company's ordinary shares in the 20 business days following the announcement on 17 August 2007 to the New Zealand Stock Exchange of its consolidated results for the year ended 30 June 2007.

The options may be exercised in the period immediately following the announcement of the Company's annual financial results for the year ending 30 June 2012 through to 30 June 2017.

The value of the options was calculated using the Black-Scholes option valuation model and the value of the options at the time of granting was $500,000 for the options available to Mike Parsell and $687,500 collectively for the other five option holders.

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

The model inputs for options granted during the year ended 30 June 2008 included:

26 Share-based payments (continued)

(a) options are granted for no consideration, have a ten year life, and are exercisable in the period immediately following the announcement of the Company's annual financial results for the year ending 30 June 2012 through to 30 June 2017.

(b) exercise price: $1.253

(c) grant date: 7 November 2007

(d) expiry date: 30 September 2017

(e) share price at grant date: $1.035

(f) expected price volatility of the company's shares: 20%

(g) expected dividend yield: 4.5%

(h) risk-free interest rate: 6.35%

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 Directors authorised the issue of 200,000 options on the 24 August 2009 and 150,000 options on the 5 November 2009 to subscribe for ordinary shares in the Company to 3 senior management personnel in the Group. The exercise price of $0.94 for all 350,000 options was set at 30% above the weighted average price of the Company's ordinary shares in the 20 business days following the announcement on 24 August 2009 to the New Zealand Stock Exchange of its consolidated results for the year ended 30 June 2009.

The options may be exercised in the period immediately following the announcement of the Company's annual financial results for the year ending 30 June 2014 through to 30 June 2019.

The value of the options was calculated using the Black-Scholes option valuation model and the value of the options at the time of granting was $45,700 collectively for the option holders.

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

The model inputs for options granted during the year ended 30 June 2010 included:

(a) options are granted for no consideration, have a ten year life, and are exercisable in the period immediately following the announcement of the Company's annual financial results for the year ending 30 June 2014 through to 30 June 2019.

(b) exercise price: $0.94

(c) grant date: 200,000 options on 23 September 2009 and 150,000 options on 18 December 2010

(d) expiry date: 30 September 2019

(e) share price at grant date: 200,000 options - $0.75 each and 150,000 options - $0.67

(f) expected price volatility of the company's shares: 30%

(g) expected dividend yield: 4.5%

(h) risk-free interest rate: 5.6% on 23 September and 6% on 18 December 2009

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.

26 Share-based payments (continued)

(b) Employee share scheme

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

	Group		**Parent**	
	2010 Number	2009 Number	**2010 Number**	2009 Number
Shares issued to participating employees (fully paid)	**-**	-	**-**	-
Not yet allocated to employees	**584,290**	584,290	**584,290**	584,290

During the year, nil (2009 - nil) shares were issued to the Michael Hill Employee Share Ownership Plan at an average price of nil (2009 - nil).

Michael Hill International Limited acquired no shares through on-market purchases on the New Zealand Stock Exchange during the year that related to the employee share scheme.

(c) Expenses arising from share-based payment transactions

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

	Group		**Parent**	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Options issued under employee option plan	**210**	180	**(180)**	180
	210	180	**(180)**	180

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

	Group		Parent	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Profit for the year	**26,509**	66,788	**10,608**	299,508
Depreciation	**9,876**	9,401	**13**	20
Amortisation	**204**	432	**-**	-
Non-cash employee benefits expense - share-based payments	**210**	180	**(180)**	180
Other non-cash expenses	**85**	56	**(13,325)**	(298,865)
Net loss on sale of non-current assets	**467**	71	**-**	-
Deferred taxation	**833**	(50,769)	**(2)**	(3)
Net exchange differences	**(2,364)**	(399)	**(308)**	132
Decrease in trade and other receivables	**969**	897	**-**	-
(Increase) / decrease in inventories	**(31,770)**	24,603	**-**	-
(Increase) / decrease in current tax receivables	**(906)**	(3,045)	**3,088**	(974)
Increase / (decrease) in trade and other payables	**8,148**	(859)	**103**	(1)
Increase in provisions	**490**	287	**-**	-
Net cash inflow from operating activities	**12,751**	47,643	**(3)**	(3)

28 Commitments

Operating leases

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

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

	Group		Parent	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**28,852**	32,056	**-**	-
Later than one year but not later than five years	**66,078**	72,133	**-**	-
Later than five years	**13,196**	11,453	**-**	-
	108,126	115,642	**-**	-

29 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities in respect of guarantees to bankers and other financial institutions of subsidiary companies' overdraft facilities and fixed assets at 30 June 2010 of $112,000 (30 June 2009 - $132,000)

The parent entity had contingent liabilities in respect of guarantees to bankers and other financial institutions of subsidiary companies' overdraft facilities and fixed assets at 30 June 2010 of $75,000 (30 June 2009 - $75,000).

No material losses are anticipated in respect of any of the above contingent liabilities.

The Group has no other material contingent liabilities as at balance date.

29 Contingencies (continued)

(b) Contingent assets

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

30 Events occurring after the balance date

There were no significant events occurring after 30 June 2010.

Statement of Segmented Results

for the year ended 30 June 2010

	MHJ NEW ZEALAND			MHJ AUSTRALIA			MHJ CANADA			MHJ USA			GROUP		
	2010	2009		2010	2009		2010	2009		2010	2009		2010	2009	
	$'000	$'000	+/-%	$'000	$'000	+/-%	$'000	$'000	+/-%	$'000	$'000	+/-%	$'000	$'000	+/-%
Operating revenue															
Sales to customers	**95,811**	90,393	6.0%	**292,985**	269,088	8.9%	**39,398**	36,438	8.1%	**14,768**	15,646	(5.6%)	**442,962**	411,565	7.6%
Unallocated revenue													**369**	434	(15.0%)
Total operating revenue													**$ 443,331**	$ 411,999	7.6%
Segment results															
Operating surplus / (loss)	**16,204**	14,954	8.4%	**47,701**	40,968	16.4%	**(1,553)**	(245)	(533.9%)	**(8,713)**	(5,292)	(64.6%)	**53,639**	50,385	6.5%
Unallocated revenue less unallocated expenses													**(22,725)**	(30,236)	24.8%
Profit before income tax													**30,914**	20,149	53.4%
Income tax (expense) / credit													**(4,405)**	46,639	(109.4%)
Profit for the year													**$ 26,509**	$ 66,788	(60.3%)
Segment assets	**36,967**	42,231	(12.5%)	**93,035**	102,401	(9.1%)	**27,065**	19,428	39.3%	**9,573**	12,095	(20.9%)	**166,639**	176,155	(5.4%)
Unallocated													**92,204**	69,646	32.4%
Total													**$ 258,843**	$ 245,801	5.3%
Segment Liabilities	**5,684**	5,045	12.7%	**20,782**	7,808	166.2%	**2,556**	381	570.9%	**987**	336	193.7%	**30,008**	13,570	121.1%
Unallocated													**68,912**	85,492	(19.4%)
Total													**$ 98,920**	$ 99,062	(0.1%)
Segment acquisitions of property, plant & equipment and intangibles	**1,900**	1,988	(4.4%)	**3,178**	4,548	(30.1%)	**2,147**	557	285.4%	**1,767**	384	360.1%	**8,992**	7,477	20.3%
Unallocated													**1,339**	3,068	(56.4%)
Total													**$ 10,331**	$ 10,545	(2.0%)
Segment depreciation and amortisation expense	**1,577**	1,674	(5.8%)	**5,015**	5,153	(2.7%)	**1,372**	1,022	34.2%	**135**	52	159.6%	**8,099**	7,901	2.5%
Unallocated													**1,981**	1,932	2.5%
Total													**$ 10,080**	$ 9,833	2.5%
Impairment expense	**-**	153	(100.0%)	**9**	93	(90.3%)	**157**	-	100.0%	**-**	-	-	**166**	246	(32.5%)
Unallocated													-	-	-
Total													**$ 166**	$ 246	(32.5%)

Notes:

1 Michael Hill International Limited and its controlled entities operate predominantly in one business segment being the sale of jewellery and related services.

2 The company operates in 4 geographical segments; New Zealand, Australia, Canada and the United States of America and is managed on a global basis.

3 Inter segment pricing is at arm's length or market value.

4 Unallocated expenses include all expenses that do not relate directly to the relevant segment and include: manufacturing activities, warehouse and distribution, general corporate expenses, interest and company tax.

To be included in Note 22 c)

c) Imputed Dividends

	Group		Parent	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Imputation credits available for subsequent financial years based on a tax rate of 30%	**1,718**	552	**1,205**	552

PRICEWATERHOUSECOOPERS

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Auditors' Report

To the shareholders of Michael Hill International Limited

We have audited the financial statements on pages 1 to 44. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2010 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 6 to 14.

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

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

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

Basis of Opinion

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

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

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

PRICEWATERHOUSECOOPERS

Auditors' Report

Michael Hill International Limited

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors and consultants in tax compliance, international tax consulting, transfer pricing and system review.

Unqualified Opinion

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

In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and

(b) the financial statements on pages 1 to 44:

   (i) comply with generally accepted accounting practice in New Zealand;

   (ii) comply with International Financial Reporting Standards; and

   (iii) give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 19 August 2010 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants
Brisbane

I, Brett Delaney, am currently a member of The Institute of Chartered Accountants in Australia and my membership number is 74795.
PricewaterhouseCoopers was the firm appointed to undertake the audit of Michael Hill International Ltd for the year ended 30 June 2010. I was responsible for the execution of the audit and delivery of our firm's auditor's report. The audit work was completed on 19 August 2010 and an unqualified opinion was issued.

Brett Delaney

Brett Delaney
Partner