Michael Hill International Limited

Results for announcement to the market

Reporting Period	12 months to 30 June 2013
Previous Reporting Period	12 months to 30 June 2012

	Amount $NZ'000	Percentage Change %
Revenue from ordinary activities	549,521	7.4%
Profit from ordinary activities after tax attributable to members	40,032	9.6%
Net profit for the period attributable to members	40,032	9.6%

	Amount per security	Imputed amount per security
Final dividend for year ended 30 June 2013	4.0 cents	nil
Record date	27 September 2013	
Dividend payment date	4 October 2013	

Michael Hill International Limited's accounts have been audited and an unqualified audit opinion was given.

CHAIRMAN'S STATEMENT

Profit Announcement
Michael Hill International Limited today announced an after tax profit of $40.032m for the twelve months ended 30 June 2013, up 9.6% on the corresponding period last year.

Summary of Key Points (all values stated in NZD unless stated otherwise)
- Operating revenue of $549.521m up 7.4% on same period last year
- EBIT of $50.193m up 9.4% on same period last year
- Same store sales were 1.2% up on same period last year
- Net profit before tax of $47.040m up 11.9% on same period last year
- Net profit after tax of $40.032m up 9.6% on same period last year
- Revenue collected from Professional Care Plans of $33.072m for the period
- Net debt of $20.890m at 30 June 2013, in line with last year
- Operating cash flow of $52.345m, in line with last year
- 18 new stores opened and 3 closed during the period
- Total of 267 stores open at 30 June 2013
- Final dividend of 4.0 cents per share up 14.3%
- Total dividend for the year of 6.5 cents up 18.2% from 5.5 cents last year
- Equity ratio of 59.4% at 30 June 2013

New Zealand Retail Operations
The New Zealand retail segment revenue increased by 2.1% to $111.357m for the twelve months, with an operating surplus of $22.128m, an increase of 2.7% on the corresponding period last year.
Same store sales during the twelve months increased by 1.9% (7.3% last year).
The operating surplus as a percentage of revenue increased to 19.9% (19.8% last year).

One store closed in New Zealand during the period giving a total of 52 stores operating at 30 June 2013.

Australian Retail Operations
The Australian retail segment increased its revenue by 11.7% to AU$289.333m for the twelve months with an operating surplus of AU$42.225m, compared to AU$36.798m for the previous corresponding period, an increase of 14.7%. Same store sales in local currency increased 4.3% for the twelve months (2.1% decrease last year).

The operating surplus as a percentage of revenue was 14.6% (14.2% last year).

Ten new stores were opened in Australia during the period, as follows:
- Albany, Western Australia
- Goulburn, New South Wales
- Hobart CBD, Tasmania
- Melbourne CBD, Victoria
- Mt Gambier, South Australia
- Parramatta, New South Wales
- Perth CBD, Western Australia
- Queen's Plaza Brisbane CBD, Queensland
- Shepparton, Victoria
- Singleton, New South Wales

One store closed during the period, giving a total of 162 stores operating at 30 June 2013.

Canadian Retail Operations
The Canadian retail segment increased its revenue by 19.6% for the twelve months to CA$52.950m and there was an operating surplus of CA$1.121m compared to CA$0.518m for the previous corresponding period. Same stores sales in local currency increased 1.7% for the twelve months (5.8% last year).

Eight new stores were opened during the period, as follows:
- Cambridge, Ontario
- Edmonton City Centre, Alberta
- Georgian Mall, Ontario
- Hillside, British Columbia
- Lambton Mall, Ontario
- Markville, Ontario
- Prairie Mall, Ontario
- St Laurent, Ontario

No stores were closed during the period, giving a total of 45 stores operating at 30 June 2013.

US Retail Operations

The US retail segment increased its revenue by 7.2% to US$10.265m for the twelve months and there was an operating loss of US$2.359m for the same period (US$2.650m last year). Same stores sales in local currency increased 6.4% for the twelve months.

The board is satisfied with the progress of the US operation over the past five years but acknowledges there is still a long way to go before the business is proven up in the US market. Focus remains on improving the performance of the existing stores over the coming twelve months. The company's strategy moving forward is to refine the US property portfolio based on our learning's from the last 5 years in Chicago. The first step in this strategy has been the closure of the Water Tower store in Chicago in June, which will likely be replaced by a new store to be based in the eastern states of the US before Christmas this year. The board view this strategy as an extension to the existing test of the Michael Hill brand in the US market.

One store closed during the period giving a total of 8 stores operating at 30 June 2013.

In-house Customer Finance for North America

The Group established an in-house customer finance program in October 2012 in response to our Canadian provider withdrawing from the consumer credit market at the end of September 2012. Due to the strategic importance of consumer credit to our future revenue stream and the fact that there was no suitable replacement credit provider in the Canadian market the decision was made to bring that function in-house. This strategy not only secures our revenue in the Canadian market but will provide a strategic advantage as we build a valuable database of customers and their spending behaviours. After establishing the in-house customer finance program in October 2012 for our Canadian business it was extended to our fledging US operation where availability of consumer credit is paramount to success in our industry. The in-house customer finance function is being serviced by a US business partner based in Salt Lake City. Receivables from our in-house customer finance activity amounted to $7.723m at 30 June 2013.

Professional Care Plan (PCP)

PCP sales for the financial year were $33.072m. An amount of $16.208m has been included as revenue in the segment figures stated above from the current and prior periods. As a result of a change in the estimation, brought about by management's review of another twelve months of usage data from the PCP program, an additional $4.242m of PCP revenue was recognised in 2012-13 over and above what would have been recognised under the previous estimation formula, of which $1.942m belongs to prior periods. In line with IFRS the full $4.242m of additional revenue was brought to account in the 2012-13 period.

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

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

The following figures are in NZ Dollars	Last Year	This Year
PCP sales collected for the year	$26.955m	$33.072m
PCP revenue brought to income for the year	$6.025m	$16.208m
Deferred revenue carried forward on balance sheet	$31.670m	$47.047m

Outstanding Tax Issues from Group Restructuring in 2008

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

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

In New Zealand, the amount in dispute is $24.636m, being the tax effect of deductions claimed by the New Zealand Group from the date of the sale through to 30 June 2012. The tax effect of deductions for the 2013 financial year is $6.406m. In the event any tax liability was payable, the Group would also incur an interest expense.

In respect of Australia, the value at which the intellectual property was transferred was originally determined by reference to an independent valuation carried out by an internationally recognised firm and a deferred tax asset was raised in 2009 based on that valuation. The deferred tax asset balance at 30 June 2013 was $41.099m as a result of depreciation of components of the intellectual property and a previously announced adjustment in value. The ATO has signalled that it has issues with aspects of that valuation which, if correct, would reduce the amount of depreciation able to be deducted by the Group. As noted, the Group does not accept the ATO's position and believes the ATO's views are based on a number of factual, legal and technical valuation errors. The Group has filed a formal, detailed response with the ATO, together with legal and valuation reports which support the Group's position.

Both matters are capable of being resolved by agreement, but if the Group is unable to find common ground with either the IR or ATO then further formal legal processes may be needed to achieve resolution. As is the case with almost all legal processes there is inherent uncertainty as to the outcome and the Group does not believe that the outcome of either process can be predicted or the range of possible implications quantified. The board does not consider that either of the above ongoing tax matters require a provision in the Group's 2013 financial statements but further detail is included at note 34 to the Financial Statements.

Dividend

The Directors are pleased to announce a final dividend of 4.0¢ per share (2012 – 3.5¢), with no imputation credits attached for New Zealand shareholders and full franking credits for Australian shareholders. The dividend will be paid on Friday, 4 October 2013 with the record date being Friday, 27 September 2013. Including the 2.5 cent per share interim dividend paid on 3 April 2013, the total dividend for the year will be 6.5¢, an increase of 18.2% on the previous corresponding period (2012 – 5.5¢).

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

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

Cash Flows / Balance Sheets

The Group has reported net operating cash flows of $52.345m for the twelve months, compared to $52.131m for the previous year.

The surplus from operations is a result of:

• Profit excluding non-cash items	$50.227m
• Increase in deferred revenues from Professional Care Plan	$17.550m
• Increase in trade and other receivables	$(7.339)m
• Increase in inventory levels	$(7.088)m
• Other miscellaneous items	$(1.005)m
Net Cash Inflow from Operations Surplus for Year	$52.345m

The Group's balance sheet continues to be sound with an equity ratio of 59.4% as at 30 June 2013 (60.1% in 2012) and a working capital ratio of 3.0:1 (3.1:1 in 2012).

Summary

The Directors are pleased that all four segments were able to improve their results in 2012-13 despite continued pressure on the retail sector. Revenue growth continued to be difficult to achieve in all markets especially over the second half of the financial year. A focus on improving the existing business will continue during 2013-14 as well as continued store openings when suitable sites become available.

The Directors are satisfied with the overall performance and they remain confident in the continued growth and profitability of the group.

Michael Hill.

Sir Michael Hill 15/08/2013
Chairman
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STATEMENT OF FINANCIAL PERFORMANCE	Consolidated Statement of Financial Performance Current full year $NZ'000	% Change	Previous corresponding full year $NZ'000
Revenue			
Trading revenue	549,521	7.4%	511,497
Other revenue	412	(72.4%)	1,494
Total operating revenue	549,933	7.2%	512,991
Expenses			
Cost of goods sold	(199,349)	2.5%	(194,573)
Employee benefits expense	(140,706)	13.1%	(124,394)
Occupancy costs	(52,086)	9.6%	(47,531)
Selling expenses	(30,927)	2.8%	(30,074)
Marketing expenses	(30,365)	2.1%	(29,753)
Depreciation and amortisation expense	(13,034)	5.7%	(12,328)
Loss on disposal of property, plant & equipment	(123)	(73.1%)	(457)
Other expenses	(33,068)	19.0%	(27,792)
Finance costs	(3,235)	(20.2%)	(4,053)
Profit before income tax	47,040	11.9%	42,036
Income tax (expense)	(7,008)	26.8%	(5,525)
Profit attributable to members of Michael Hill International Limited	40,032	9.6%	36,511

INCLUDED IN STATEMENT OF FINANCIAL PERFORMANCE ABOVE			
Interest income	82	(58.4%)	197
Insurance recovery			79
Net foreign exchange (loss) / gain	(247)	(123.5%)	1,051
Depreciation	12,990	6.1%	12,248
Amortisation	44	(45.0%)	80
Net loss on disposal of property, plant & equipment	(123)	(73.1%)	(457)
Rental expense relating to operating leases	(52,086)	9.6%	(47,531)
Donations	(30)	30.4%	(23)

EARNINGS PER SECURITY	Earnings Per Security Current full year Cents	Previous corresponding full year Cents
Basic EPS	10.46	9.54
Diluted EPS	10.28	9.50

DIVIDENDS	Dividends Current full year $NZ'000	Previous corresponding full year $NZ'000
Final dividend for the year ended 30 June 2012 of 3.5 cents (2011 - 3.0 cents) per fully paid share paid on 5 October 2012 (2011 - 10 October 2011).	13,397	11,483
Interim dividend for the year ended 30 June 2013 of 2.5 cents (2012 - 2.0 cents) per fully paid share paid on 3 April 2013 (2012 - 2 April 2012).	9,571	7,656
Total dividends provided for or paid	22,968	19,139

STATEMENT OF FINANCIAL POSITION	Consolidated Statement of Financial Position At end of current full year $NZ'000	% Change	At end of previous full year $NZ'000
ASSETS			
Current Assets			
Cash and cash equivalents	12,459	3.3%	12,064
Trade and other receivables	18,671	57.6%	11,847
Inventories	183,770	(1.7%)	187,017
Total current assets	214,900	1.9%	210,928
Non-current assets			
Trade and other receivables	1,272		
Property, plant and equipment	60,067	27.5%	47,116
Deferred tax assets	66,775	4.2%	64,085
Intangible assets	2,786	3880.0%	70
Other non-current assets	2,382	64.4%	1,449
Total non-current assets	133,282	18.2%	112,720
Total assets	348,182	7.6%	323,648
LIABILITIES			
Current liabilities			
Trade and other payables	49,172	(4.1%)	51,260
Current tax liabilities	3,223	(39.5%)	5,325
Provisions	4,579	18.3%	3,871
Deferred revenue	15,653	87.9%	8,330
Total current liabilities	72,627	5.6%	68,786
Non-current liabilities			
Borrowings	33,349	0.9%	33,058
Provisions	2,000	(3.0%)	2,062
Deferred revenue	33,341	31.4%	25,383
Total non-current liabilities	68,690	13.5%	60,503
Total liabilities	141,317	9.3%	129,289
Net assets	206,865	6.4%	194,359
EQUITY			
Contributed equity	4,162	1.9%	4,083
Reserves	(2,844)	(258.6%)	1,793
Retained profits	205,547	9.1%	188,483
Total equity	206,865	6.4%	194,359

NET TANGIBLE ASSETS	Net Tangible Assets Current full year $ / Share	Previous corresponding full year $ / Share
Net tangible assets	$ 0.53	$ 0.51

STATEMENT OF CASH FLOWS	Consolidated Statement of Cash flows Current full year $NZ'000	 Previous corresponding full year $NZ'000
Cash flows from operating activities		
Receipts from customers (incl. GST)	617,361	585,137
Payments to suppliers and employees (incl. GST)	(512,583)	(488,239)
Interest received	82	197
Other revenue	432	485
Interest paid	(2,790)	(4,077)
Income tax paid	(11,847)	(3,732)
Net goods and services tax paid	(38,310)	(37,640)
Net cash inflow from operating activities	52,345	52,131
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	518	230
Payments for property, plant and equipment	(28,720)	(18,127)
Payments for intangible assets	(2,941)	-
Net cash (outflow) from investing activities	(31,143)	(17,897)
Cash flows from financing activities		
Proceeds from borrowings	88,583	39,742
Repayment of borrowings	(86,088)	(51,280)
Proceeds from sale of treasury stock	71	90
Dividends paid to company's shareholders	(22,968)	(19,139)
Net cash (outflow) from financing activities	(20,402)	(30,587)
Net increase in cash and cash equivalents	800	3,647
Cash and cash equivalents at the beginning of the financial year	12,064	8,540
Effects of exchange rate changes on cash and cash equivalents	(405)	(123)
Cash and cash equivalents at the end of year	12,459	12,064

STATEMENT OF CHANGES IN EQUITY	Statement of Changes In Equity Current full year $NZ'000	Statement of Changes In Equity Previous corresponding full year $NZ'000
Total equity at the beginning of the financial year	194,359	178,376
Profit for the year	40,032	36,511
Exchange differences on translation of foreign operations	(4,777)	(1,843)
Total recognised income and expense for the year	35,255	34,668
Transactions with equity holders in their capacity as equity holders		
Employee share scheme issue	79	100
Option reserve movement	140	354
Dividends provided for or paid	(22,968)	(19,139)
Total equity at the end of the financial year	206,865	194,359

ISSUED AND QUOTED SECURITIES	Issued Securities At end of current full year No. of Shares	Issued Securities At end of previous full year No. of Shares
Ordinary Shares:		
Fully Paid	383,053,190	383,053,190
Treasury stock held for employee share scheme	(203,646)	(277,604)
	382,849,544	382,775,586
Options issued during the year	750,000	900,000

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

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

Statement of segmented results
for the year ended 30 June 2013

	MHJ NEW ZEALAND			MHJ AUSTRALIA			MHJ CANADA			MHJ USA			GROUP		
	2013	2012		2013	2012		2013	2012		2013	2012		2013	2012	
	$'000	$'000	+/-%	$'000	$'000	+/-%	$'000	$'000	+/-%	$'000	$'000	+/-%	$'000	$'000	+/-%
Operating revenue															
Sales to customers	**111,357**	109,110	2.1%	**361,238**	333,174	8.4%	**64,138**	55,124	16.4%	**12,472**	11,999	3.9%	**549,205**	509,407	7.8%
Unallocated revenue													**316**	2,090	(84.9%)
Total operating revenue													**$ 549,521**	$ 511,497	7.4%
Segment results															
Operating surplus / (loss)	**22,128**	21,550	2.7%	**52,712**	47,509	11.0%	**1,356**	713	90.2%	**(2,863)**	(3,296)	13.1%	**73,333**	66,476	10.3%
Unallocated revenue less unallocated expenses													**(26,293)**	(24,440)	(7.6%)
Profit before income tax													**47,040**	42,036	11.9%
Income tax (expense)													**(7,008)**	(5,525)	(26.8%)
Profit for the year													**$ 40,032**	$ 36,511	9.6%
Segment assets	**47,754**	42,743	11.7%	**130,503**	120,167	8.6%	**52,125**	36,476	42.9%	**11,804**	12,393	(4.8%)	**242,186**	211,779	14.4%
Unallocated													**105,996**	111,869	(5.2%)
Total													**$ 348,182**	$ 323,648	7.6%
Segment liabilities	**16,895**	13,514	25.0%	**59,773**	47,841	24.9%	**11,884**	8,086	47.0%	**2,826**	2,730	3.5%	**91,378**	72,171	26.6%
Unallocated													**49,939**	57,118	(12.6%)
Total													**$ 141,317**	$ 129,289	9.3%
Segment acquisitions of property, plant & equipment and intangibles	**1,812**	3,114	(41.8%)	**17,493**	10,229	71.0%	**6,581**	3,030	117.2%	**255**	280	(8.9%)	**26,141**	16,653	57.0%
Unallocated													**5,520**	1,474	274.5%
Total													**$ 31,661**	$ 18,127	74.7%
Segment depreciation and amortisation expense	**1,982**	1,896	4.5%	**6,823**	6,525	4.6%	**2,045**	1,662	23.0%	**575**	533	7.9%	**11,425**	10,616	7.6%
Unallocated													**1,609**	1,712	(6.0%)
Total													**$ 13,034**	$ 12,328	5.7%

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.