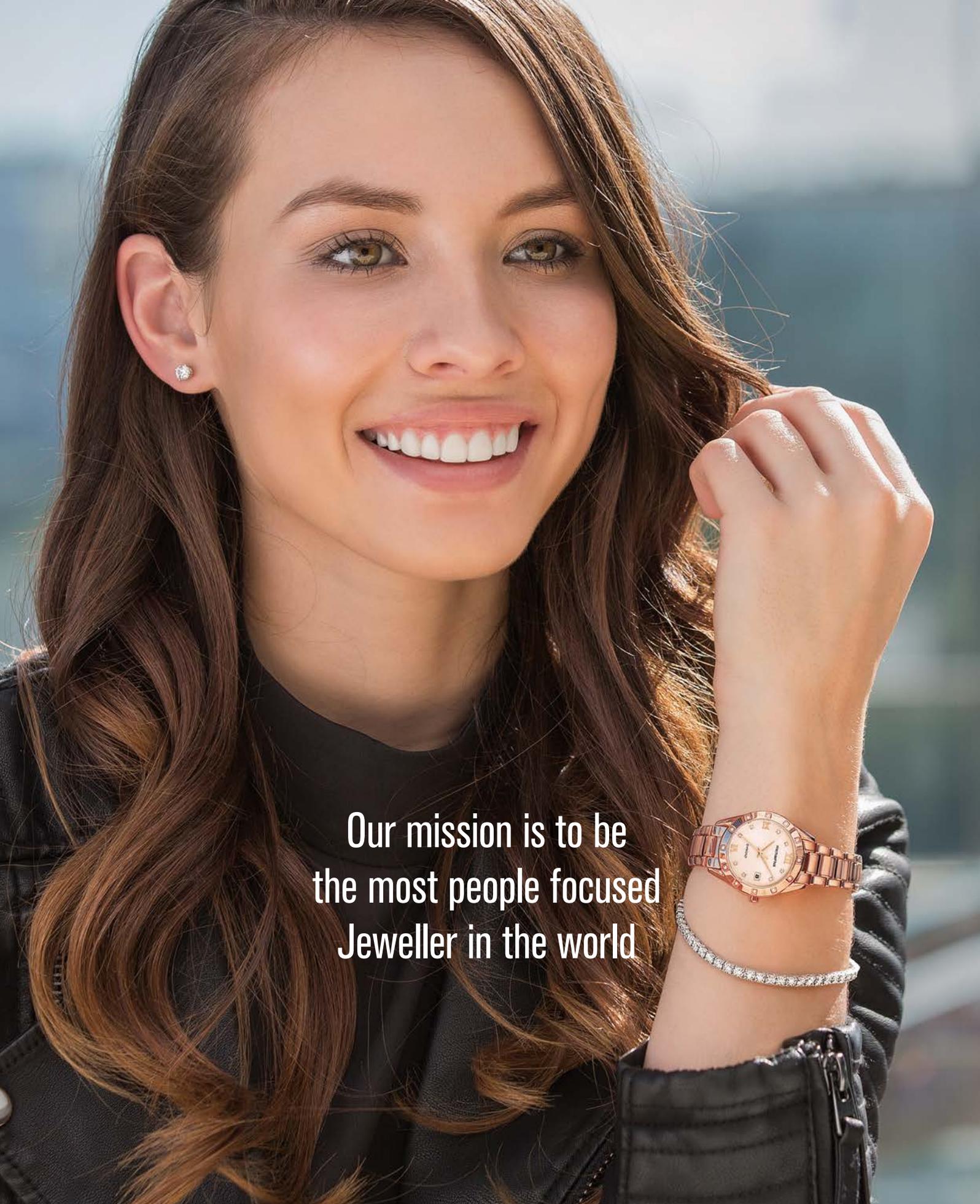




ANNUAL REPORT 2017

michael hill[®]
INTERNATIONAL LIMITED



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

The Directors are pleased to present the annual report of Michael Hill International Limited for the year ended 30 June 2017

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

COMPANY PROFILE

Michael Hill International Limited is a specialist retail jewellery chain that owns the brands 'Michael Hill' and 'Emma & Roe'. As at 30 June 2017, it operates 303 Michael Hill stores and 29 Emma & Roe stores in Australia, New Zealand, Canada and the United States.

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

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

Through the successful listing of the company on the New Zealand Stock Exchange in 1987, the Group expanded into Australia. The next 15 years saw sustained growth and in 2002, Michael Hill expanded into North America, opening its first stores in Vancouver, Canada. The Canadian presence continues to grow and now includes stores in British Columbia, Alberta, Manitoba, Saskatchewan, Nova Scotia and Ontario.

In September 2008, the Group entered the United States market and now has nine stores in Illinois, Minnesota and New York.

The Group opened the first Emma & Roe boutique in 2014, following a successful 18 month trial in five South East Queensland outlets under the trading name 'Captured Moments'. The Group's two brands are viewed as being complementary within the jewellery sector, with Michael Hill continuing to focus on diamonds, bridal and fine jewellery while Emma & Roe focuses on the emerging preference for customisable and uniquely collectible jewellery. The name Emma & Roe takes its inspiration from the Hill family; 'Emma', Sir Michael's daughter, and 'Roe', Christine Lady Hill's maiden name.

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

As at 30 June 2017, the Group has 52 Michael Hill stores in New Zealand, 166 in Australia, 76 in Canada, and 9 stores in the USA. In addition, there are 28 Emma & Roe stores in Australia and one in New Zealand. Around the world, the Group employs approximately 2,820 permanent employees across retail sales, manufacturing and administration roles.

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





CHAIR'S REVIEW

...our established Michael Hill markets of Australia and New Zealand both delivered record profits against the backdrop of a challenging and changing retail environment...



Dear Shareholders,

I am pleased to present the Michael Hill International Limited annual report to shareholders for the 2017 year.

The group produced a record EBIT result of \$48.1m up 2.3% on the prior year and a return on capital employed of 16.8%. Earnings before interest and tax over the

past five years has had average growth of 7.2%. All the details of our result can be found in the directors' report.

OUR BUSINESSES

Our established Michael Hill markets of Australia and New Zealand both delivered record profits against the backdrop of a challenging and changing retail environment. This was an excellent result and a testament to the strength of our teams who bring the customer experience to life.

Our Canadian business has reached a level of critical mass, providing brand presence and scale to deliver outstanding revenue and profit growth. This important market will continue to contribute increasing returns as we expand to national prominence. Our distinct offer in the Canadian market together with highly engaged sales professionals are driving customer preference and winning market share.

In the US, our newest Michael Hill market, we continue to experiment and refine our model. EBIT losses were higher than expected for the year, due to a combination of organisational changes and experimentation with our marketing program, which didn't produce the desired results. Winning in the US, the most competitive jewellery market in the world was never going to be easy. The prize however, if we get it right, is significant. The Board will continue to monitor our US business as management refine the business model and improve financial performance over the next 24 months.

Our Emma and Roe brand expanded its footprint in Australia and New Zealand to 29 stores, however we struggled to achieve planned revenue growth. This young business will continue to evolve in the year ahead in an effort to position for sustained profitable growth. We have now established a strategic foothold in the important markets of Queensland and New South Wales and focus this year will be on improving performance of this store base.

I would like to thank the whole Michael Hill team for the passion and drive they bring to our business every day and their contribution to our solid result for the Group.

OUR STRATEGY

We will continue to evolve and differentiate our business so at every touch point, we give our customers a compelling reason to shop with us.

While many factors impact success, none are more important than having unique desirable products. Our goal is to evolve our jewellery ranges towards a majority of branded collections over the coming years. Our proprietary collections are designed in-house and each is inspired by a meaningful story that resonates with our customers and builds emotional engagement. We will be launching a number of new collections in the coming year. Distinct advertising across all communication channels supports each collection and conveys their stories. This strategy is allowing us to move away from regular price driven promotions and events, which have long supported the traditional middle market jewellery sector. We will build a sustainable future, gain market share, and grow revenue and margin by offering customers a compelling point of difference.

LEADERSHIP

Our strategy cannot be implemented without leadership. In March 2017 the board appointed Phil Taylor as the Chief Executive Officer of Michael Hill. Phil has been with the business since 1987 and brings to the role unparalleled understanding of our key drivers for profitable growth. We are delighted to have Phil leading us forward as we continue to evolve our business in the new era of Omni-channel retail.

Thank you for your ongoing support and investment, I look forward to seeing you at our upcoming AGM.

Emma Hill

Emma Hill
Chair





KEY FACTS

YEAR ENDED 30 JUNE / AU\$000 UNLESS STATED

TRADING RESULTS

	2017	2016	% CHANGE
Group revenue	582,975	551,127	5.8%
Gross profit	368,943	351,276	5.0%
Earnings before interest and tax	48,117	47,058	2.3%
Net profit before tax	44,958	41,534	8.2%
Net profit after tax*	32,648	19,577	66.8%
Net cash inflow from operating activities	39,752	47,794	-16.8%

FINANCIAL POSITION AT YEAR END

Contributed equity			
387,438,513 ordinary shares	10,015	3,767	165.9%
Total equity	202,183	186,401	8.5%
Total assets	389,122	384,197	1.3%
Net debt	39,358	32,034	22.9%
Capital expenditure	33,145	24,549	35.0%

KEY RATIOS

Return on average shareholders' funds*	16.8%	10.5%
Gross profit	63.5%	64.0%
Interest expense cover (times)	15.2	7.7
Equity ratio (total equity/total assets)*	52.0%	48.5%
Gearing Ratio (net debt/total equity)*	19.5%	17.2%
Current ratio		
(current assets/current liabilities)*	3.0:1	2.4:1

EARNINGS PER SHARE

Basic earnings per share*	8.46¢	5.11¢
Diluted earnings per share*	8.45¢	5.09¢

DISTRIBUTION TO SHAREHOLDERS

Dividends - including final dividend		
Per ordinary share	AU5.0¢	AU4.75¢
Times covered by net profit after tax*	1.69	1.08

SHARE PRICE

	2017	2016
30 June	AU\$1.11	NZ\$1.14

SAME STORE SALES

Michael Hill same store sales movement (in local currency)

Australia	1.2%	3.8%
New Zealand	-0.8%	7.2%
Canada	8.8%	5.3%
United States	-8.5%	3.5%

Emma & Roe same store sales movement (in local currency)

Australia	-1.1%	34.6%
New Zealand	-14.5%	-

Group same store sales movement

1.6% 5.2%

NUMBER OF STORES

Australia	166	168
New Zealand	52	52
Canada	76	67
United States	9	10
Michael Hill stores	303	297
Australia	28	15
New Zealand	1	1
Emma & Roe stores	29	16
Total stores	332	313

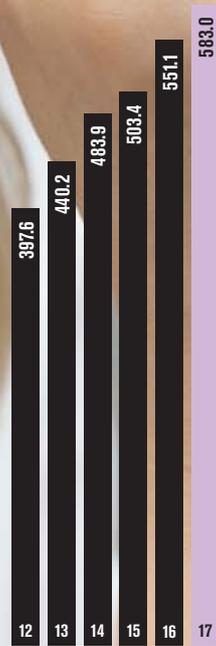
* Please note that several key measures in the 2015-16 financial year were materially affected by the booking of the IR tax settlement and the income tax consolidation cost base adjustments as a result of the ASX listing.





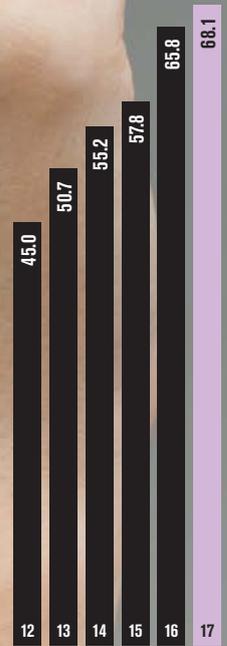
Total Michael Hill and Emma & Roe jewellery stores 332

1987 - 2017, YEAR ENDED 30 JUNE
 ■ MH STORES ■ E&R STORES



Group revenue up 5.8%

AU\$ MILLIONS / YEAR ENDED 30 JUNE



Earnings before interest, taxation, depreciation and amortisation (EBITDA) up 3.5%

AU\$ MILLIONS / YEAR ENDED 30 JUNE

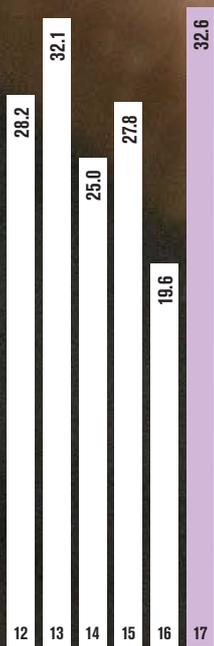
PERFORMANCE HIGHLIGHTS

FOR THE 12 MONTHS

(all values stated in \$AU unless stated otherwise)

- › Operating revenue of \$583.0m up 5.8% on same period last year
 - › Same store sales were 1.6% up on same period last year
 - › Revenue collected from Professional Care Plans of \$39.7m, up 1.0% on same period last year
 - › EBIT of \$48.1m, up 2.3% on same period last year
- › Net profit after tax of \$32.6m, up 66.8% on same period last year
 - › Final dividend of AU2.5¢ per share making the total dividend AU5.0¢ for the year
 - › Equity ratio of 52.0% at 30 June 2017
- › 13 new Michael Hill stores opened and seven closed during the period
 - › 13 new Emma & Roe stores opened during the period
 - › Total of 303 Michael Hill stores open at 30 June 2017
 - › Total of 29 Emma & Roe stores open at 30 June 2017
 - › Total of 332 stores in the Group open at 30 June 2017





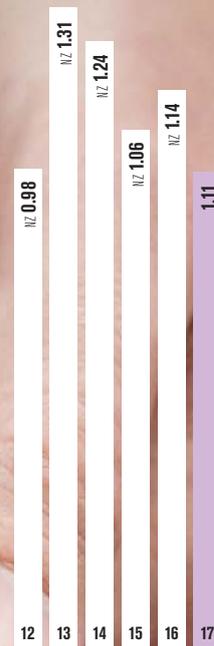
Net profit after tax
up 66.8%

AU\$ MILLIONS /
YEAR ENDED 30 JUNE



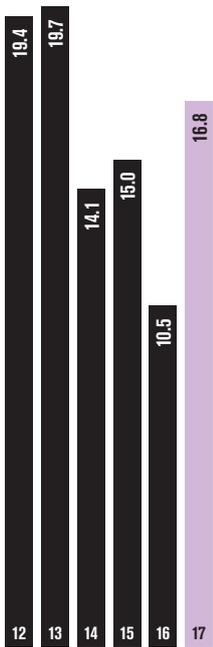
Ordinary dividend

AU CENTS PER SHARE /
YEAR ENDED 30 JUNE



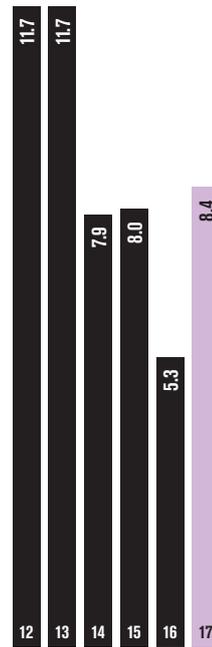
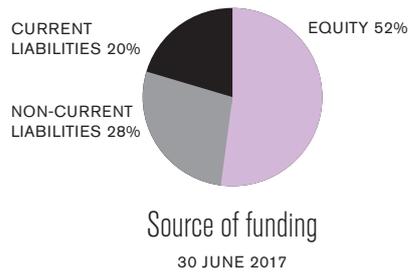
Share price performance

AU\$ / YEAR ENDED 30 JUNE



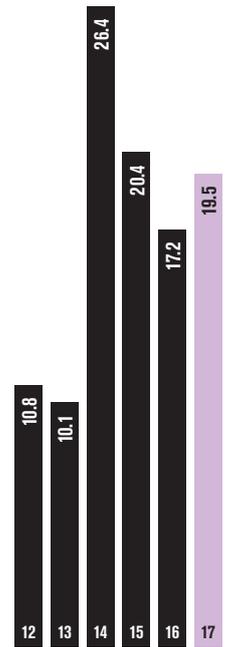
Return on average shareholders' funds
16.8%

% / YEAR ENDED 30 JUNE



Return on average assets 8.4%

% / YEAR ENDED 30 JUNE



Gearing ratio 19.5%

% / YEAR ENDED 30 JUNE

TREND STATEMENT

FINANCIAL PERFORMANCE	2017	2016	2015	2014	2013	2012
	\$000	\$000	\$000	\$000	\$000	\$000
Group revenue	582,975	551,127	503,370	483,935	440,225	397,633
Earnings before interest, tax, depreciation and amortisation (EBITDA)	68,133	65,818	57,799	55,221	50,711	45,023
Depreciation and amortisation	20,016	18,760	15,738	13,070	10,452	9,611
Earnings before interest and tax (EBIT)	48,117	47,058	42,061	42,151	40,259	35,412
Net interest paid	3,159	5,524	4,659	5,376	2,522	3,002
Net profit before tax (NPBT)	44,958	41,534	37,402	36,775	37,737	32,410
Income tax*	12,310	21,957	9,648	11,734	5,638	4,200
Net profit after tax (NPAT)*	32,648	19,577	27,754	25,041	32,099	28,210
Net operating cash flow	39,752	47,794	54,566	14,689	41,686	40,662
Ordinary dividends paid	19,264	17,490	23,176	22,336	18,482	15,021
FINANCIAL POSITION	2017	2016	2015	2014	2013	2012
	\$000	\$000	\$000	\$000	\$000	\$000
Cash	5,676	8,853	6,797	8,109	10,461	9,488
Inventories	203,853	199,961	182,232	179,280	154,293	147,089
Other current assets	29,052	31,298	39,378	25,204	15,653	9,319
Total current assets	238,581	240,112	228,407	212,593	180,407	165,896
Other non-current assets	83,864	74,450	67,734	58,488	52,232	36,739
Deferred tax assets	57,893	64,074	48,381	62,324	56,064	50,403
Total tangible assets	380,338	378,636	344,522	333,405	288,703	253,038
Intangible assets	8,784	5,561	6,491	6,413	3,632	1,511
Total assets	389,122	384,197	351,013	339,818	292,335	254,549
Total current liabilities*	79,653	100,986	69,879	71,005	60,977	54,101
Non-current borrowings	45,034	40,887	45,116	56,000	28,000	26,000
Other long term liabilities	62,252	55,923	48,397	31,528	29,673	21,586
Total liabilities*	186,939	197,796	163,392	158,533	118,650	101,687
Net assets*	202,183	186,401	187,621	181,285	173,685	152,862
Reserves and retained profits*	192,168	182,634	183,861	177,634	170,261	149,500
Paid up capital	10,015	3,767	3,767	3,702	3,515	3,482
Treasury stock	-	-	(7)	(51)	(91)	(120)
Total shareholder equity	202,183	186,401	187,621	181,285	173,685	152,862
Per ordinary share						
Basic earnings per share*	8.46¢	5.11¢	7.24¢	6.54¢	8.38¢	7.37¢
Diluted earnings per share*	8.45¢	5.09¢	7.22¢	6.43¢	8.24¢	7.34¢
Dividends declared per share - interim	AU2.5¢	NZ2.5¢	NZ2.5¢	NZ2.5¢	NZ2.5¢	NZ2.0¢
- final	AU2.5¢	AU2.5¢	NZ2.5¢	NZ4.0¢	NZ4.0¢	NZ3.5¢
Net tangible asset backing*	\$0.50	\$0.47	\$0.47	\$0.46	\$0.44	\$0.40

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

ANALYTICAL INFORMATION

	2017	2016	2015	2014	2013	2012
EBITDA to sales	11.7%	11.9%	11.5%	11.4%	11.5%	11.3%
EBIT to sales	8.3%	8.5%	8.4%	8.7%	9.1%	8.9%
Profit after tax to sales*	5.6%	3.6%	5.5%	5.2%	7.3%	7.1%
EBIT to total assets	12.4%	12.2%	12.0%	12.4%	13.8%	13.9%
Return on average shareholders' funds*	16.8%	10.5%	15.0%	14.1%	19.7%	19.4%
Return on average total assets*	8.4%	5.3%	8.0%	7.9%	11.7%	11.7%
Current ratio*	3.0	2.4	3.3	3.0	3.0	3.1
EBIT interest expense cover	15.2	7.7	8.9	7.8	15.6	11.2
Effective tax rate*	27.4%	52.9%	25.8%	31.9%	14.9%	13.0%

Gearing

Net borrowings to equity	19.5%	17.2%	20.4%	26.4%	10.1%	10.8%
Equity ratio	52.0%	48.5%	53.5%	53.3%	59.4%	60.1%

Other

Shares issued at year end excl Treasury	387,438,513	383,138,513	383,138,513	383,041,606	382,849,544	382,775,586
Treasury stock at year end	-	-	14,677	111,584	203,646	277,604
Exchange rate for translating						
New Zealand results	1.06	1.09	1.07	1.10	1.25	1.28
Canadian results	1.00	0.97	0.97	0.98	1.03	1.03
United States results	0.75	0.73	0.83	0.92	1.03	1.03
Number of Michael Hill stores						
Australia	166	168	167	164	162	153
New Zealand	52	52	52	52	52	53
Canada	76	67	60	54	45	37
USA	9	10	9	8	8	9
Total Michael Hill stores	303	297	288	278	267	252
Number of Emma & Roe stores						
Australia	28	15	7	6	5	-
New Zealand	1	1	1	-	-	-
Total Emma & Roe stores	29	16	8	6	5	-
Total stores	332	313	296	284	272	252

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

A young violinist in a red dress is performing on stage, surrounded by an orchestra. The violinist is in the center, playing her violin. The orchestra members are seated around her, also playing their instruments. The stage is lit, and the background is dark. The text 'COMMUNITY SPIRIT' is overlaid on the image in large white letters.

COMMUNITY SPIRIT

Michael Hill International takes great pride in giving back to the communities surrounding our 332 stores

MICHAEL HILL INTERNATIONAL VIOLIN COMPETITION

The Michael Hill International Violin Competition is a biennial music competition for violinists aged between 18 and 28. It aims to recognise, promote and celebrate excellence, distinctiveness and musical artistry. Young violinists from all over the world, who are on the verge of launching themselves on the world stage, are invited to apply to compete in this extraordinary competition that instils the necessary skills to broaden their career opportunities.

For the 2017 competition, 140 applications were received from young violinists representing 32 different nationalities. The selected finalists, 16 of the world's finest young violinists, were flown to New Zealand to compete for a total prize package worth NZ\$100,000. This year's winner Ioana Cristina Goicea from Romania received NZ\$40,000 and a recording contract with the Atoll label. She is about to undertake an intensive performance tour across New Zealand and Australia in 2018.

The careers of the past Michael Hill winners continue to demonstrate the calibre of the artists involved. Nikki Chooi (2013 winner from Canada) was recently appointed Concertmaster of New York's Metropolitan Opera Orchestra (The Met).

The next competition will be held in 2019 in Queenstown and Auckland.

You can stay up to date with all the upcoming competition news at violincompetition.co.nz



Plaid for Dad was launched in 2015 to help raise awareness and vital research funds for prostate cancer. It has quickly become a fun and easy way for Canadians to celebrate dad and help the 1 in 7 men who will be diagnosed with prostate cancer in their lifetime.

This year, North American president Brett Halliday and his entire team showed their support by wearing plaid in store in the run up to 16 June, the Friday before Father's Day, officially designated as the day to wear Plaid for Dad.

Brett and his team actively supported Plaid for Dad initiatives by raising over CA\$10,000 and they were recognised with an 'Outstanding Achievement in the Retail Services Sector'.

PINK HOPE

Emma & Roe continues its partnership with the Pink Hope Foundation to help support families facing hereditary breast and ovarian cancer. Since 2014, Emma & Roe has been working with Pink Hope founder Krystal Barter supporting awareness for the cause through an exclusive Pink Hope collection. The collection includes custom charms and a selection of bracelets, as well as limited edition items. A percentage of the gross profits from the sale of the Pink Hope Collection go to Pink Hope. Emma & Roe also actively supports the promotion of key Pink Hope initiatives, including #Bright Pink Lipstick Day. Customers are engaged in-store and online and encouraged to get behind the cause.



CELEBRATING OUR SUCCESS: GOLD CLUB

Every year we celebrate the personal achievements of our highest performing Sales Professionals. This year the 232 incredible individuals who achieved gold club status, accounting for over AU\$145m in sales, were invited to celebrate their success in the amazing cities of Quebec and Melbourne. Our top performers were joined by our General Managers and Chair of the Board Emma Hill to personally congratulate and thank them for their contributions to the success of Michael Hill and Emma & Roe for 2016.





CELEBRATING OUR SUCCESS

International Managers' Conference 2016, Gold Coast, Australia: Each year, our Retail and Support Centre Management Teams come together to celebrate their phenomenal achievements. We recognise their contributions and share with them the Group's strategic direction for the coming year. Our culture, values and leadership principles are re-energised and focused, to drive our teams to continue to produce outstanding results and incredible customer experiences.



IT'S OUR PEOPLE WHO MAKE OUR COMPANY





SUSTAINABILITY



Michael Hill understands the importance of operating its business sustainably to protect the long term value of the Company, and to enhance its relationship with its stakeholders, particularly investors.

Michael Hill International Limited is a Member of the Responsible Jewellery Council (RJC). The RJC is a standards-setting organisation that has been established to advance responsible, ethical, human rights, social and environmental practices throughout the diamond, gold and platinum group metals jewellery supply chain.

The RJC has developed a benchmark standard for the jewellery supply chain and credible mechanisms for verifying responsible business practices through third party auditing.

As an RJC Member, we commit to operating our business in accordance with the RJC Code of Practices. We commit to integrating ethical, human rights, social and environmental considerations into our day-to-day operations, business planning activities and decision making processes.

Although certain aspects of our business strategy and performance are reported through our annual report to stakeholders, we understand the importance of continuing to align our reporting with issues of key importance to the company and to its stakeholders. In order to meet growing community expectations of transparency and disclosure, and to support our commitment to achieving certification under the Responsible Jewellery Council Code of Practices, the Company has commenced working towards compliance with the Code of Practices and setting the foundation upon which to move towards preparing a sustainability report that is GRI G4 compliant.

Preliminary work in this area, including interviews with key internal and external stakeholders and a validation workshop, has identified a number of material topics that are of importance to the business. These topics will be used as a guide for an internal gap assessment process to guide our strategy and content development with a Sustainability Report expected to be released for the 2018 reporting period.



Our leadership principles



CUSTOMER FOCUS

We brighten, impress and delight our customers

We consider our customers in everything we do



MINDSET FOR GROWTH

We show perseverance and determination to grow

We are competitive and take the lead in the marketplace

We innovate and challenge the status quo

We display a positive attitude and confidence towards our future

We are visible, accessible and clearly communicate the vision



BIAS FOR ACTION

We deliberately choose our priorities to achieve our vision

We engage in thoughtful decision making and intelligent risk-taking

We act with speed and a sense of urgency in executing initiatives and strategy



BUILDING TALENT AND TEAMS

We personally invest in the development and success of our teams

We identify and develop talent to achieve the Michael Hill vision

We commit to being part of, and engendering an aligned and cohesive team

We believe in having a diverse team and placing the best people in the right positions

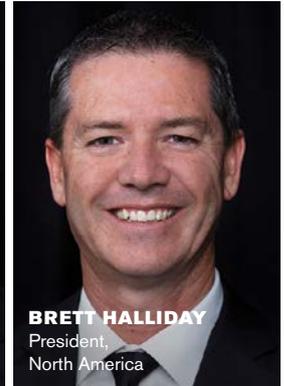
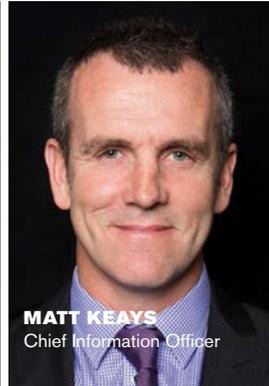
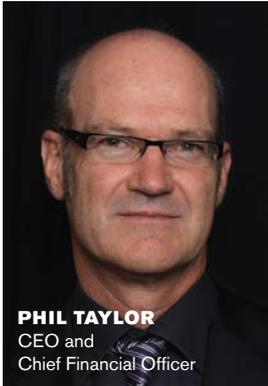


ACCOUNTABILITY AND RESPONSIBILITY

We lead by example, hold ourselves to the highest standards and deliver on our personal KPIs

We hold our teams accountable by setting clear expectations and providing continuous feedback

We personally drive positive change



Our Senior Executive Team

SEPTEMBER 2017

Our values

PEOPLE-FOCUSED

We delight our customers, employees and communities first, always and often.

PRECISION

We lead with quality, attainable jewellery.

We will anguish over detail in all aspects of our business.

INTEGRITY

We build credibility with our honesty and ethics.

ADAPTABILITY

We embrace practical irreverence.

DRIVEN

We take ownership of and are accountable for our business and the brand.



...the Group remains in a strong financial position to take advantage of growth opportunities as they arise...

DIRECTORS' REPORT

The Directors have pleasure in submitting their report on the consolidated entity (referred to hereafter as the 'Group') consisting of Michael Hill International Limited ACN 610 937 598 ('Michael Hill International' or the 'Company') and all controlled subsidiaries for the year ended 30 June 2017. As a result of the restructure of the Group in June 2016 which saw a new parent company, Michael Hill International, being interposed on the previous parent company, Michael Hill New Zealand Limited Company No. 342863 ('MHNZ') (formerly known as Michael Hill International Limited), certain sections of this report will reflect the position of Michael Hill International as well as the position of MHNZ (as the previous parent company for part of the previous financial year to which this report relates).

Principal activities

The Group operates predominately in the retail sale of jewellery and related services sector in Australia, New Zealand, Canada and the United States. There were no significant changes in the nature of the Group's activities during the year.

Dividends

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

	2017 \$000	2016 \$000
Final ordinary dividend for the year ended 30 June 2016 of AU2.5¢ (2015 - NZ2.5¢) per fully paid share paid on 6 October 2016 (2015 - 2 October 2015)	9,578	8,870
Interim ordinary dividend for the year ended 30 June 2017 of AU2.5¢ (2016 - NZ2.5¢) per fully paid share paid on 31 March 2017 (2016 - 1 April 2016)	9,686	8,620
Since year end, the Directors have declared the payment of a final dividend of AU2.5¢ per fully paid ordinary share* (2016 - AU2.5¢). The final dividend will be unfranked for Australian shareholders and fully imputed for New Zealand shareholders. The aggregate amount of the proposed dividend expected to be paid on 29 September 2017 out of retained earnings at 30 June 2017, but not recognised as a liability at year end, is	9,686	9,578

* This will be declared as conduit foreign income, therefore no Australian withholding tax will be deducted from the dividend payment for our foreign shareholders.

Significant changes in the state of affairs

The Company is a for profit company limited by shares and incorporated in Australia. The Company was admitted to the official list of the Australian Securities Exchange ('ASX') on 7 July 2016. Its primary listing is on the ASX and it maintains a secondary listing on the New Zealand Stock Exchange ('NZX').

Until 23 June 2016, MHNZ (formerly known as Michael Hill International Limited) was the parent of the Group. MHNZ is a public company registered under the Companies Act 1993 and remains domiciled in New Zealand. MHNZ had its primary listing on the New Zealand Stock Exchange. The listing was suspended on 22 June 2016 as part of the restructure of the Group.

Likely developments and expected results of operations

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

Review of operations

In Australian dollars, the Group has reported operating revenues of \$583.0m, producing record earnings before interest and tax (EBIT) for the Group of \$48.1m, up 2.3% on the prior year. The Group reported a net profit after tax (NPAT) of \$32.6m for the 2017 financial year.



CASH, CASH FLOW AND DIVIDENDS

The Group has an equity ratio of 52.0% at 30 June 2017 (48.5% in 2016), and a working capital ratio of 3.0:1 (2.4:1 in 2016). Net operating cash flows were \$39.8m compared to \$47.8m the previous year. Net debt at 30 June 2017 was \$39.4m compared to \$32.0m at 30 June 2016.

The Group remains in a strong financial position to take advantage of growth opportunities as they arise.

For shareholders, the dividend for the year was AU5.0¢ (2016 - AU4.75¢) per share. There will be a final dividend of AU2.5¢ per share, declared as conduit foreign income, payable on 29 September 2017. The final dividend will be unfranked for Australian shareholders and fully imputed for New Zealand shareholders.

OPERATIONAL REVIEW

The Group achieved the following key outcomes for the 12 months:

- Revenue increased 5.8% to \$583.0m, up from \$551.1m
- Same store sales up 1.6%
- Canadian segment continues to gain market share with same store sales increase of 8.8%
- Branded Collection sales increased to 14.2% of total product sales, up on 13.0% prior year
- Sale of Professional Care Plans ('PCP') amounted to \$39.7m, increasing deferred revenue on the balance sheet from PCP sales to \$77.1m
- Gross profit of 63.5%
- Write-down of assets and a provision for an onerous lease relating to two US stores totalling us\$1.3m
- Record EBIT result of \$48.1m, up from \$47.1m
- Net profit after tax of \$32.6m
- Dividend of 5.0¢ up from 4.75¢ (AU2.5¢ and NZ2.5¢)
- Net operating cash inflow was \$39.8m, down on \$47.8m in prior year
- Payment of the IR settlement balance amounting to NZ\$22.6m
- Additional increase in deferred tax asset of \$4.4m resulting from the 2015-16 tax consolidation cost base adjustment, taking the total adjustment to \$23.8m as at the end of the financial year
- Net debt of \$39.4m, up from \$32.0m
- 26 stores opened across the Group, including 13 Emma & Roe stores, giving a total of 332 stores

2016-17 was a solid year for the Group, producing a record EBIT result of \$48.1m achieved on the back of steady performances by our Australian and New Zealand businesses, and a strong performance by our Canadian business. The US business went through a year of change that saw EBIT deteriorate on the previous year. However, this result included the write down of assets and lease exit costs at the Easton Centre store in Ohio, which was closed in June 2017, and also the impairment of the fitout and onerous lease provision taken up at our Roosevelt Fields store in New York, which is not performing to expected levels. During the

year we transferred the leadership of this business to Brett Halliday, who has been successful in driving performance of our Canadian business. He is reviewing the US business based on his learnings from the Canadian market and making adjustments to the model as required.

The Emma & Roe brand grew from 16 stores to 29 stores during the year, including entry into the NSW market. Revenue targets weren't achieved in 2016-17 year and as a result, losses have exceeded expectations for the year. We are continuing to review the Emma & Roe model based on customer responses and insights, with a view to making adjustments to the brand offering during 2017-18.

The continued growth in PCP revenue has again provided strong cash flow for the Group. The PCP program is designed to provide a comprehensive suite of care services to our customers so they can maintain their jewellery in pristine condition. Total sales from these plans amounted to \$39.7m, an increase of 1.0% on prior year, and at 30 June 2017 there was \$77.1m of deferred PCP revenue held on the statement of financial position. \$33.7m in PCP revenue was recognised in the 2016-17 year, up 9.5% on the previous year.

In-house credit now represents 25.6% of Canadian sales and 35.2% of our US sales. The loan book sits at \$17.7m at year end, and bad debts run at 4.2% of in-house credit sales.

The Group's e-commerce platform continues to support the business well with e-commerce revenues increasing by 68%, driven by an uplift in online activity in all regions. e-commerce sales now represent over 1% of the Group's total revenue. Investment will continue to evolve our on-line experience, including integration of our online and physical channels aimed at providing a seamless customer experience. We continued to experience strong levels of customer engagement across our digital and social channels.

As at 30 June 2017, the Group operated Michael Hill e-commerce sites in all four countries we operate in and an Emma & Roe e-commerce site in the Australian market. As part of our multichannel strategy, Emma & Roe merchandise is also sold across all Michael Hill e-commerce sites.

As a result of the ASX listing in July 2016, a further adjustment has been made to the deferred tax asset resulting from the tax consolidation cost base adjustment of \$4.4m, bringing the total deferred tax asset adjustment from that transaction to \$23.8m.

The Group opened 26 stores for the year and closed 7 giving a total of 332 stores trading at 30 June 2017. New stores opened comprised of 13 Michael Hill stores during the year; 3 in Australia, 1 in New Zealand and 9 in Canada. Seven stores were closed during the period, resulting in a total of 303 Michael Hill stores trading as at 30 June 2017. We also opened 13 Emma & Roe stores giving a total of 29 stores as at 30 June 2017.

Review of 2016-17 Priorities

PRIORITIES

To increase same store sales by more than CPI in each market and deliver improved EBIT performance across the Group.

To deliver a minimum return on average shareholder funds of 15% and a return on average total assets of 9%.

To open more than 20 new stores across the Group.

To continue to evolve the Emma & Roe model and produce positive EBIT from the stores opened for the full year.

To continue to evolve our omni-channel capability and lift revenue from our online channel for both brands.

To improve efficiency of our inventory and lift return on investment.

To continue experimentation and testing of our US segment and bringing the majority of 10 US stores to a positive EBIT position.

Improved CRM capability allowing our sales force to communicate more effectively with their customers and to foster relationships secured in store or via the web site.

To drive branded collection sales to 15% of total merchandise sales.

RESULTS

Group revenue increased 5.8% with same store sales increasing 1.6%, short of our goal of CPI. Group EBIT reached a record \$48.1m.

The Group achieved a return on shareholder funds of 16.8% compared to 15.5% last year (adjusted for the IR tax settlement of \$28.8m (nz\$30.3m) and the income tax consolidation cost base adjustments of \$23.8m). The return on average total assets was 8.4% compared to 8.1% (adjusted) last year.

26 new stores were opened during the year; 13 Michael Hill stores and 13 Emma & Roe stores.

Refinements have continued to be made to the Emma & Roe model, however same stores reported a revenue decline of 2.1% and lower than expected EBIT levels.

e-commerce revenue lifted by 68% to exceed 1% of the Group's revenue during the year and numerous refinements to our online channel were made. Traffic to our website increased 28%.

Stock turn was 1.11 for the year, up from 1.06. Gross margin return on inventory was 1.42, up on prior year 1.39.

4 of our 9 open US stores generated a positive EBIT and 7 of 9 stores were in a cash positive position for the year. The underperforming Easton store was closed during the year in addition to the Roosevelt Fields store fitout being impaired and an onerous lease provision recognised.

With over 1.45m customer records now in CRM (system), combined with the implementation of a new POS, our sales force have greater visibility of customer profiles including past transaction and service history which will enable them to deliver an exceptional customer experience. The group has also seen 58.3% growth in subscribers to 0.7m.

Branded collection sales reached 14.2% for the year slightly short of our 15% goal. We will continue to focus on this strategy during 2017-18.

Segment Results

The segments reported on reflect the performance of the Group's Michael Hill and Emma & Roe retail operations in each geographic segment. The definition of segments was amended during the year and now includes trading activity from our online presence and our North American in-house credit function. The segments exclude revenue and expenses that do not relate directly to the relevant Michael Hill or Emma & Roe retail segments, and are treated as unallocated. These predominately relate to corporate costs and Australian based support costs, but also include the manufacturing activities, warehouse and distribution, interest and company tax. Prior year comparatives were restated in line with the updated definition.

The results below are expressed in local currency.

Michael Hill Australia

OPERATING RESULTS (AU \$'000)	2017	2016	2015	2014	2013
Revenue	321,981	309,457	296,064	298,474	289,333
EBIT	52,392	50,662	46,042	47,193	42,225
As a % of revenue	16.3%	16.4%	15.6%	15.8%	14.6%
Number of stores	166	168	167	164	162

The Australian retail segment revenue increased by 4.0% to \$322.0m and same store sales lifted 1.2% contributing to a record EBIT result for the segment of \$52.4m, an increase of 3.4%. EBIT as a percentage of revenue was 16.3% (16.4% last year). This result is particularly pleasing against a backdrop of a challenging retail environment.

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

- Bourke Street, Victoria
- Chadstone, Victoria
- DFO Brisbane, Queensland

Five stores closed during the period. There were 166 stores trading at 30 June 2017. The Group plans to expand its store footprint by two stores during the 2017-18 year.

Michael Hill New Zealand

OPERATING RESULTS (NZ \$'000)	2017	2016	2015	2014	2013
Revenue	121,968	122,901	114,486	109,693	111,357
EBIT	28,032	27,318	23,462	22,062	22,128
As a % of revenue	23.0%	22.2%	20.7%	20.1%	19.9%
Number of stores	52	52	52	52	52
FX rate for profit translation	1.06	1.09	1.07	1.10	1.25

The New Zealand retail segment revenue decreased 0.8% to NZ\$122.0m for the twelve months, however the segment still achieved a record EBIT result of NZ\$28.0m, an increase of 2.6%. EBIT as a percentage of revenue was 23.0% (22.2% last year). The improved result was achieved with an improved focus on variable costs such as advertising, wages and credit costs. The Company is satisfied with the performance of this business.

One store opened at Christchurch and one store closed during the year, with 52 stores trading at 30 June 2017. The Group plans to open one store during 2017/18.

Michael Hill Canada

OPERATING RESULTS (CA \$'000)	2017	2016	2015	2014	2013
Revenue	112,721	95,423	79,617	68,682	52,274
EBIT	12,565	9,099	5,699	3,917	503
As a % of revenue	11.1%	9.5%	7.6%	5.5%	2.1%
Number of stores	76	67	60	54	45
FX rate for profit translation	1.00	0.97	0.97	0.98	1.03

The Canadian retail segment revenue increased by 18.1% for the twelve months to CA\$112.7m, with record EBIT of CA\$12.6m compared to CA\$9.1m the previous year, a 38.1% increase on the previous corresponding period. Same stores sales increased 8.8%. EBIT as a percentage of revenue was 11.1% (9.5% last year). The Canadian segment continues to

show strong growth as we achieve scale and increased market share across the country. The Company is confident this trend will continue in the coming year as we open more stores and gain more brand recognition.

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

- Carlingwood, Ontario
- Halifax, Nova Scotia
- Limeridge, Ontario
- Lynden Park, Ontario
- New Sudbury, Ontario
- Square One, Ontario
- Tswawwassen, British Columbia
- Village Green, British Columbia
- Winnipeg Outlet, Manitoba

There were 76 stores trading at 30 June 2017. There is potential for up to 100 stores in Canada, and the Group plans to open up to seven stores during the 2017-18 year subject to availability of suitable sites.

Michael Hill USA

OPERATING RESULTS (US \$000)	2017	2016	2015	2014	2013
Revenue	12,498	14,203	11,465	9,866	10,188
EBIT	(3,784)	(2,570)	(2,069)	(1,821)	(2,525)
As a % of revenue	(30.3%)	(18.1%)	(17.0%)	(16.8%)	(23.0%)
Number of stores	9	10	9	8	8
FX rate for profit translation	0.75	0.73	0.83	0.92	1.03

Our US business underwent a lot of change during the year including a leadership change and a new advertising direction. As a result, it struggled to improve performance, finishing the year 8.5% down in revenue on a same stores basis. The Easton Centre store in Columbus, Ohio, was closed in June because of continued poor performance. Costs to terminate this lease early amounted to US\$650,000, a combination of one year's rent plus the write-off of the store fitout. Similarly, the performance of our Roosevelt Fields store in New York resulted in a decision to impair this store, resulting in a US\$667,000 write down of impaired assets and an onerous lease provision being recognised. In September 2016, the US was put under the leadership of Brett Halliday, our North American President, who has delivered consistently outstanding results in Canada. The Board and Executive team continue to closely monitor the US business.

One store closed during the year giving a total of nine stores operating at 30 June 2017. There are no plans to open any stores during 2017-18.

Emma & Roe

OPERATING RESULTS (AU \$000)	2017	2016	2015
Revenue	15,118	9,347	4,958
EBIT	(6,943)	(2,428)	(2,929)
As a % of revenue	(45.9%)	(26.0%)	(59.1%)
Number of stores	29	16	8

Emma & Roe experienced sales growth of 61.7% with same store sales declining 2.1%. 13 new stores were opened across Queensland and New South Wales. While the drop in same store sales is disappointing, the brand is new and evolving. We are continuing to review the Emma & Roe model based on customer responses and insights, with a view to making ongoing adjustments to the brand during 2017-18.

The Emma & Roe concept is positioned towards a new and emerging customer who likes to collect and create new looks, expressing their individuality and fashion through the various assortments and collections of complimentary charms, bracelets, rings, pendants and earrings the brand offers. The frequency of purchase is higher for an Emma & Roe customer compared to a Michael Hill customer, however the average transaction value is lower. We believe these two brands are complimentary and will extend our reach further into the jewellery category.

Strategic Update

The Group's strategies have been grouped into four key strategic themes. Under these themes we have grouped twelve areas of focus which will underpin the Group's growth going forward:

DELIGHT THE MID-MARKET

This strategy recognises that the mid-market continues to represent the largest and most sustainable financial opportunity for global growth and scale. The themes within this strategy are:

- Strengthen marketing and brand position. To attract more customers and revenue through the creation of desirable products and services, an affinity for the brand and differentiated collections. Drive foot traffic, online traffic and enquiries.
- Build strong team engagement. Improve our processes, tools and technology that allow teams to drive superior customer experiences, thereby increasing personal performance, productivity, income and engagement.
- Drive customer engagement. Ensuring that all customer channels, places of engagement and touch points are optimised to allow customers the best possible experience; where, when and how they choose to engage our brands.
- Develop omni-channel capability. Continue to develop and integrate our omni-channel capabilities to deliver a seamless customer experience and improve conversion and repeat business.
- Establish differentiated bridal and fashion brands. Within this strategy we are committed to ongoing development and honing of our branded bridal and fashion collections, supported by meaningful and relevant stories that drive consumer preference and deliver incremental margin.

EXPAND OUR FOOT PRINT

This strategy focuses on building our global brand presence and profile through the expansion of our physical and online footprint internationally. The themes within this strategy are:

- To continue to refine the US model until we are confident we have a profitable model to expand in this market. The US provides the Group a significant growth opportunity for the future.
- To successfully evolve Emma & Roe as a complimentary business model to Michael Hill by engaging a new segment of jewellery consumer to drive market share growth and profitability.
- Investigate and explore new markets and channels for our two brands.

PERFORMANCE THROUGH PEOPLE AND SYSTEMS

This strategy recognises the importance of building organisational capability to support the Group's strategic growth plan. The themes within this strategy are:

- Building a world-class team. Ongoing development of the Group's teams across both Michael Hill and Emma & Roe brands to provide a strong talent pipeline to expertly execute the retail model and grow both businesses.

- Deliver systems and infrastructure to support growth. We will develop systems and infrastructure capability by investing in enabling technologies to support the Group's growth plan and improve efficiencies and productivity.

DRIVE RETURN ON INVESTMENT

This strategy recognises the importance of improved operational efficiency and cost control, as the business scales. Return on investment (ROI) will be driven through a focus on operational expenditure and capital investment. The themes within this strategy are:

- Control operational costs. Increased focus on operational expenditure to lower Selling & General Administration expense as a percentage of sales and drive profitability.
- Improve return on assets deployed. To improve ROI through controlling capital expenditure and improving the efficiency of our working capital management and in particular inventory, which is our largest asset.

Outlook

We are committed to expanding the Michael Hill brand in all three proven markets of New Zealand, Australia and Canada. Over time we see this resulting in up to 340 Michael Hill stores trading, from the current 303. We are also committed to continuing to test the US market with the aim of developing a viable business model for this large market. The Australian segment is reaching maturity in store numbers but now offers the potential for improved EBIT performance much in the same way as the New Zealand business has managed to in recent years, through a combination of developing its on-line capability, refinement of the property portfolio and improved cost efficiencies. Canada still has several years of store growth for the Michael Hill brand and will also focus on building its profitability through on-line revenue growth, property portfolio improvements and cost efficiencies.

We have plans to expand the Emma & Roe brand in Australasia once proven further. The continued evolution of the Emma & Roe brand will occur throughout 2017-18 based on customer feedback and insights.

e-commerce revenue from both brands is expected to continue to grow steadily in coming years as a percentage of overall Group revenue as we refine our offer and optimise the online channels. Investment in our e-commerce capability will continue to take full advantage of this growth channel.

Proprietary branded collections revenue will continue to grow as we increase investment in these ranges. Branded collections offer a unique product offering to our customers and in doing so builds strong brand equity in the markets we operate in.

The economic environments in which we operate have been relatively stable and in the absence of a material economic downturn in one or a number of our key markets, the business should be able to continue to grow and achieve profitability goals.



Priorities for 2017-18

- Same store sales growth in all markets and for both brands of above 2%
- Open at least 10 new Michael Hill stores across all markets
- Continue to review the Emma & Roe brand and adjust the brand and offering
- To reduce the US operating losses and develop a viable model
- Branded collection sales to reach 18%
- Improved inventory management delivering increase in GMROI (gross margin return on investment) and stock turn
- Continue to develop the e-commerce business and grow to 2% of Group revenue
- Continued information systems investment to migrate the organisation onto a highly integrated ERP environment

Environmental regulation

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

Risk management

RISK

STRATEGIES AND MITIGATION

Inadequate business continuity program and/or disaster recovery strategies

A Business Continuity Program team has been formed and they have begun updating the Group's business continuity plan and disaster recovery processes. The Group is also investing in new software and systems that will protect key business systems and data. External consultants are also used to help with penetration testing and to provide other technical assessments.

Insufficient leadership talent to meet growth plans

People resource planning is in place and talent development workshops are being deployed to fast track talent through the system to meet new store openings and business demand.

Systems capability does not meet demands of business

A structured plan of system renovation and implementation with significant investment has begun to facilitate the upgrade of our key business systems.

Inability to adjust to the rapidly changing consumer segment and retail environment

Our teams are continually adjusting our offer in the respective market places to meet new consumer demands and trends. We also access and research significant customer segment data and conduct customer focus groups to keep abreast of shifting demands and trends.



INFORMATION ON DIRECTORS

Information on Directors of Michael Hill International Limited ACN 610 987 598 in office during the financial year and until the date of this report are set out below.

From left: Robert Fyfe, Gary Smith, Emma Hill, Sir Michael Hill and Janine Allis

Emma Jane Hill B.Com, M.B.A.

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

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

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

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

Other current directorships
none

Former directorships in last three years
none

Responsibilities
Chair
Non-Executive Director
Member People Development and Remuneration Committee

Interests in shares and options
167,487,526 Ordinary Shares

Sir Richard Michael Hill K.N.Z.M.

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

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

Sir Michael was appointed Founder President of the New Zealand listed entity in 2015 in recognition of his special connection with Michael Hill for over 35 years. He led the Group as Chairman from 1987 until December 2015.

Other current directorships
none

Former directorships in last three years
none

Responsibilities
Non-Executive Director

Interests in shares and options
148,330,600 Ordinary Shares

Gary Warwick Smith B.Com, F.C.A., F.A.I.C.D.

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

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

He is also a Director of Tourism Events Queensland and Chair of its Audit and Risk Committee.

Other current directorships
Flight Centre Travel Group Limited
Tourism Events Queensland

Former directorships in last three years
none

Responsibilities
Non-Executive and Independent Director
Chair Audit and Risk Management Committee
Member People Development and Remuneration Committee

Interests in shares and options
30,000 Ordinary Shares



Robert Ian Fyfe

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

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

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

Other current directorships
Icebreaker Limited
Antarctica New Zealand

Former directorships in last three years
none

Responsibilities
Non-Executive and Independent Director
Chair People Development and
Remuneration Committee
Member Audit and Risk Management
Committee

Interests in shares and options
63,640 Ordinary Shares

Janine Suzanne Allis

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

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

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

Janine now shares her knowledge with others, including through her role as a 'Shark', investor and mentor on Channel Ten's Shark Tank.

Other current directorships
Retail Zoo Pty Ltd

Former directorships in last three years
none

Responsibilities
Non-Executive and Independent Director
Member Audit and Risk Management
Committee

Interests in shares and options
150,000 Ordinary Shares

Company secretary

The Company Secretary is Mary-Anne Greaves LL.M, LL.B, FCIS, FGIA. Mary-Anne was appointed to the position of Company Secretary on 11 July 2016. Mary-Anne joined Michael Hill in July 2016 with over 15 years' experience in Company Secretarial and Law.

Philip Roy Taylor was appointed as Company Secretary on 24 February 2016 and resigned on 11 July 2016.

Directors' meetings

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2017, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Audit and Risk Management		People Development and Remuneration	
	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended
E.J. Hill	13	13	1	1*	3	3
Sir R.M. Hill	13	13	-	-	-	-
G.W. Smith	13	12	3	3	3	3
R.I. Fyfe	13	13	3	3	3	3
J.S. Allis	13	13	2	2**	-	-

* Resigned 17 August 2016

** Appointed 17 August 2016

Committee membership

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

Audit and Risk Management Committee	People Development and Remuneration Committee
Gary Smith ^c	Rob Fyfe ^c
Janine Allis ^{**}	Emma Hill
Rob Fyfe	Gary Smith
Emma Hill [*]	

^c designates chair of the committee

* Resigned 17 August 2016

** Appointed 17 August 2016



REMUNERATION REPORT AUDITED

The Directors present the 2017 Michael Hill International Limited remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

Remuneration framework

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

PRINCIPLES OF COMPENSATION

Remuneration is referred to as compensation throughout this report.

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

For the 2017 financial year, it was determined that the KMP of Michael Hill International were:

- Chief Executive Officer (CEO) - Phil Taylor
- Chief Financial Officer (CFO) - vacant*
- Chief Information Officer (CIO) - Matt Keays
- Group Executive Supply Chain (GESC) - Galina Hirtzel
- Chief Marketing Officer (CMO) - vacant*
- Group Executive Human Resources (GEHR) - Stewart Silk

* We are in the process of recruiting to fill these two vacant positions.

Compensation levels for key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The People Development and Remuneration Committee obtains independent advice every three years on the appropriateness of compensation packages of the Group given trends in comparative companies both locally and internationally, and the objectives of the Group's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account the capability and experience of the KMP, and the KMP's ability to control the relevant segments performance.

The Executive Remuneration framework consists of:

- 1 Total Fixed Remuneration ('TFR') - includes fixed cash remuneration and superannuation component.
- 2 Short term incentive ('STI') - on target performance is determined as a percentage of TFR, 70% of the STI

is directly aligned to achieving the Group EBIT return on average total assets ('ROA') hurdle (15% ROA) and 30% based on achievement of individual performance plans. In the 2016 financial year, the STI payment was derived solely from the ROA calculation.

- 3 Long term incentive ('LTI') - alignment of executive incentives with the long term performance is achieved by way of a deferred remuneration component. An issue of share rights is made to participants of the scheme, the quantum being a % of the STI earned in the preceding year. The LTI scheme was introduced in the 2015-16 financial year.

The current target remuneration settings for the KMP are as follows:

CEO	TFR set at 90% of market median On target STI set at 75% of TFR LTI set at 30% of STI achieved in the preceding year
CFO	TFR set at 90% of market median On target STI set at 70% of TFR LTI set at 30% of STI achieved in the preceding year
CIO	TFR set at 90% of market median On target STI set at 35% of TFR LTI set at 30% of STI achieved in the preceding year
GESC	TFR set at 90% of market median On target STI set at 35% of TFR LTI set at 30% of STI achieved in the preceding year
CMO	TFR set at 90% of market median On target STI set at 35% of TFR LTI set at 30% of STI achieved in the preceding year
GEHR	TFR set at 70% of market median On target STI set at 35% of TFR LTI set at 30% of STI achieved in the preceding year

TOTAL FIXED COMPENSATION

Fixed compensation consists of base compensation as well as leave entitlements and employer contributions to superannuation funds.

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

PERFORMANCE LINKED COMPENSATION

Performance linked compensation includes both short-term and long-term incentives, and is designed to reward senior

executives for meeting or exceeding their financial and personal objectives. The STI is an 'at risk' bonus provided in the form of cash, while the LTI is a deferred compensation plan providing rights over ordinary shares of the Company under the rules of the executive incentive plan.

SHORT-TERM INCENTIVE BONUS

The short term incentive scheme is comprised of two components; 70% of the STI for key management personnel is linked to achievement of the Group's EBIT return on average total assets hurdle (15% ROA) for the year and 30% is linked to the achievement of key performance indicators (KPI's) that are agreed in personal performance plans (PPP's).

The process and scheme is designed to provide a basis for an ongoing performance management system, along with integrated reporting for visibility and transparency of progress by each senior executive. The framework aligns the senior executive KPIs to delivery of the strategic plan, divisional business plans along with critical operational measures and leadership measures of each role. The following points outline the framework:

- The policy and framework cascades from the CEO to Group Executives with the intention in 2017-18 to cascade relevant KPIs further down through the levels of management. This aims to ensure key aspects of the Group's strategic plan, divisional business plans, along with critical drivers of business outcomes are clearly identified at each level of leadership. This includes personal development plans, and leadership performance.
- The metrics are assessed monthly (on a YTD basis) and along with normal operational metrics, provides the basis for monthly work in progress (WIP) reviews.

LONG-TERM INCENTIVE

Options are issued under the Executive Incentive Plan (made in accordance with thresholds set in plans approved by shareholders at the Company's AGM), and it provides for senior executives to receive options over ordinary shares for no consideration. The ability to exercise the options is conditional on continuing employment with the Company. No further options will be issued to senior executives other than the tranches already in place for two KMPs. Options previously issued are detailed in the Annual Report.

The Company introduced a new deferred compensation plan (LTI) involving the granting of share rights to eligible participants, which commenced in the 2015-16 financial year and was approved by shareholders at the Company's Annual General Meeting held on 31 October 2016.

Under the plan, a senior executive may be granted share rights by the Company. Each share right represents a right to receive one ordinary share in the Company, subject to the terms and conditions of the rules of the plan. An allocation of share rights is made to each eligible participant on an annual basis to a value of 30% of the STI

payment earned in the preceding year¹. The share rights progressively vest² over a three, four and five year period from the date of issue and are only retained on exiting the business in the event that the participant is deemed a 'Good Leaver' pursuant to the LTI plan rules.

In addition to the share rights issued to the CEO and other eligible senior executives of the Group under the newly introduced incentive plan, the CEO has been granted share rights as part of the CEO package, which were granted to Mr Taylor during his tenure as interim CEO. An allocation of share rights equal to 75% of 2016 TFR (\$325,500) per annum for three years from 1 September 2016 has been made to the CEO. Each tranche of share rights will vest at a date which is three years from the date of issue and are only retained provided Mr Taylor is employed by the Group at the commencement of the financial year in which the share right vesting is scheduled to occur. Termination of employment prior to each corresponding three year period will result in all unvested share rights being forfeited³.

- ¹ The number of share rights in each tranche, is based on the prescribed dollar value for each tranche divided by the volume weighted average share price of Michael Hill International shares over five trading days following the Michael Hill International shares trading on an ex-dividend basis.
- ² On vesting each share right represents a right to receive one (1) ordinary share in the Company. No exercise price is payable upon the exercise of any share rights.
- ³ The additional share rights component of Mr Taylor's remuneration package is a continuation of the existing plan agreed to upon Mr Taylor's appointment as interim CEO. As a consequence, the deemed issue date for the first tranche of share rights is 1 September 2016 and the corresponding vesting date is 1 September 2019.

Feature

Opportunity/ Allocation	30% of respective STI which is issued to the Executive by way of share rights which are granted and vest in 3 tranches. Each right represents a right to acquire one ordinary share in the Company.
Tranches	Year 3 - provided participant remains employed with the Company, 25% will vest Year 4 - provided participant remains employed with the Company, 25% will vest Year 5 - provided participant remains employed with the Company, 50% will vest
Exercise	Once the rights have vested, Participants can exercise them. They can be exercised by completing and returning to the Company an Exercise Notice.
Expiry	Rights will expire on the date 15 years from the grant date.

SHORT-TERM AND LONG-TERM INCENTIVE STRUCTURE

The People Development and Remuneration Committee considers that the above performance-linked compensation structure is generating the desired outcome.

The scheme is already demonstrating a close correlation between executive remuneration, achievement of budget targets and share price performance as desired.

In 2016-17, the performance linked component of compensation comprises approximately 7% of total payments to senior executives.

In the current year the Group didn't meet its overall Board targets, and despite record EBIT the STI component was below the targeted STI % of TFR.

REMUNERATION POLICY AND LINK TO PERFORMANCE

Our People Development and Remuneration Committee is made up of two independent non-executive Director's and the Chair of the Board of Directors. The committee reviews and determines our remuneration policy and structure annually to ensure it remains aligned to business needs, and meets our remuneration principles. The Committee also engages external remuneration consultants every three years to assist with this review.

The People Development and Remuneration Committee is a committee of the Board. It is primarily responsible for making recommendations to the Board on:

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

Their objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company.

The Corporate Governance Statement provides further information on the role of this committee. The ASX Corporate Governance Principles and Recommendations rules and principles may materially differ from NZX's Corporate Governance rules and NZX Code. In particular, the Board aims to ensure that remuneration practices are:

- competitive and reasonable, enabling the Company to attract and retain key talent
- aligned to the Company's strategic and business objectives and the creation of shareholder value
- transparent and easily understood, and
- acceptable to shareholders.

Figure 1: **Remuneration framework**

Element	Purpose	Performance metrics	Potential value	Changes for FY 2018
Total fixed remuneration (TFR)	Provide competitive market salary including superannuation and non-monetary benefits	All executives are reviewed in line with personal performance plans	Positioned at a percentage of median market rate	Reviewed in line with market
STI	Reward for in-year performance	100% of the STI is calculated on a return on total assets basis. 30% of that 100% is subject to a range of KPI's	CEO: 75% of TFR CFO: 70% of TFR Execs: 35% of TFR	Nil
LTI	Alignment to long-term shareholder value	Nil	CEO: 30% of STI CFO: 30% of STI Execs: 30% of STI	Nil

BALANCING SHORT-TERM AND LONG-TERM PERFORMANCE

Annual incentives are set between 35% and 75% of TFR, in order to drive performance without encouraging undue risk-taking.

Long-term incentives are assessed over a three to five year period and are designed to promote long-term stability in shareholder returns and talent retention.

The actual remuneration mix for FY 2017 is shown in figure 2 below and target remuneration mix for 2018 is in figure 3 below. It reflects the STI opportunity for the 2017-18 year that will be available if the performance conditions are satisfied at target, and the value of the LTI rights and options granted during the year, as determined at the grant date.

Figure 2: **Actual remuneration mix for FY 2017**

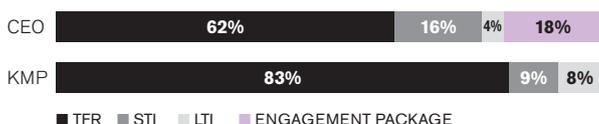
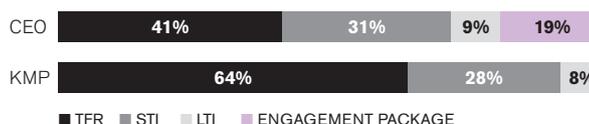


Figure 3: **Target remuneration mix for FY 2018**



ASSESSING PERFORMANCE AND CLAW-BACK OF REMUNERATION

The People Development and Remuneration Committee is responsible for assessing performance against KPIs and determining the STI and LTI to be paid.

In the event of serious misconduct or a material misstatement in the Company's financial statements, the People Development and Remuneration Committee can cancel or defer performance-based remuneration.

CONSEQUENCES OF PERFORMANCE ON SHAREHOLDER WEALTH

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

	2017 \$000	2016 \$000	2015 \$000	2014 \$000	2013 \$000
EBIT	48,117	47,058	42,061	42,151	40,259
NPAT	32,648	19,577	27,754	25,041	32,099
Dividends paid	19,264	17,490	23,176	22,336	18,482
Share price as at 30 June (NZ\$ 2016 to 2013)	\$1.11	\$1.14	\$1.06	\$1.24	\$1.31
Return on shareholders equity	16.8%	15.5%	15.0%	14.1%	19.7%
Return on average total assets	8.4%	5.3%	8.0%	7.9%	11.7%

EBIT and ROA hurdles are considered the primary financial performance targets in setting the STI. Profit amounts for 2013 to 2017 have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. This also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The overall level of compensation takes into account the performance of the Group over a number of years.

OTHER BENEFITS

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

LOANS TO KEY MANAGEMENT PERSONNEL

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



SERVICE CONTRACTS

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

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

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

CEO CONTRACT

The Group has entered into a service contract with the CEO, Phil Taylor who was appointed CEO on 6 March 2017 following the resignation of the former CEO, Mike Parsell. The service contract does not contain any probationary period or fixed term.

The remuneration payable to Mr Taylor is as follows:

- a Annual base salary - \$694,400 (inclusive of the statutory superannuation contributions).
- b Short terms incentives (STI) - 75% of base salary payable in cash on performance of agreed Group profit targets based on a return on asset formula (70% of STI) and other agreed annual key indicators (30% of STI).
- c Deferred compensation plan (LTI) - an allocation of share rights on an annual basis to a value of 30% of the STI payment earned in the preceding year¹. The share rights progressively vest² over a three to five year period from the date of issue and are retained on exiting the business in the event that Mr Taylor is deemed a 'Good Leaver' pursuant to the LTI plan rules.
- d Interim CEO engagement package - an allocation of share rights equal to 75% of 2016 TFR (\$325,500) per annum for three years from 1 September 2016. Each tranche of share rights will vest at a date which is three years from the date of issue and are retained provided Mr Taylor is employed by the Group at the commencement of the financial year in which the share right vesting is scheduled to occur. Termination of employment prior to each corresponding three year period will result in all unvested share rights being forfeited³.

Either party may terminate the engagement on six months' notice. Otherwise, the Group may terminate Mr Taylor's position for serious misconduct or professional negligence.

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

- ¹ The number of share rights in each tranche is based on the prescribed dollar value for each tranche divided by the volume weighted average share price of Michael Hill International shares over five trading days following the Michael Hill International shares trading on an ex-dividend basis.
- ² On vesting, each share right represents a right to receive one (1) ordinary share in the capital of the Company. No exercise price is payable upon the exercise of any share right.
- ³ The additional share rights component of Mr Taylor's remuneration package is a continuation of the existing plan agreed to upon Mr Taylor's appointment as interim CEO. As a consequence, the deemed issue date for the first tranche of share rights is 1 September 2016 and the corresponding vesting date is 1 September 2019.

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

SERVICES FROM REMUNERATION CONSULTANTS

The People Development and Remuneration Committee engaged a remuneration consultant during the 2016 financial year to review the amount and elements of the key management personnel remuneration and provide recommendations in relation thereto.

NON-EXECUTIVE DIRECTORS

Total compensation for all non-executive directors, last voted upon by shareholders on 29 June 2016, is not to exceed \$840,000 per annum and is set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Directors' base fees are presently up to \$95,000 per annum. Where a Director serves as Chair on a Board Committee they are entitled to an additional payment of \$20,000 per annum. All non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of Director.

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

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

DIRECTORS' AND KMPs REMUNERATION

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

		Short-term			Total	Post-employment		Share-based	Total	Proportion remuneration performance related %	Value of options as proportion of remuneration %
		Salary & fees	STI cash bonus	Non-monetary benefits (motor vehicle)		Superannuation benefits	Termination benefits	Options and rights			
		\$	\$	\$	\$	\$	\$	\$			
Non-executive Directors											
Sir Richard Michael Hill	2017	95,000	-	-	95,000	-	-	-	95,000	-	-
	2016	136,735	-	30,000	166,735	-	-	-	166,735	-	-
Emma Jane Hill	2017	190,000	-	-	190,000	-	-	-	190,000	-	-
	2016	162,845	-	-	162,845	-	-	-	162,845	-	-
Ann Christine Lady Hill (resigned 29 June 2016)	2017	-	-	-	-	-	-	-	-	-	-
	2016	95,000	-	-	95,000	-	-	-	95,000	-	-
Gary Warwick Smith	2017	104,072	-	-	104,072	10,928	-	-	115,000	-	-
	2016	105,023	-	-	105,023	9,977	-	-	115,000	-	-
Robert Ian Fyfe	2017	115,000	-	-	115,000	-	-	-	115,000	-	-
	2016	115,000	-	-	115,000	-	-	-	115,000	-	-
Gary Gwynne (resigned 29 June 2016)	2017	-	-	-	-	-	-	-	-	-	-
	2016	95,000	-	-	95,000	-	-	-	95,000	-	-
Janine Suzanne Allis (appointed 9 June 2016)	2017	95,000	-	-	95,000	-	-	-	95,000	-	-
	2016	-	-	-	-	-	-	-	-	-	-
Total Directors' remuneration											
	2017	599,072	-	-	599,072	10,928	-	-	610,000	-	-
	2016	709,603	-	30,000	739,603	9,977	-	-	749,580	-	-



		Short-term			Total	Post-employment		Share-based payments		Total	Proportion remuneration performance related	Value of options as proportion of remuneration
		Salary & fees	STI cash bonus	Non-monetary benefits (motor vehicle)		Superannuation benefits	Termination benefits	Options and rights				
		\$	\$	\$	\$	\$	\$	\$	\$	%	%	
KMPs												
Mike Parsell, CEO (resigned 8 August 2016)	2017	488,561	-	-	488,561	38,623	1,603,742	-	2,130,926	-	-	
	2016	824,000	794,481	-	1,618,481	35,000	-	-	1,653,481	48.05%	-%	
Phil Taylor, CEO (appointed 6 March 2017, formerly CFO)	2017	631,667	167,267	-	798,934	30,627	-	227,332	1,056,893	15.83%	21.51%	
	2016	399,000	374,642	-	773,642	35,000	-	-	808,642	46.33%	-	
Matt Keays, CIO	2017	302,177	39,150	-	341,327	29,760	-	12,122	383,209	10.22%	3.16%	
	2016	279,000	133,184	-	412,184	30,000	-	-	442,184	30.12%	-	
Galina Hirtzel, GESG	2017	270,000	29,321	-	299,321	28,235	-	37,956	365,512	8.02%	10.38%	
	2016	250,000	120,852	-	370,852	30,000	-	32,826	433,678	27.94%	7.59%	
Anna Shaw, CMO (appointed 20 June 2016, resigned 22 March 2017)	2017	304,433	68,000	-	372,433	29,498	-	-	401,931	16.92%	-	
	2016	5,288	-	-	5,288	502	-	-	5,790	-	-	
Joe Talcott, CMO (resigned 26 Jan 2016)	2017	-	-	-	-	-	-	-	-	-	-	
	2016	201,821	63,232	-	265,053	25,180	-	-	290,233	21.79%	-%	
Stewart Silk, GEHR	2017	209,946	24,023	-	233,969	27,640	-	36,281	297,890	8.06%	12.18%	
	2016	207,000	102,355	-	309,355	29,389	-	32,826	371,570	27.55%	8.83%	
Total KMPs' remuneration	2017	2,206,784	327,761	-	2,534,545	184,383	1,603,742	313,691	4,636,361	7.07%	6.77%	
	2016	2,166,109	1,588,746	-	3,754,855	185,071	-	65,652	4,005,578	39.67%	1.64%	
Total Directors' and KMPs' remuneration	2017	2,805,856	327,761	-	3,133,617	195,311	1,603,742	313,691	5,246,361	6.25%	5.98%	
	2016	2,875,712	1,588,746	30,000	4,494,458	195,048	-	65,652	4,755,158	33.42%	1.38%	

Notes in relation to the table of Directors' and KMPs' remuneration:

- The short-term incentive bonus is for performance during the respective financial year using the criteria set out on page 34 of the Remuneration report. The amount was determined on 18 August 2017 after performance reviews were completed and approved by the People Development and Remuneration Committee.
- The fair value of options is calculated at the date of grant using the Binomial option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised as an expense in each reporting period.
- Mike Parsell's termination benefits were approved by shareholders and the Board on 31 October 2016.

ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each Director of the Company, and other key management personnel are detailed below.

Short-term incentive bonus	Target bonus available	Included in remuneration \$(a)	Vested in year %
KMPs			
Phil Taylor	496,720	167,267	100%
Matt Keays	116,261	39,150	100%
Galina Hirtzel	105,000	29,321	100%
Anna Shaw	106,750	68,000	100%
Stewart Silk	83,780	24,023	100%

- a) Amounts included in remuneration for the financial year represent the amount related to the financial year based on achievement of personal goals and satisfaction of specified performance criteria. The People Development and Remuneration Committee approved these amounts on 18 August 2017.
- b) The amounts forfeited due to the performance or service criteria not being met in relation to the current financial year.

Additional statutory information

EQUITY INSTRUMENTS

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

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

Details of options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that vested during the reporting period are as follows:

	Number of options granted during 2017	Grant date	Fair value at grant date per option	Exercise price per option	Expiry date	Number of options vested during 2017
KMPs						
Galina Hirtzel	100,000	22/09/16	NZ\$0.156	AU\$2.12	30/09/2026	-
Stewart Silk	100,000	22/09/16	NZ\$0.156	AU\$2.12	30/09/2026	-

All options expire on their expiry date or within three months of termination of the individual's employment. The options are exercisable five years from grant date. The options are conditional on continuing service. For options granted in the current year, the earliest exercise date is 30/9/2021.

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

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

UNISSUED SHARES

As at the date of this report, there were 4,850,000 unissued ordinary shares under options. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

ANALYSIS OF OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

Details of vesting profiles of the options granted as remuneration to each key management person of the Group are detailed below. When exercisable, each option is convertible into one ordinary share of Michael Hill International Limited. The vesting conditions are set out in note 19(a).

Options granted	Number	Grant date*	Exercise price \$	% forfeited in year**	% vested in year	Financial years in which option vests	Financial years in which option exercisable
KMPs							
Phil Taylor	750,000	Nov 2007	NZ\$1.25	-	-	2008-2012	2013-2018
	150,000	Nov 2009	NZ\$0.94	-	-	2009-2014	2015-2020
	150,000	Sep 2010	NZ\$0.88	-	-	2010-2015	2016-2021
	150,000	Sep 2011	NZ\$1.16	-	-	2011-2016	2017-2022
	150,000	Sep 2012	NZ\$1.41	-	-	2012-2017	2018-2023
	150,000	Sep 2013	NZ\$1.82	-	-	2013-2018	2019-2024
	750,000	Dec 2013	NZ\$1.82	-	-	2013-2018	2019-2024
Total	2,250,000						
Galina Hirtzel	500,000	Dec 2013	NZ\$1.82	-	-	2014-2018	2019-2024
	100,000	Sep 2014	NZ\$1.63	-	-	2015-2019	2020-2025
	100,000	Sep 2015	NZ\$1.14	-	-	2016-2020	2021-2026
	100,000	Sep 2016	AU\$2.12	-	-	2017-2021	2022-2027
	100,000	Sep 2017	-	-	-	-	-
	100,000	Sep 2018	-	-	-	-	-
Total	1,000,000						
Stewart Silk	500,000	Dec 2013	NZ\$1.82	-	-	2014-2018	2019-2024
	100,000	Sep 2014	NZ\$1.63	-	-	2015-2019	2020-2025
	100,000	Sep 2015	NZ\$1.14	-	-	2016-2020	2021-2026
	100,000	Sep 2016	AU\$2.12	-	-	2017-2021	2022-2027
	100,000	Sep 2017	-	-	-	-	-
	100,000	Sep 2018	-	-	-	-	-
Total	1,000,000						

* The grant date refers to the date of the tranches prescribed in the options agreement.

** The percentage forfeited in the year represents the reduction from the maximum number of options available to vest due to performance criteria not being achieved.

ANALYSIS OF MOVEMENTS IN OPTIONS

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person is detailed below.

	Value of options granted in the year	Value of options exercised in year	Number of options lapsed in year
Phil Taylor	-	-	-
Matt Keays	-	-	-
Galina Hirtzel	NZ\$15,570	-	-
Stewart Silk	NZ\$15,570	-	-

SHARE RIGHTS

The number of share rights granted to KMPs and senior executives during the last financial year (including the interim CEO engagement package) was 382,551 share rights. Of these, share rights granted to KMPs are set out below (including the CEO engagement package).

	Number of share rights granted
Phil Taylor	263,593
Matt Keays	24,051
Galina Hirtzel	21,824
Stewart Silk	18,484

RECONCILIATION OF OPTIONS AND SHARE RIGHTS HELD BY KMP

The table below shows a reconciliation of options held by each KMP during the 2017 financial year. All vested options were exercisable.

	Balance at the start of the year		Granted as compensation	Vested	Exercised	Forfeited	Balance at the end of the year	
	Vested	Unvested					Vested and exercisable	Un-vested
M Parsell	6,000,000	-	-	-	(3,600,000)	(2,400,000)	-	-
P Taylor	2,250,000	-	-	-	-	-	2,250,000	-
G Hirtzel	-	700,000	100,000	-	-	-	-	800,000
S Silk	-	700,000	100,000	-	-	-	-	800,000
Total	8,250,000	1,400,000	200,000	-	(3,600,000)	(2,400,000)	2,250,000	1,600,000

The amounts paid per ordinary share on the exercise of options at the date of exercise were as follows:

Exercise date	KMP	No. shares issued	Amount paid per share
08 Nov 2016	M Parsell	2,000,000	NZ\$1.25 (AU\$1.17)
08 Nov 2016	M Parsell	400,000	NZ\$0.94 (AU\$0.88)
08 Nov 2016	M Parsell	400,000	NZ\$0.88 (AU\$0.82)
08 Nov 2016	M Parsell	400,000	NZ\$1.16 (AU\$1.09)
08 Nov 2016	M Parsell	400,000	NZ\$1.41 (AU\$1.32)
Total		3,600,000	

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

This table shows how many share rights were granted, vested and forfeited during the year.

	Balance at start of the year	Granted during the year	Vested	Forfeited	Balance at end of year (unvested)
	Number	Number	Number	Number	Number
P Taylor	-	263,593	-	-	263,593
M Keays	-	24,051	-	-	24,051
G Hirtzel	-	21,824	-	-	21,824
S Silk	-	18,484	-	-	18,484
Total	-	327,952	-	-	327,952

- Shares for the deferred portion of the 2017 STI will be granted in September 2017. The number of shares will depend on the Michael Hill International Limited's share price over the five days prior to the grant date.
- The maximum value of the deferred shares yet to vest has been determined as the amount of the grant date fair value of the rights that is yet to be expensed. For the 2017 grant, the maximum value yet to vest for this grant was estimated based on the share price of the Company at 30 June 2017. The minimum value of deferred shares yet to vest is nil, as the shares will be forfeited if the vesting conditions are not met.

VOTING OF SHAREHOLDERS AT LAST YEAR'S ANNUAL GENERAL MEETING

Michael Hill International Limited received more than 99.69% of "yes" votes on its remuneration report for the 2016 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

INSURANCE OF OFFICERS

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

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

INDEMNITY OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditor, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

NON-AUDIT SERVICES

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

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

	2017	2016
	\$	\$
Ernst & Young firm advisory fees	7,000	50,000
Total remuneration for non-audit services	7,000	50,000

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 44.

ROUNDING OF AMOUNTS

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

This report is made in accordance with a resolution of Directors.



E. J. Hill, Chair
Brisbane
18 August 2017





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AUDITOR'S INDEPENDENCE DECLARATION

to the Directors of Michael Hill International Limited

As lead auditor for the audit of Michael Hill International Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

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

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

Ernst & Young

Ernst & Young

Alison de Groot
Partner
18 August 2017





FINANCIAL STATEMENTS

The Directors are pleased to present the financial statements of Michael Hill International Limited for the year ended 30 June 2017. The Board of Directors of Michael Hill International Limited authorised these financial statements for issue on 18 August 2017.

Emma Hill

Emma Hill, Chair

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Statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE 2017

	NOTES	2017 \$'000	2016 \$'000
Revenue from continuing operations	4	582,975	551,127
Other income	5(a)	1,655	555
Cost of goods sold		(211,833)	(197,302)
Employee benefits expense		(155,122)	(144,724)
Occupancy costs		(59,890)	(54,238)
Marketing expenses		(30,822)	(30,158)
Selling expenses		(25,924)	(24,621)
Depreciation and amortisation expense	5(b)	(20,016)	(18,760)
Loss on disposal of property, plant and equipment		(1,165)	(328)
Other expenses		(31,725)	(33,910)
Finance costs	5(b)	(3,175)	(6,107)
Profit before income tax		44,958	41,534
Income tax expense	6	(12,310)	(21,957)
Profit for the year		32,648	19,577
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges	9(b)	(256)	(116)
Currency translation differences arising during the year	9(b)	(2,542)	(3,443)
Other comprehensive income for the year, net of tax		(2,798)	(3,559)
Total comprehensive income for the year		29,850	16,018

Total comprehensive income for the year is attributable to:			
Owners of Michael Hill International Limited		29,850	16,018

Earnings per share for profit attributable to the ordinary equity holders of the Company, attributable to continuing operations:

Basic earnings per share	21	8.46¢	5.11¢
Diluted earnings per share	21	8.45¢	5.09¢

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

Statement of financial position

AS AT 30 JUNE 2017

	NOTES	2017 \$000	2016 \$000
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	5,676	8,853
Trade and other receivables	7(b)	24,219	25,813
Inventories	8(a)	203,853	199,961
Derivative financial instruments	11(a)	-	450
Current tax receivables	8(e)	888	-
Other current assets	8(f)	3,945	5,035
Total current assets		238,581	240,112
Non-current assets			
Trade and other receivables	7(b)	2,371	325
Property, plant and equipment	8(b)	79,436	71,933
Deferred tax assets	8(d)	57,893	64,074
Intangible assets	8(c)	8,784	5,561
Other non-current assets	8(f)	2,057	2,192
Total non-current assets		150,541	144,085
Total assets		389,122	384,197
LIABILITIES			
Current liabilities			
Trade and other payables	7(c)	47,918	45,044
Derivative financial instruments	11(a)	1,141	1,333
Current tax liabilities	8(g)	-	25,022
Provisions	8(h)	4,670	4,902
Deferred revenue	8(j)	25,924	24,685
Total current liabilities		79,653	100,986
Non-current liabilities			
Borrowings	7(d)	45,034	40,887
Provisions	8(h)	6,235	5,198
Deferred revenue	8(i)	56,017	50,725
Total non-current liabilities		107,286	96,810
Total liabilities		186,939	197,796
Net assets		202,183	186,401
EQUITY			
Contributed equity	9(a)	10,015	3,767
Reserves	9(b)	281	4,131
Retained profits	9(b)	191,887	178,503
Total equity		202,183	186,401

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

Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2017

Attributable to owners of Michael Hill International Limited	Notes	Contributed equity	Share based payments reserve	Foreign currency translation reserve	Cash flow hedge reserve	Retained profits	Total equity
		\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2015		3,760	1,943	6,270	(768)	176,416	187,621
Profit for the year		-	-	-	-	19,577	19,577
Currency translation differences		-	-	(3,443)	-	-	(3,443)
Currency forward contracts		-	-	-	360	-	360
Interest rate swaps		-	-	-	(476)	-	(476)
Total comprehensive income for the year		-	-	(3,443)	(116)	19,577	16,018
Transactions with members in their capacity as owners:							
Dividends paid	13(b)(i)	-	-	-	-	(17,490)	(17,490)
Option expense through share based payments reserve	9(b)	-	132	-	-	-	132
Cancellation of treasury stock	7	-	-	-	-	-	7
Reverse options previously forfeited		-	113	-	-	-	113
		7	245	-	-	(17,490)	(17,238)
Balance at 30 June 2016		3,767	2,188	2,827	(884)	178,503	186,401
Profit for the year		-	-	-	-	32,648	32,648
Currency translation differences		-	-	(2,542)	-	-	(2,542)
Currency forward contracts		-	-	-	(834)	-	(834)
Interest rate swaps		-	-	-	578	-	578
Total comprehensive income for the year		-	-	(2,542)	(256)	32,648	29,850
Transactions with members in their capacity as owners:							
Dividends paid	13(b)(i)	-	-	-	-	(19,264)	(19,264)
Option expense through share based payments reserve	9(b)	-	55	-	-	-	55
Issue of shares to employees on exercise of options		4,825	-	-	-	-	4,825
Transfer option reserve to contributed equity on exercise of options		712	(712)	-	-	-	-
Transfer option reserve to contributed equity on forfeiture of options		711	(711)	-	-	-	-
Share rights expense through share based payments reserve		-	316	-	-	-	316
		6,248	(1,052)	-	-	(19,264)	(14,068)
Balance at 30 June 2017		10,015	1,136	285	(1,140)	191,887	202,183

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

Cash flow statement

FOR THE YEAR ENDED 30 JUNE 2017

	NOTES	2017 \$000	2016 \$000
Cash flows from operating activities			
Receipts from customers (inclusive of GST and sales taxes)		649,041	617,024
Payments to suppliers and employees (inclusive of GST and sales taxes)		(534,444)	(521,904)
		114,597	95,120
Interest received		16	583
Other revenue		791	555
Interest paid		(3,106)	(5,950)
Income tax paid		(9,179)	(2,257)
Inland revenue tax settlement		(21,842)	-
Net GST and sales taxes paid		(41,525)	(40,257)
Net cash inflow from operating activities	10(a)	39,752	47,794
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		289	213
Payments for property, plant and equipment	8(b)	(27,294)	(22,949)
Payments for intangible assets		(5,851)	(1,600)
Net cash (outflow) from investing activities		(32,856)	(24,336)
Cash flows from financing activities			
Proceeds from issues of shares on exercise of options	9(a)	4,825	-
Proceeds from borrowings		136,750	124,500
Repayment of borrowings		(132,250)	(128,500)
Dividends paid to Company's shareholders	13(b)	(19,264)	(17,490)
Net cash (outflow) from financing activities		(9,939)	(21,490)
Net (decrease) / increase in cash and cash equivalents		(3,043)	1,968
Cash and cash equivalents at the beginning of the financial year		8,853	6,797
Effects of exchange rate changes on cash and cash equivalents		(134)	88
Cash and cash equivalents at the end of the financial year	7(a)	5,676	8,853

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

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1 Corporate information

The consolidated financial statements of Michael Hill International Limited and its subsidiaries (collectively, the Group) for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the directors on 18 August 2017. Michael Hill International Limited (the Company or Parent) is a for profit company limited by shares incorporated in Australia. The Company listed on the Australian Securities Exchange ('ASX') on 7 July 2016 as its primary listing, and maintains a secondary listing on the New Zealand Stock Exchange ('NZX').

Until 23 June 2016, Michael Hill New Zealand Limited (formerly known as Michael Hill International Limited) was the parent of the Group. Until that time, Michael Hill New Zealand Limited was a public company registered under the Companies Act 1993 and remains domiciled in New Zealand. Michael Hill New Zealand Limited had its primary listing on the New Zealand Stock Exchange. The listing was suspended on 22 June 2016 as part of the scheme of arrangement to move the primary listing to the ASX.

Michael Hill International Limited obtained control of the former parent, Michael Hill New Zealand Limited (formerly known as Michael Hill International Limited) on 23 June 2016. The reason for obtaining control was the move to the ASX. Michael Hill International Limited issued equity in exchange for the equity of Michael Hill New Zealand Limited. The assets and liabilities of the new group and the original group were the same immediately before and after the reorganisation. The owners of the original parent before the reorganisation had the same absolute and relative interests in the new assets of the original group and the new group immediately before and after the reorganisation. As it was a common control transaction, it is outside the scope of AASB 3 Business Combinations. The transaction is accounted for as a group reorganisation by applying the principles of reverse acquisition accounting. The Group financial statements represent a continuation of the original group.

As part of the reorganisation, Michael Hill International Limited acquired 100% of the share capital in Durante Holdings Pty Ltd (a company controlled by interests associated with the Hill Family which held 52.89% of the shares on issue in Michael Hill New Zealand Limited). Durante Holdings Pty Ltd has been consolidated as a fully controlled subsidiary in accordance with the accounting policy described in note 14a Subsidiaries.

NOTE 2 Summary of significant accounting policies

(a) BASIS OF PREPARATION

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

Prior to the change in parent, as described in note 1 Corporate Information, the financial statements were prepared in accordance with New Zealand Generally Accepted Account Practice (NZ GAAP). They complied with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities. They also complied with the requirements of the Financial Reporting Act 2013, Financial Markets Conduct Act 2013 and the Companies Act 1993. There has been no significant changes in the statement of comprehensive income or statement of financial position as a result of the change.

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

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

Compliance with IFRS

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

(b) PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING

Subsidiaries

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

As described in note 1, the Group inserted a new parent during the prior year. As it was a common control transaction, it was outside the scope of AASB 3 Business Combinations. The transaction was accounted for as a group reorganisation by applying the principles of reverse acquisition accounting. The Group financial statements represent a continuation of the original group.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income. Investments in subsidiaries are accounted for at cost in the individual financial statements of Michael Hill International Limited. Refer to note 14(a).

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

Michael Hill Trustee Company Limited was formed to administer the Group's Employee Share Scheme. Shares held by the Trust are disclosed as treasury shares and deducted from contributed equity. All treasury shares on hand at 24 June 2016 were cancelled as part of the move to the Australian Securities Exchange and the company was amalgamated with MHNZ on 10 February 2017.

(c) SEGMENT REPORTING

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

(d) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

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

(iii) Group companies

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

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

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

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

(e) REVENUE RECOGNITION

(i) Sales of goods - retail

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

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

(ii) Rendering of services - deferred service revenue

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

(iii) Rendering of services - repairs

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

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

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

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

(v) Interest income

Interest income is recognised using the effective interest method.

(f) TAXES

Current income tax

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

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

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

Deferred income tax

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities

are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax consolidation group

Michael Hill International Limited and its wholly-owned Australian controlled entities formed a tax consolidation group on 29 June 2016. As a consequence, one income tax return is completed for the Australian tax group and is treated for income tax purposes as one taxpayer.

Formerly, Michael Hill Jeweller (Australia) Pty Ltd and all wholly-owned Australian controlled entities formed the Australian tax consolidation group who completed one income tax return and was treated for income tax purposes as one taxpayer.

The tax balances have been attributed for reporting purposes to each of the entities on the basis of their individual results. Amounts of tax due to and receivable from the Australian Taxation Office are made by Michael Hill International Limited as nominated member of the Australian tax consolidated group. The current tax balance for the Australian tax group has been allocated between the members based on each entity's current tax movement for the period. Where tax losses are incurred by Australian tax group members, these are offset within the group without payment.

As a result of the formation of the Australian tax consolidated group, the general income tax consolidation provisions apply relating to the setting of the tax cost base of the assets of the subsidiary members of the tax consolidated group. This includes resetting of the tax cost base of the assets of the Australian group including intellectual property, depreciating assets and trading stock. The resetting of the tax bases resulted in recognition of a deferred tax asset amounting to \$19,439,000 being recognised in the 2016 financial year. A further adjustment has been made to the deferred tax asset in the 2017 financial year of \$4,389,000, bringing the total adjustment from that transaction to \$23,828,000.

(g) GOODS AND SERVICES TAX (GST)

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

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

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

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

(h) LEASES

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

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 16). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the year of the lease.

(i) IMPAIRMENT OF ASSETS

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

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

The pre-tax discount rates used in determining the recoverable amount ranged between 11.1% and 15.7% (2016: 10.3% and 13.3%), depending on the geographical segment of the assets.

(j) CASH AND CASH EQUIVALENTS

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

(k) TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for goods sold or services rendered in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Collectibility of trade receivables is reviewed on an ongoing basis. Trade receivables which are known to be uncollectible are written off. A provision for impaired 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 statement of comprehensive income.

(l) DEFERRED EXPENDITURE

Direct and incremental bonuses associated with the sale of professional care plans are deferred and amortised in proportion to the professional care plan revenue recognised. Management reviews trends in current and estimated future services provided under the plan to assess whether changes are required to the cost recognition rates used.

(m) INVENTORIES

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

(n) INVESTMENTS AND OTHER FINANCIAL ASSETS Classification

The Group classifies its financial assets in 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, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting year. See note 7 for details about each type of financial asset.

(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 if they are expected to be settled within 12 months; otherwise they are classified as non-current.

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

(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 period which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position (note 7(b)).

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. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

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 the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long-term.

Impairment

The Group assesses at the end of each reporting year whether there is objective evidence that a financial asset or a Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(o) DERIVATIVES AND HEDGING ACTIVITIES

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 year. The accounting for subsequent changes in fair value 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:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);

- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the hedging 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 note 7(e). Movements in the hedging reserve in shareholder's equity are shown in note 9(b). The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(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. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

(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 profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the years when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging

export sales is recognised in profit or loss within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

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 profit or loss. 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.

(iii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge 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 profit or loss within other income or other expenses.

Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

(p) PROPERTY, PLANT AND EQUIPMENT

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting year in which they are incurred.

Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives (see note 8(b)).

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(i)).

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

(q) INTANGIBLE ASSETS

Software

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

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

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

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

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

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

(r) TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting year. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Deferred revenue represents lease incentives for entering new lease agreements and revenue from PCPs. The accounting policy used to recognise the revenue is detailed in note 2(e)(ii).

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

(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 profit or loss over the year of the borrowings using the effective interest method.

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting year.

(t) PROVISIONS

Provisions for legal claims, sales returns, lifetime battery replacement 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 can be reliably estimated. Provisions are not recognised for future operating losses.

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

Present obligations arising from onerous contracts are required to be recognised and measured as a provision. An onerous contract is considered to exist where the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. The Group has recognised a provision in relation to one contract at our Roosevelt Fields location in the US that was identified as onerous during the reporting period.

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

(u) EMPLOYEE BENEFITS

(i) Short-term obligations

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

expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

(ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the year in which the employees render the related service are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting year using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting year of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

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

(iii) Share-based payments - Employee options

Options are issued to Executives of Michael Hill International Limited in accordance with the Company's constitution. The Board of Directors pass a resolution approving the issue of the options. The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity.

The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date for options issued during 2017 were independently determined using a Binomial option pricing model, which is an iterative model for options that can be exercised at times prior to expiry. The model takes into account the grant date, exercise price, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. It also assumes the options will be exercised at the mid-point of the exercise period.

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

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

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

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

(iv) Profit-sharing and bonus plans

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

(v) Retirement benefit obligations

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

(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.

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

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

(x) EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(y) ROUNDING OF AMOUNTS

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

(z) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the group. The Group's assessment of the financial impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments: Classification and measurement

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until financial years commencing on or after 1 January 2018 but is available for early adoption. The Group has not yet assessed the potential financial impact of this change, but is not anticipating a material impact on the financial statements given the nature of the financial assets and liabilities held by the Group. An anticipated date of adoption has not yet been agreed by the Board.

(ii) AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. AASB 15 supersedes:

- (a) AASB 111 Construction Contracts;
- (b) AASB 118 Revenue;
- (c) Interpretation 13 Customer Loyalty Programmes;
- (d) Interpretation 15 Agreements for the Construction of Real Estate;
- (e) Interpretation 18 Transfers of Assets from Customers;
- (f) Interpretation 131 Revenue - Barter Transactions Involving Advertising Services; and
- (g) Interpretation 1042 Subscriber acquisition costs in the Telecommunications Industry.

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This is largely in line with the current accounting policies adopted for recognition of revenue, as described in note 2(e).

The standard is not applicable until financial years commencing on or after 1 January 2018 but is available for early adoption. The Group has an IFRS project underway and continues to evaluate the effect of the new standard including the financial impact and related disclosures. The Group will conduct a complete impact assessment during the 2018 financial year. The impact will be quantified when the assessment has been completed. As a result of the complete assessment, the result and impact on revenue if any, will invariably impact the transition method adopted. The Group is expecting to adopt the new standard from the 2019 financial year.

(iii) **AASB 16 Leases**

AASB 16 Leases addresses the recognition and measurement of assets and liabilities for all leases with a term of more than 12 months, unless they are of low value. It also contains the disclosure requirements for lessees and lessors. AASB 16 supersedes:

- (a) AASB 117 Leases;
- (b) Interpretation 4 Determining whether an Arrangement contains Lease;
- (c) SIC-15 Operating Leases - Incentives; and
- (d) SEC - 27 Evaluating the Substance of Transactions involving the Legal Form of a Lease.

The standard is not applicable until financial years commencing on or after 1 January 2019 but is available for early adoption provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as AASB 16. The Group has not yet assessed the potential financial impact of this change, but expects it will have a material impact on the Group's financial statements. An anticipated date of adoption has not yet been agreed by the Board. The standard will require lessees to recognise assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms greater than twelve months.

Additional information

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

- (a) accounting policies that are relevant for an understanding of the items recognised in the financial statements. These cover situations where the accounting standards either allow a choice or do not deal with a particular type of transaction
- (b) analysis and sub-totals, including segment information
- (c) information about estimates and judgements made in relation to particular items.

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NOTE 3 Segment information

(a) **DESCRIPTION OF SEGMENTS AND PRINCIPAL ACTIVITIES**

Management have determined the operating segments based on the reports reviewed by the Board and Executive Team that are used to make strategic decisions. The Board and Executive team consider, organise and manage the business primarily from a brand perspective. For the Michael Hill brand, they also consider, organise and manage the business from a geographic perspective, being the country of origin where the sale and service was performed. The segment definition was amended during the year and now includes trading activity from our stores, online presence and North American in-house credit function. Discrete financial information about each of these operating businesses is reported to the Board and Executive Team monthly, via the preparation of the Group financial reports.

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

The Group operates in four geographical segments: Australia, New Zealand, Canada and the United States of America.

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

Types of products and services

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

Major customers

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

Accounting policies and inter-segment transactions

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

(b) SEGMENT RESULTS**Segment information by brand 2017**

	Michael Hill	Emma & Roe	Corporate and other	Group
	\$000	\$000	\$000	\$000
Operating revenue	567,034	15,118	823	582,975
Gross profit %	62.1%	66.0%	-	63.5%
EBITDA	102,669	(5,719)	(28,817)	68,133
Depreciation and amortisation	(15,906)	(1,224)	(2,886)	(20,016)
EBIT	86,763	(6,943)	(31,703)	48,117
Interest income	1	-	15	16
Finance costs	(58)	(11)	(3,106)	(3,175)
Net profit before tax	86,706	(6,954)	(34,794)	44,958
Income tax expense	-	-	-	(12,310)
Net profit after tax	86,706	(6,954)	(34,794)	32,648
Included in EBIT figure above:				
Segment impairment	827	-	-	827
Segment onerous lease provision	93	-	-	93

Segment information by brand 2016

Operating revenue	540,805	9,347	975	551,127
Gross profit %	62.3%	69.9%	-	64.0%
EBITDA	96,632	(1,817)	(28,997)	65,818
Depreciation and amortisation	(14,966)	(611)	(3,183)	(18,760)
EBIT	81,666	(2,428)	(32,180)	47,058
Interest income	2	-	581	583
Finance costs	(149)	(14)	(5,944)	(6,107)
Net profit before tax	81,519	(2,442)	(37,543)	41,534
Income tax expense	-	-	-	(21,957)
Net profit after tax	81,519	(2,442)	(37,543)	19,577
Included in EBIT figure above:				
Segment impairment	96	-	1	97

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3 Segment information cont.

MICHAEL HILL RETAIL SEGMENT INFORMATION BY COUNTRY

	Australia \$000	New Zealand \$000	Canada \$000	United States \$000	Michael Hill \$000
for the period ended 30 June 2017					
Segment operating revenue	321,981	115,518	112,930	16,605	567,034
Segment gross profit %	62.6%	61.7%	61.3%	60.5%	62.1%
Segment EBITDA	60,158	29,234	16,771	(3,494)	102,669
Segment depreciation and amortisation	(7,766)	(2,651)	(4,196)	(1,293)	(15,906)
Segment EBIT	52,392	26,583	12,575	(4,787)	86,763
Segment EBIT as a % of revenue	16.3%	23.0%	11.1%	(28.8%)	15.3%
Segment interest income	-	1	-	-	1
Segment finance costs	(17)	(41)	-	-	(58)
Segment net profit before tax	52,375	26,543	12,575	(4,787)	86,706
Included in EBIT figure above:					
Segment impairment	37	-	-	790	827
Segment onerous lease provision	-	-	-	93	93
for the period ended 30 June 2016					
Segment operating revenue	309,457	113,119	98,711	19,518	540,805
Segment gross profit %	62.7%	61.8%	62.1%	58.9%	62.3%
Segment EBITDA	57,863	27,751	13,218	(2,200)	96,632
Segment depreciation and amortisation	(7,201)	(2,542)	(3,870)	(1,353)	(14,966)
Segment EBIT	50,662	25,209	9,348	(3,553)	81,666
Segment EBIT as a % of revenue	16.4%	22.3%	9.5%	(18.2%)	15.1%
Segment interest income	-	2	-	-	2
Segment finance costs	(135)	(12)	-	(2)	(149)
Segment net profit before tax	50,527	25,199	9,348	(3,555)	81,519
Included in EBIT figure above:					
Segment impairment	96	-	-	-	96

NOTE 4 Revenue

	2017 \$000	2016 \$000
From continuing operations:		
Sales revenue		
Revenue from sale of goods and repair services	547,087	517,820
Revenue from professional care plans	33,689	30,758
Interest and other revenue from in-house customer finance program	2,183	1,966
	582,959	550,544
Other revenue		
Interest income	16	583
Total revenue from continuing operations	582,975	551,127

NOTE 5 Other income and expense items

	NOTES	2017 \$000	2016 \$000
(a) OTHER INCOME			
Insurance recoveries		2	102
Net foreign exchange gains	11(b)	863	-
Other income		790	453
		1,655	555
(b) BREAKDOWN OF EXPENSES BY NATURE			
Depreciation			
Plant and equipment		4,229	3,681
Furniture and fittings		3,956	3,498
Motor vehicles		194	214
Leasehold improvements		7,089	7,126
Display materials		1,947	1,720
Total depreciation	8(b)	17,415	16,239
Amortisation – software	8(c)	2,601	2,521
Total depreciation and amortisation		20,016	18,760
Finance costs			
Bank and interest charges		3,106	2,793
Interest expense - make good provision	8(h)	69	161
Interest paid in regards to tax pooling arrangement	11(b)	-	3,153
Total finance costs		3,175	6,107
Net foreign exchange losses included in other expenses for the year		-	352

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 6 Income tax expense

	NOTES	2017 \$000	2016 \$000
(a) INCOME TAX EXPENSE			
Current tax			
Current tax on profits for the year		6,402	12,139
Adjustments for current tax of prior periods		947	-
Derecognised tax losses		461	208
Inland Revenue tax settlement provision		-	28,782
Foreign income tax offsets not recognised		1,055	-
Total current tax expense		8,865	41,129
Deferred income tax			
Decrease (increase) in deferred tax assets	8(d)	8,125	332
Tax consolidation cost base adjustments		(4,389)	(19,439)
Adjustments for deferred tax of prior periods		(291)	(65)
Total deferred tax expense/(benefit)		3,445	(19,172)
Income tax expense		12,310	21,957
(b) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE			
Profit from continuing operations before income tax expense		44,958	41,534
Tax at the Australian tax rate of 30.0% (2016 - 30.0%)		13,487	12,460
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Non deductible entertainment expenditure		140	178
Non deductible legal expenditure		38	89
Share of partnership		-	(515)
Non-assessable intragroup markups		(653)	-
Unrealised foreign exchange loss not included in accounting profit		-	(500)
Sundry items		89	1
Tax consolidation cost base adjustments		(4,389)	(19,439)
Inland Revenue tax settlement provision		-	28,782
		8,712	21,056
Difference in overseas tax rates		(321)	(414)
Adjustments for current tax of prior periods		947	-
Adjustments for deferred tax of prior periods		(291)	(65)
Tax losses not recognised		2,208	1,380
Foreign income tax offset not recognised		1,055	-
Income tax expense		12,310	21,957
(c) TAX LOSSES			
Unused United States tax losses for which no deferred tax has been recognised		19,524	15,199
Potential tax benefit @ 40%		7,810	6,079
Unused New Zealand tax losses for which no deferred tax has been recognised		1,645	413
Potential tax benefit @ 28%		461	116

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

NOTE 7 Financial assets and financial liabilities

	Notes	Derivatives used for hedging	Amortised cost	Total
		\$000	\$000	\$000
Financial assets 2017				
Cash and cash equivalents	7(a)	-	5,676	5,676
Trade and other receivables	7(b)	-	26,590	26,590
		-	32,266	32,266
Financial assets 2016				
Cash and cash equivalents	7(a)	-	8,853	8,853
Trade and other receivables	7(b)	-	26,138	26,138
Derivative financial instruments	11(a)	450	-	450
		450	34,991	35,441
Financial liabilities 2017				
Trade and other payables	7(c)	-	47,918	47,918
Borrowings	7(d)	-	45,034	45,034
Derivative financial instruments	11(a)	1,141	-	1,141
		1,141	92,952	94,093
Financial liabilities 2016				
Trade and other payables	7(c)	-	45,044	45,044
Borrowings	7(d)	-	40,887	40,887
Derivative financial instruments	11(a)	1,333	-	1,333
		1,333	85,931	87,264

The Group's exposure to various risks associated with the financial instruments is discussed in note 11. The maximum exposure to credit risk at the end of the reporting year is the carrying amount of each class of financial assets mentioned above.

	2017 \$000	2016 \$000
(a) CASH AND CASH EQUIVALENTS		
Current assets		
Cash at bank and on hand	5,676	8,853

Interest rates for the bank accounts have been between 0.00% and 1.15% during the year (2016: between 0.00% and 1.15%).

(b) TRADE & OTHER RECEIVABLES	Notes	2017		2016		Total \$000	
		Current \$000	Non-current \$000	Current \$000	Non-current \$000		
Trade receivables		4,752	-	4,752	4,533	-	4,533
Provision for impairment of receivables		(502)	-	(502)	(675)	-	(675)
	11(c)(i)	4,250	-	4,250	3,858	-	3,858
In-house customer finance		15,157	2,533	17,690	13,911	347	14,258
Provision for impairment of receivables		(956)	(162)	(1,118)	(879)	(22)	(901)
	11(c)(ii)	14,201	2,371	16,572	13,032	325	13,357
Sundry debtors		5,768	-	5,768	8,923	-	8,923
		24,219	2,371	26,590	25,813	325	26,138

Further information relating to loans to related parties and key management personnel is set out in note 18.

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 7 Financial assets and financial liabilities cont.

(i) Trade receivables

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

(ii) In-house customer finance

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

The receivables from the in-house customer finance program are comprised of a large number of transactions with no one customer representing a significant balance. The finance portfolio consists of contracts of similar characteristics that are evaluated collectively for impairment. The allowance is an estimate of the losses as of the balance date, and is calculated using such factors as delinquency and recovery rates.

(iii) Sundry debtors

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

Effective interest rates

Other than in-house customer finance, all receivables are non-interest bearing. The majority of in-house customer finance receivables are also non-interest bearing.

Impairment and risk exposure

Information about the impairment of trade and other receivables, their credit quality and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 11(b) and 11(c).

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

(c) TRADE AND OTHER PAYABLES

	2017 \$000	2016 \$000
Current liabilities		
Trade payables	27,648	23,734
Annual leave liability	8,571	7,725
Accrued expenses	6,442	8,553
Other payables	5,257	5,032
	47,918	45,044

Trade payables are unsecured and are usually paid within 30 days of recognition. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

(d) BORROWINGS

	2017 \$000	2016 \$000
Non-current liabilities	45,034	40,887

The Group's objectives when managing capital are to ensure sufficient liquidity to support its financial obligations and execute the Group's operational and strategic plans. The Group continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. Accordingly, the Group entered into a four year agreement with ANZ on 24 June 2015 that provides for a \$110,000,000 multi option borrowing facility, the availability of which is adjusted throughout the year in line with business requirements. At balance date, \$70,000,000 was available, and of that, \$45,034,000 was utilised.

The Group also has access to various uncommitted credit facility lines serving working capital needs that, at balance date, totalled \$1,957,000. No amounts were drawn under these credit facility lines as at balance date.

(e) RECOGNISED FAIR VALUE MEASUREMENTS

Fair value hierarchy

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

	Notes	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Recurring fair value measurements at 30 June 2017					
Financial liabilities					
Derivatives used for hedging					
- Foreign exchange contracts	11(a)	-	414	-	414
- Interest rate swaps	11(a)	-	727	-	727
Total financial liabilities		-	1,141	-	1,141
Recurring fair value measurements at 30 June 2016					
Financial assets					
Derivatives used for hedging					
- Foreign exchange contracts	11(a)	-	450	-	450
Total financial assets		-	450	-	450
Financial Liabilities					
Derivatives used for hedging					
- Foreign exchange contracts	11(a)	-	29	-	29
- Interest rate swaps	11(a)	-	1,304	-	1,304
Total financial liabilities		-	1,333	-	1,333

There were no transfers between levels during the year.

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

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

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

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

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 8 Non-financial assets and liabilities

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

(a) INVENTORIES	2017	2016
	\$000	\$000
Raw materials	7,870	7,461
Finished goods	191,768	188,723
Packaging and other consumables	4,215	3,777
	203,853	199,961

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

(b) PROPERTY, PLANT & EQUIPMENT	Plant and equipment	Fixtures and fittings	Motor vehicles	Leasehold improvements	Display materials	Total
	\$000	\$000	\$000	\$000	\$000	\$000
At 1 July 2015						
Cost	29,856	26,393	953	63,697	12,576	133,475
Accumulated depreciation	(17,466)	(12,994)	(443)	(32,030)	(5,697)	(68,630)
Net book amount	12,390	13,399	510	31,667	6,879	64,845
Year ended 30 June 2016						
Opening net book amount	12,390	13,399	510	31,667	6,879	64,845
Exchange differences	51	101	12	117	19	300
Additions	4,350	4,865	367	10,730	2,637	22,949
Additions - make good asset	-	-	-	713	-	713
Disposals	(218)	(65)	(141)	(71)	(44)	(539)
Depreciation charge	(3,681)	(3,498)	(214)	(7,126)	(1,720)	(16,239)
Impairment charge	(20)	(39)	-	(37)	-	(96)
Closing net book amount	12,872	14,763	534	35,993	7,771	71,933
At 30 June 2016						
Cost	33,203	30,206	930	72,926	12,767	150,032
Accumulated depreciation	(20,331)	(15,443)	(396)	(36,933)	(4,996)	(78,099)
Net book amount	12,872	14,763	534	35,993	7,771	71,933
Year ended 30 June 2017						
Opening net book amount	12,872	14,763	534	35,993	7,771	71,933
Exchange differences	(124)	(119)	(6)	(525)	(93)	(867)
Additions	6,868	5,034	153	13,193	2,046	27,294
Additions - make good asset	-	-	-	773	-	773
Disposals	(427)	(118)	(55)	(791)	(64)	(1,455)
Depreciation charge	(4,229)	(3,956)	(194)	(7,089)	(1,947)	(17,415)
Impairment charge	(26)	(5)	-	(796)	-	(827)
Closing net book amount	14,934	15,599	432	40,758	7,713	79,436
At 30 June 2017						
Cost	37,944	34,169	796	82,602	13,816	169,327
Accumulated depreciation	(23,010)	(18,570)	(364)	(41,844)	(6,103)	(89,891)
Net book amount	14,934	15,599	432	40,758	7,713	79,436

(i) **Impairment loss**

As per the Group's accounting policies, the Group impairs assets where the recoverable amount is less than the carrying amount. The Group has impaired the assets of two stores, based on projected discounted cash flows. Any assets held at an impaired store that are able to be redeployed throughout the Group are not impaired. This cost is reported in Other expenses in the statement of comprehensive income. The segment breakdown of impairment losses recognised during the year is reported at note 3.

(ii) **Revaluation, depreciation methods and useful lives**

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

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

(c) INTANGIBLE ASSETS

	Patents, trademarks and other rights	Computer software	Total
	\$000	\$000	\$000
At 1 July 2015			
Cost	79	15,085	15,164
Accumulation amortisation	-	(8,673)	(8,673)
Net book amount	79	6,412	6,491
Year ended 30 June 2016			
Opening net book amount	79	6,412	6,491
Exchange differences	-	(6)	(6)
Additions	-	1,600	1,600
Disposals	-	(2)	(2)
Amortisation charge*	-	(2,521)	(2,521)
Impairment charge	-	(1)	(1)
Closing net book amount	79	5,482	5,561
At 30 June 2016			
Cost	79	16,675	16,754
Accumulation amortisation	-	(11,193)	(11,193)
Net book amount	79	5,482	5,561
Year ended 30 June 2017			
Opening net book amount	79	5,482	5,561
Exchange differences	-	(27)	(27)
Additions	-	5,851	5,851
Amortisation charge*	-	(2,601)	(2,601)
Closing net book amount	79	8,705	8,784
At 30 June 2017			
Cost	79	22,472	22,551
Accumulated amortisation	-	(13,767)	(13,767)
Net book amount	79	8,705	8,784

* Amortisation of \$2,601,000 (2016: \$2,521,000) is included in depreciation and amortisation expense in the statement of comprehensive income.

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 8 Non-financial assets and liabilities cont.

(d) DEFERRED TAX ASSETS

	2017 \$000	2016 \$000
The balance comprises temporary differences attributable to:		
Doubtful debts	397	391
Fixed assets and intangibles	3,585	1,414
Intangible assets from intellectual property transfer	28,101	30,304
Deferred expenditure	(764)	(841)
Prepayments	(55)	(1)
Deferred service revenue	4,322	4,400
Unearned income	1,201	888
Employee benefits	2,775	2,597
Retirement pension obligations	837	789
Provisions for warranties and legal costs	708	722
Straight-line lease provision	1,335	1,401
Other provisions	1,654	2,371
Unrealised foreign exchange losses	(15)	(17)
Sundry items	200	217
Tax consolidation cost base adjustments	11,270	19,439
Tax losses recognised	2,342	-
Net deferred tax assets	57,893	64,074
Expected settlement:		
Within 12 months	11,846	14,943
After more than 12 months	46,047	49,131
	57,893	64,074
Movements:		
Opening balance at 1 July	64,074	48,381
(Charged) / credited to the income statement	(8,125)	19,107
Tax losses recognised	2,342	-
Prior year adjustment	(291)	(65)
Foreign exchange differences	(107)	(3,349)
Closing balance at 30 June	57,893	64,074

(e) CURRENT TAX RECEIVABLES

Current tax receivables	888	-
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(f) OTHER ASSETS

	Current \$000	Non-current \$000	2017 Total \$000	Current \$000	Non-current \$000	2016 Total \$000
Prepayments	3,089	178	3,267	4,050	154	4,204
Deferred expenditure	856	1,879	2,735	985	2,038	3,023
	3,945	2,057	6,002	5,035	2,192	7,227

(g) CURRENT TAX LIABILITIES

	2017 \$000	2016 \$000
Current tax liabilities	-	25,022

(h) PROVISIONS

	Current \$000	Non-current \$000	2017 Total \$000	Current \$000	Non-current \$000	2016 Total \$000
Employee benefits (i)	1,894	1,931	3,825	2,081	1,789	3,870
Returns provision (i)	2,518	-	2,518	2,609	-	2,609
Make good provision (i)	223	4,246	4,469	212	3,409	3,621
Other provisions (i)	35	58	93	-	-	-
	4,670	6,235	10,905	4,902	5,198	10,100

(i) Information about individual provisions and significant estimates:**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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Returns Provision

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

Make good provision

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

Other provisions

Other provisions relate to a provision for an onerous lease.

(ii) Movements in provisions

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

	Employee benefits \$000	Returns provision \$000	Make good provision \$000	Other provisions \$000	Total \$000
Carrying amount at the start of the year	3,870	2,609	3,621	-	10,100
Additional provisions recognised	643	2,516	1,226	93	4,478
Amounts incurred and charged	(689)	(2,602)	(379)	-	(3,670)
Exchange differences	1	(5)	1	-	(3)
Carrying amount at end of year	3,825	2,518	4,469	93	10,905

(i) DEFERRED REVENUE

	Current \$000	Non-current \$000	2017 Total \$000	Current \$000	Non-current \$000	2016 Total \$000
Deferred service revenue	24,121	52,989	77,110	23,421	48,201	71,622
Lease incentive income	1,211	2,827	4,038	1,006	2,509	3,515
Deferred interest free revenue	592	201	793	258	15	273
	25,924	56,017	81,941	24,685	50,725	75,410

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 9 Contributed equity

	2017 Shares	2016 Shares	2017 \$000	2016 \$000
(a) SHARE CAPITAL				
Ordinary shares - fully paid	387,438,513	383,138,513	10,015	3,767
Total share capital	387,438,513	383,138,513	10,015	3,767

(i) Movements in ordinary shares:

	Notes	No. of shares	\$000
Opening balance 1 July 2015		383,153,190	3,767
Cancellation of treasury stock		(14,677)	-
Balance 30 June 2016		383,138,513	3,767
Exercise of options - Proceeds received	9(a)(iv)	4,300,000	4,825
Transfer option reserve to contributed equity		-	1,423
Balance 30 June 2017		387,438,513	10,015

Refer to note 1 for details of the change in parent company that occurred during the 2016 financial year.

(ii) Movements in treasury stock:

	No. of shares	\$000
Opening balance 1 July 2015	14,677	7
Cancelled shares	(14,677)	(7)
Balance 30 June 2016	-	-

Treasury shares were shares in Michael Hill New Zealand Limited (formerly known as Michael Hill International Limited) that were held by Michael Hill Trustee Company Limited for the purpose of issuing shares under the Michael Hill International Employee Share Scheme. As part of the reorganisation described in note 1, all shares not allocated to employees were cancelled on 24 June 2016.

(iii) Ordinary shares

Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and on a poll each share is entitled to one vote.

(iv) Options

Information relating to the Michael Hill International Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 19(a).

(v) Employee share scheme

Information relating to the Michael Hill International Limited Employee Share Scheme, including details of shares previously issued under the scheme, is set out in note 19(b).

(b) RESERVES AND RETAINED PROFITS**Nature and purpose of other reserves:****Cash flow hedges**

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

Share-based payments

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised
- the grant date fair value of shares issued to employees
- the grant date fair value of deferred shares granted to employees but not yet vested

Foreign currency translation

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

NOTE 10 Cash flow information

NOTES	2017 \$000	2016 \$000
Reconciliation of profit after income tax to net cash inflow from operating activities		
Profit for the year	32,648	19,577
Adjustment for		
Depreciation	5(b) 17,415	16,239
Amortisation	5(b) 2,601	2,521
Non-cash employee benefits expense - share-based payments	371	245
Other non-cash expenses	897	65
Net loss on sale of non-current assets	1,166	328
Net exchange differences	(908)	371
Change in operating assets and liabilities:		
(Increase) / decrease in trade and other receivables	(579)	(6,280)
(Increase) / decrease in inventories	(6,074)	(19,472)
(Increase) / decrease in deferred tax assets	6,043	(19,501)
(Increase) / decrease in other current assets	1,085	2,762
(Increase) / decrease in other non current assets	118	192
(Decrease) / increase in trade and other payables	3,050	2,999
(Decrease) / increase in current tax liabilities	(26,110)	36,557
(Decrease) / increase in provisions	830	400
(Decrease) / increase in deferred revenue	7,199	10,791
Net cash inflow from operating activities	39,752	47,794

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

RISK

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

Note 11	Financial risk management	page 72
Note 12	Critical estimates, judgements and errors	page 77
Note 13	Capital management	page 78

NOTE 11 Financial risk management

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

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

The 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) DERIVATIVES

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as 'held for trading' for accounting purposes below. The Group has the following derivative financial instruments:

	2017 \$000	2016 \$000
Current assets		
Forward foreign exchange contracts - cash flow hedges (Note 11(b)(i))	-	450
Total current derivative financial instrument assets	-	450
Current liabilities		
Interest rate swap contracts - cash flow hedges (Note 11(b)(ii))	727	1,304
Forward foreign exchange contracts - cash flow hedges (Note 11(b)(i))	414	29
Total current derivative financial instrument liabilities	1,141	1,333

(i) **Classification of derivatives**

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting year.

The Group's accounting policy for its cash flow hedges is set out in note 2(o). For hedged forecast transactions that result in the recognition of a non-financial asset, the Group has elected to include related hedging gains and losses in the initial measurement of the cost of the asset.

(ii) **Fair value measurements**

For information about the methods and assumptions used in determining the fair value of derivatives please refer to note 7(e).

(b) MARKET RISK

(i) **Foreign exchange risk**

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

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

Foreign exchange forward contracts measured through Other comprehensive income are designated as hedging instruments in cash flow hedges of forecast purchases in USD. These forecast transactions are highly probable.

The cash flow hedges of the expected future purchases were assessed to be highly effective and a net unrealised loss of \$834,000 (2016: \$360,000 gain) is included in Other comprehensive income. Fair value adjustments are included in Derivative financial instruments.

Exposure

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

	2017			2016		
	USD \$000	NZD \$000	CAD \$000	USD \$000	NZD \$000	CAD \$000
Cash and cash equivalents	25	40	45	11	37	30
Trade receivables	882	-	-	2,967	-	10
Trade payables	3,696	228	57	867	3	60
Forward exchange contracts						
Buy foreign currency (cash flow hedges)	17,000	-	-	15,000	-	-

Sensitivity

The Group's principal foreign currency exposures arise from trade payables and receivables outstanding at year end. Most trade payables are repaid within 30 days so there is minimal equity impact arising from foreign currency exposures.

	Impact on pre-tax profit		Impact on other components of equity	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000
US\$ Trade payables				
us\$ exchange rate - increase 10%*	-	-	2,011	1,420
us\$ exchange rate - decrease 10%*	-	-	(2,458)	(2,671)

* Holding all other variables constant

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

The Group's main interest rate risk arises from long-term borrowings and cash. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain fixed interest cover of between 50% and 100% of core debt up to 12 months, between 50% and 75% of core debt between 1 and 3 years, and between 25% and 50% of core debt between 3 and 5 years.

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 11 Financial risk management cont.

To manage variable interest rate borrowings risk, the Group enters into interest rate swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. The interest rate derivatives require settlement of net interest receivable or payable each 30 days and are settled on a net basis.

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

	2017	2016
	\$000	\$000
Variable rate borrowings	45,034	40,887

Instruments used by the group

The cash flow hedges were assessed to be highly effective and a net realised gain of \$578,000 (2016: \$476,000 loss) is included in Other comprehensive income. Fair value adjustments are included in Derivative financial instruments.

The interest rate swaps are designated as cash flow hedging instruments. Changes in the interest paid on the variable rate fully drawn down advance facility are measured at fair value through Other comprehensive income. Swaps in place cover approximately 77.7% (2016: 85.6%) of the variable rate principal outstanding.

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

	2017	2016
	Weighted average interest rate	Weighted average interest rate
	%	%
	Balance	Balance
	\$000	\$000
Bank overdrafts and bank loans	3.64%	2.64%
Interest rate swaps (notional principal amount)	45,034	40,887
Net exposure to cash flow interest rate risk	3.85%	3.16%
	35,000	35,000
	10,034	5,887

An analysis by maturities is provided in note 11(d) below. The percentage of total loans shows the proportion of loans that are currently at variable rates in relation to the total amount of borrowings.

Amounts recognised in profit or loss and other comprehensive income

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

Sensitivity

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

	Impact on pre-tax profit		Impact on other components of equity	
	2017	2016	2017	2016
	\$000	\$000	\$000	\$000
Interest rates - increase by 100 basis points (100 bps)*	(100)	(104)	(16)	(17)
Interest rates - decrease by 100 basis points (100 bps)*	100	104	16	17

* Holding all other variables constant

(c) CREDIT RISK

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

(i) **Impaired trade receivables**

A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of \$313,000 (2016: \$252,000) has been recognised by the Group. All trade receivables related to third party credit providers past 90 days have been impaired.

The ageing of these receivables is as follows:

	2017	2016
	\$000	\$000
0 - 30 days	3,977	3,600
31 - 60 days	295	243
61 - 90 days	73	107
91 + days	407	583
	4,752	4,533

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

	2017	2016
	\$000	\$000
At 1 July	675	455
Amounts written off	(313)	(252)
Additional provisions recognised	141	468
Exchange differences	(1)	4
At 30 June	502	675

(ii) **Credit quality and impaired in-house customer finance**

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

An impairment analysis is performed at each reporting date. The maximum exposure to credit risk is the carrying value of in-house customer finance program as disclosed in note 7(b)(ii). The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low. The credit quality and ageing of these receivables is as follows:

	2017	2016
	\$000	\$000
Performing:		
Current, aged 0 - 30 days	16,786	13,437
Past due, aged 31 - 90 days	402	397
Non performing:		
Past due, aged more than 90 days	502	424
	17,690	14,258

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

	2017	2016
	\$000	\$000
Opening balance	901	780
Amounts written off	(2,051)	(1,814)
Additional provisions recognised	2,299	1,945
Exchange differences	(31)	(10)
	1,118	901

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 11 Financial risk management cont.

(d) LIQUIDITY RISK

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

(i) Financing arrangements

The Group's objectives when managing capital are to ensure sufficient liquidity to support its financial obligations and execute the Group's operational and strategic plans. The Group continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. Accordingly, the Group entered into an agreement with ANZ on 24 June 2015 that provides for a \$110,000,000 multi option borrowing facility, the availability of which is adjusted throughout the year in line with business requirements. At balance date, \$70,000,000 was available. The Group had access to the following undrawn borrowing facilities at the end of the reporting year:

	2017 \$000	2016 \$000
Floating rate		
Expiring beyond one year (bank overdrafts)	1,957	1,957
Expiring beyond one year (bank loans)	24,966	29,113
	26,923	31,070

(ii) Maturities of financial liabilities

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

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

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

Contractual maturities of financial liabilities	Less than 6 months \$000	6 - 12 months \$000	Between 1 and 2 years \$000	Between 2 and 5 years \$000	Over 5 years \$000	Total contractual cash flows \$000
At 30 June 2017						
Non-derivatives						
Trade payables	47,918	-	-	-	-	47,918
Borrowings	-	-	45,034	-	-	45,034
Total non-derivatives	47,918	-	45,034	-	-	92,952
Derivatives						
Gross settled (forward foreign exchange contracts)	-	17,000	-	-	-	17,000
Net settled (interest rate swaps)	5,000	-	5,000	25,000	-	35,000
	5,000	17,000	5,000	25,000	-	52,000

Contractual maturities of financial liabilities	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows
	\$000	\$000	\$000	\$000	\$000	\$000
At 30 June 2016						
Non-derivatives						
Trade payables	45,044	-	-	-	-	45,044
Borrowings	-	-	40,887	-	-	40,887
Total non-derivatives	45,044	-	40,887	-	-	85,931
Derivatives						
Gross settled (forward foreign exchange contracts)	-	15,000	-	-	-	15,000
Net settled (interest rate swaps)	-	5,000	10,000	20,000	-	35,000
	-	20,000	10,000	20,000	-	50,000

NOTE 12 Critical estimates, judgements and errors

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with the assistance of an external valuer using the Binomial model. The related assumptions are detailed in note 19. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Make good provisions

A provision has been made for the present value of anticipated costs of future restoration of leased store premises. The provision includes future cost estimates associated with dismantling and closure of stores. The calculation of this provision requires assumptions such as discount rates, store closure dates and lease terms. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes for the estimated future costs for sites are recognised in the statement of financial position by adjusting both the expense or asset (if applicable) and provision. The related carrying amounts are disclosed in note 8(h).

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience, lease terms (for display assets) and policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

(a) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

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

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 12 Critical estimates, judgements and errors cont.

Due to management reviews conducted during the year, an adjustment to the revenue recognition pattern has been deemed necessary. As a result of this, an additional \$1,686,000 has been recognised as revenue in the current financial year. Of this, \$89,000 relates to the current financial year, and \$1,597,000 relates to prior financial years. The change in estimate will result in lower revenue in future periods by the corresponding amount.

Taxation and recovery of deferred tax assets

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

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

Impairment of non-financial assets other than goodwill and indefinite life intangibles

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

NOTE 13 Capital management

(a) RISK MANAGEMENT

The Group's objectives when managing capital are to:

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

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

There are a number of external bank covenants in place relating to debt facilities. These covenants are calculated and reported to the bank quarterly. The principal covenants relating to capital management are the 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.

(b) DIVIDENDS

(i) Ordinary shares

Final dividend for the year ended 30 June 2016 of AU2.5¢ (2015 - NZ2.5¢) per fully paid share paid on 6 October 2016 (2015 - 2 October 2015)

Interim dividend for the year ended 30 June 2017 of AU2.5¢ (2016 - NZ2.5¢) per fully paid share paid on 31 March 2017 (2016 - 1 April 2016)

	2017	2016
	\$000	\$000
	9,578	8,870
	9,686	8,620
	19,264	17,490

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

Since year end the Directors have declared the payment of a final dividend of AU2.5¢ per fully paid ordinary share* (2016 - AU2.5¢). The final dividend will be unfranked and fully imputed. The aggregate amount of the proposed dividend expected to be paid on 29 September 2017 out of retained earnings at 30 June 2017, but not recognised as a liability at year end, is:

	9,686	9,578
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* This will be declared as conduit foreign income, therefore no Australian withholding tax will be deducted from the dividend payment for our foreign shareholders.

(iii) Franking and imputation credits	2017	2016
	\$000	\$000
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2016 - 30.0%) in AU\$ are:	(2,148)	2,710
Imputation credits available for subsequent reporting periods based on the New Zealand tax rate of 28.0% (2016 - 28.0%) in nz\$ are:	28,424	13,118

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

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

As the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be unfranked, there will be no reduction in the franking account (2016: \$4,105,000). The impact on the imputation credit account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, is estimated to be a reduction in the imputation credit account of nz\$3,935,000 (2016: nz\$3,890,000). The amount of imputation credits is dependant on the NZD exchange rate at the time of the dividend.

NOTE 14 Interests in other entities

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

Subsidiaries	Country of Incorporation	Ownership interest held by the group	
		2017 %	2016 %
Michael Hill Jeweller (Australia) Pty Limited	Australia	100	100
Michael Hill Wholesale Pty Limited	Australia	100	100
Michael Hill Manufacturing Pty Limited	Australia	100	100
Michael Hill Franchise Pty Limited	Australia	100	100
Michael Hill Franchise Services Pty Limited	Australia	100	100
Michael Hill Finance (Limited Partnership)	Australia	100	100
Michael Hill Group Services Pty Limited	Australia	100	100
Michael Hill Charms Pty Limited	Australia	100	100
Michael Hill Online Pty Limited	Australia	100	100
Emma & Roe Pty Limited	Australia	100	100
Emma & Roe Online Pty Ltd	Australia	100	100
Durante Holdings Pty Limited	Australia	100	100
Michael Hill New Zealand Limited (formerly known as Michael Hill International Limited)	New Zealand	100	100
Michael Hill Jeweller Limited	New Zealand	100	100
Michael Hill Trustee Company Limited*	New Zealand	-	100
Michael Hill Finance (NZ) Limited	New Zealand	100	100
Michael Hill Franchise Holdings Limited	New Zealand	100	100
MHJ (US) Limited	New Zealand	100	100
Emma & Roe NZ Limited	New Zealand	100	100
Michael Hill Online Holdings Limited	New Zealand	100	100
Michael Hill Jeweller (Canada) Limited	Canada	100	100
Michael Hill LLC	United States	100	100

* Michael Hill Trustee Company Limited was amalgamated with MHNZ on 10 February 2017.

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 15 Contingent liabilities and contingent assets

(a) CONTINGENT LIABILITIES

The Group had contingent liabilities in respect of guarantees to bankers and other financial institutions in respect of overdraft facilities and fixed assets at 30 June 2017 of \$461,000 (30 June 2016 - \$547,000).

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

(b) CONTINGENT ASSETS

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

NOTE 16 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.

	2017 \$000	2016 \$000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	42,784	41,624
Later than one year but not later than five years	95,788	92,417
Later than five years	20,195	16,083
	158,767	150,124

NOTE 17 Events occurring after the reporting period

DIVIDENDS

On 18 August 2017, the Directors declared the payment of a final dividend for the year ended 30 June 2017. Refer to note 13(b)(ii) for details.

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

NOTE 18 Related party transactions

(a) SUBSIDIARIES

The ultimate parent and controlling entity of the Group is Michael Hill International Limited. Interests in subsidiaries are set out in note 14(a).

As part of the reorganisation, Michael Hill International Limited acquired 100% of the share capital in Durante Holdings Pty Ltd (a company controlled by interests associated with the Hill Family which held 52.89% of the shares on issue in Michael Hill New Zealand Limited). Durante Holdings Pty Ltd has been consolidated as a fully controlled subsidiary in accordance with the accounting policy described in note 2(b).

(b) KEY MANAGEMENT PERSONNEL COMPENSATION

	2017	2016
	\$000	\$000
Short-term employee benefits	3,133	4,494
Post-employment benefits	195	195
Termination benefits	1,604	-
Share-based payments	314	66
	5,246	4,755

Detailed remuneration disclosures are provided in the remuneration report on pages 33 to 43.

(c) TRANSACTIONS WITH OTHER RELATED PARTIES

The following transactions occurred with related parties:

	2017	2016
	\$000	\$000
Sales and purchases of goods and services		
Services rendered for graphic design of the annual and half year reports by a related party of board members	13	13
Other transactions		
Annual sponsorship of the New Zealand PGA	-	214
Annual sponsorship of the Michael Hill Violin Charitable Trust	58	52

All transactions with related parties were in the normal course of business and provided on commercial terms.

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19 Share-based payments

(a) EMPLOYEE OPTION PLAN

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

Options are granted under the plan for no consideration. Options are granted for a ten year period and are exercisable at any time during the final five years. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The exercise price of the options previously granted was set at 30% above the weighted average price at which the Company's shares were traded on the New Zealand Stock Exchange for the calendar month following the announcement by the Group to the New Zealand Stock Exchange of its annual results. The exercise price of any future option grants will be set using the same method, with reference to the Australian Securities Exchange. Set out below are summaries of options granted under the plan:

	2017 Average exercise price per share	2017 Number of options	2016 Average exercise price per share	2016 Number of options
As at 1 July NZD options	1.47	12,550,000	1.48	12,150,000
Granted during the year	-	-	1.14	400,000
Exercised during the year	1.19	(4,300,000)	-	-
Forfeited during the year	1.81	(3,600,000)	-	-
As at 30 June NZD options	1.47	4,650,000	1.47	12,550,000
As at 1 July AUD options	-	-	-	-
Granted during the year	2.12	200,000	-	-
As at 30 June AUD options	2.12	200,000	-	-

No options expired during the years covered by the above tables.

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

Grant date	Expiry date	Exercise price	Share options 30 June 2017	Share options 30 June 2016
9 November 2007	30 September 2017	NZ\$1.25	1,250,000	3,750,000
22 September 2009	30 September 2019	NZ\$0.94	100,000	100,000
5 November 2009	30 September 2019	NZ\$0.94	150,000	150,000
17 September 2010	30 September 2020	NZ\$0.88	250,000	250,000
8 November 2010	30 September 2019	NZ\$0.94	-	400,000
5 November 2010	30 September 2020	NZ\$0.88	-	400,000
16 November 2011	30 September 2021	NZ\$1.16	250,000	650,000
19 September 2012	30 September 2022	NZ\$1.41	250,000	650,000
18 September 2013	30 September 2023	NZ\$1.82	250,000	650,000
29 November 2013	30 September 2023	NZ\$1.82	1,750,000	4,750,000
10 November 2014	30 September 2024	NZ\$1.63	200,000	400,000
22 January 2016	30 September 2025	NZ\$1.14	200,000	400,000
22 September 2016	30 September 2026	AU\$2.12	200,000	-
Total			4,850,000	12,550,000

The weighted average remaining contractual life of share options outstanding at the end of the period was 4.4 years (2016: 5.0 years).

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

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

Fair value of options granted

The fair value at grant date for the options issued during the 2017 financial year were independently determined using a Binomial option pricing model, which is an iterative model for options that can be exercised at times prior to expiry. The model takes into account the grant date, exercise price, the expected life, the expiry date, the share price at grant date, expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The expected life assumes the option is exercised at the mid-point of the exercise period, and reflects the ability to exercise early and the non-transferability of the option.

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

The model inputs for options granted during the year ended 30 June 2017 and 30 June 2016 included:

	June 2017	June 2016
	22 September 2016	22 January 2016
Number of options	200,000	400,000
Dividend yield	5.00%	5.00%
Expected volatility	25%	25%
Risk-free interest rate	4.78%	4.78%
Expected life of options (years)	7.5	7.5
Option exercise price	AU\$2.12	NZ\$1.14
Share price at grant date	AU\$1.74	NZ\$1.00
Weighted average fair value per option	NZ15.6¢	NZ16.2¢

(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 were held by a Trustee for a one year period during which time any dividends derived would be paid to the employee.

As part of the reorganisation described in note 1, all shares not allocated to employees were cancelled on 24 June 2016.

(c) SHARE RIGHTS

The Company introduced a new deferred compensation plan ("LTI") involving the granting of share rights to eligible participants, which commenced in the 2015-16 financial year and was approved by shareholders at the Company's Annual General Meeting held on 31 October 2016.

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

During the year, the Board agreed to grant 382,551 share rights to eligible participants of the deferred compensation plan.

186,613 of the share rights were issued on the basis that they are divided into three tranches and vest over 3, 4 and 5 years, respectively. 195,938 of the share rights were issued on the basis that 100% will vest if the participant has been continuously engaged under an engagement arrangement with the Company at grant date, which is in three years time.

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19 Share-based payments cont.

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

	Issue Date	Number of share rights	VWAP	Vesting Date
Employee share rights - tranche 1	20 March 2017	46,651	1.66	01 July 2019
Employee share rights - tranche 2	20 March 2017	46,651	1.66	01 July 2020
Employee share rights - tranche 3	20 March 2017	93,311	1.66	01 July 2021
CEO share rights	20 March 2017	195,938	1.66	01 July 2019

There were no share share rights granted in prior years and none of the share share rights had vested as at 30 June 2017.

(d) EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

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

	2017 \$000	2016 \$000
Options issued under Employee Option Plan	55	245
Shares issued under Employee Share Scheme	-	6
Share rights issued under LTI plan	316	-
	371	251

NOTE 20 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:

	2017 \$000	2016 \$000
(a) ERNST & YOUNG		
Audit and other assurance services:		
Audit and review of financial statements	343	367
Advisory fees	7	50
Total remuneration of Ernst & Young Australia	350	417
(b) NON-ERNST & YOUNG RELATED AUDIT FIRMS		
Audit and other assurance services:		
Grant Thornton New Zealand firm audit of ordinary shares register	1	2
Total auditors' remuneration	351	419

NOTE 21 Earnings per share

	2017	2016
(a) BASIC EARNINGS PER SHARE		
Profit attributable to the ordinary equity holders of the Company	8.46¢	5.11¢
(b) DILUTED EARNINGS PER SHARE		
Profit attributable to the ordinary equity holders of the Company	8.45¢	5.09¢
(c) RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE	2017	2016
	\$000	\$000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	32,648	19,577
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	32,648	19,577
(d) WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR	2017	2016
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	385,963,992	383,138,513
Adjustments for calculation of diluted earnings per share		
Options	500,000	1,700,000
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	386,463,992	384,838,513
(e) INFORMATION CONCERNING THE CLASSIFICATION OF SECURITIES		
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 19(a).		

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 22 Parent entity financial information

(a) SUMMARY FINANCIAL INFORMATION

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

	2017 \$000	2016 \$000
Balance sheet		
Current assets	1,605	1,672
Non-current assets	329,278	327,005
Total assets	330,775	328,677
Shareholders' equity		
Issued capital	290,157	283,910
Reserves - Acquisition reserve	40,907	40,907
- Option reserve	1,136	2,188
Retained earnings	1,683	1,672
	333,883	328,677
Profit or loss for the year	1,683	1,672
Total comprehensive income	1,683	1,672

(b) GUARANTEES ENTERED INTO BY THE PARENT ENTITY

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

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

(c) CONTINGENT LIABILITIES OF THE PARENT ENTITY

The Parent entity had contingent liabilities in respect of guarantees to bankers and other financial institutions in respect of overdraft facilities and fixed assets at 30 June 2017 of \$72,000 (2016: \$72,000).

NOTE 23 Deed of cross guarantee

Pursuant to ASIC Class Order 2016/785, the Australian wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors' report in Australia.

The subsidiaries subject to the deed are: Durante Holdings Pty Ltd, Michael Hill Group Services Pty Ltd, Michael Hill Jeweller (Australia) Pty Ltd, Michael Hill Manufacturing Pty Ltd, Michael Hill Wholesale Pty Ltd, Michael Hill Franchise Services Pty Ltd, Michael Hill Franchise Pty Ltd, Michael Hill New Zealand Ltd, Michael Hill Jeweller Ltd, Michael Hill Franchise Holdings Ltd, Michael Hill Finance (NZ) Ltd, Michael Hill Online Pty Ltd, Michael Hill Charms Pty Ltd, Emma & Roe Pty Ltd, Emma & Roe Online Pty Ltd, Michael Hill Online Holdings Ltd and Emma & Roe NZ Ltd.

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

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

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

Set out below is a statement of profit or loss, a statement of comprehensive income and a summary of movements in retained earnings for the year ended 30 June 2017 of the closed group consisting of Michael Hill International Limited and the entities noted above.

Statement of profit or loss	2017	2016
	\$000	\$000
Revenue from sales of goods and services	455,114	448,800
Sales to Group companies not in Closed Group	43,527	44,699
Other income	1,164	532
Cost of goods sold	(205,916)	(196,809)
Employee benefits expense	(126,861)	(118,525)
Occupancy costs	(45,394)	(41,529)
Marketing expenses	(22,537)	(21,342)
Selling expenses	(22,454)	(21,580)
Depreciation and amortisation expense	(14,554)	(13,494)
Loss in disposal of property, plant and equipment	(322)	(290)
Other expenses	(11,767)	(16,852)
Finance costs	(3,550)	(6,468)
Profit before income tax	46,450	57,142
Income tax expense	(11,022)	(25,460)
Profit for the year	35,428	31,682
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(4)	4,207
Other comprehensive income for the period, net of tax	(4)	4,207
Total comprehensive income for the year	35,424	35,889
Statement of changes in equity		
Equity at the beginning of the financial year	479,835	461,184
Total comprehensive income	35,424	35,889
Issue of share capital - exercise of options	4,825	-
Share rights through share based payments reserve	316	-
Option expense through share based payment reserve	55	245
Cancellation of treasury stock	-	7
Dividends paid	(19,264)	(17,490)
Total equity at the end of the financial year	501,191	479,835

Notes to the financial statements cont.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 23 Deed of cross guarantee cont.

(b) CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Set out below is a statement of financial position as at 30 June 2017 of the Closed Group consisting of Michael Hill International Limited and the entities noted above.

	2017 \$000	2016 \$000
Current assets		
Cash and cash equivalents	1,600	2,779
Trade and other receivables	8,982	11,758
Inventories	152,907	147,595
Current tax receivables	1,008	-
Loans to related parties	234,510	213,978
Other current assets	2,542	3,131
Total current assets	401,549	379,241
Non-current assets		
Property, plant and equipment	47,713	44,543
Deferred tax assets	53,485	60,131
Intangible assets	8,613	4,944
Investments in subsidiaries	102,991	121,033
Other non-current assets	1,634	1,799
Total non-current assets	214,436	232,450
Total assets	615,985	611,691
Current liabilities		
Trade and other payables	39,278	37,053
Current tax liabilities	-	25,033
Provisions	4,336	4,542
Deferred revenue	20,135	19,485
Total current liabilities	63,749	86,113
Non-current liabilities		
Provisions	6,177	5,198
Deferred revenue	44,868	40,545
Total non-current liabilities	51,045	45,743
Total liabilities	114,794	131,856
Net assets	501,191	479,835
Equity		
Contributed equity	309,004	302,756
Reserves	528	1,582
Retained profits	191,659	175,497
Total equity	501,191	479,835

Directors' declaration

In accordance with a resolution of the Director's of Michael Hill International Limited, I state that in the Directors' opinion:

- (a) the financial statements and notes of Michael Hill International Limited for the financial year ended 30 June 2017, are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 23 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 23.

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

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001. This declaration is made in accordance with a resolution of Directors.



E.J. Hill, Chair

Brisbane, 18 August 2017



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Independent Auditor's Report to the Members of Michael Hill International Limited

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

OPINION

We have audited the financial report of Michael Hill International Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

BASIS FOR OPINION

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

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

KEY AUDIT MATTERS

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

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

EXISTENCE OF INVENTORIES

Why significant

The audit of inventories is a key audit matter due to the size of the recorded asset (30 June 2017: \$203,853,000) which represents more than 50% of the Group's total assets.

Inventories are primarily kept in the stores and the dispatch and manufacturing warehouse. Inventories comprise a significant number of small high value items and are held in many stores across four countries. Given the significant balance of inventories, we conclude that the existence of inventories is a key audit matter for our audit.

The Group accounts for its inventories in accordance with the policy disclosed in Note 2(m) and further disclosure is included in Note 8(a) to the financial report.

How our audit addressed the key audit matter

In obtaining sufficient and appropriate audit evidence, we:

- a) Obtained an understanding of the Group's processes regarding inventory management including purchasing, manufacturing (where applicable) and store management. We assessed and tested the design and operating effectiveness of relevant controls relevant to address the risks that physical counts are not correctly recorded in the general ledger and that counts are not performed, or inaccurately performed.
- b) Attended stock counts at the dispatch and manufacturing warehouse and at a sample of retail stores across four countries. As part of our stock count attendance and physical verification, we used the work performed by Internal Audit at the retail stores and considered the impact of their findings in our audit approach. We assessed the competence of the Internal Audit team and tested a sample of the relevant working papers. We also performed cut-off testing during our attendance at the manufacturing warehouse stock counts by selecting samples or stock receipts prior to and after the stock count including transfers to stores, to assess whether these were appropriately recorded.
- c) Considered any significant changes in stock count and purchases controls from the date we attended the stock counts to balance date. We performed store-bystore stock level analysis for any unusual fluctuations outside of our set expectations. We performed a recalculation of warehouse inventory levels at balance date including an assessment of the inventories listing by product to determine if there were any large or unusual items. For any material or unusual variances, we obtained supporting evidence and enquired with the Group.

PROFESSIONAL CARE PLAN (PCP) REVENUE RECOGNITION

Why significant

The recognition of professional care plan revenue is considered a key audit matter due to the significant degree of estimation involved in determining the appropriate revenue recognition pattern for both the lifetime and 3 year plans.

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

The pattern of recognising revenue is disclosed in Note 2(e)(ii) to the financial report under rendering of service which is based on percentage of completion. A change in estimate in the current year has resulted from new information that meets the definition of a 'revision in an estimate' in accordance with Australian Accounting Standard - AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors and as a result the adjusting entry has been booked in the current period.

This change in estimate has been disclosed in Note 12(a) to the financial report.

In respect of the lifetime plans, given the infancy of the PCP product, there is limited customer usage history to reference and industry information is also utilised. As such, the determination of the optimal revenue recognition pattern is judgmental. This uncertainty has been disclosed in Note 12(a) to the financial report.

RECOGNITION OF DEFERRED TAX ASSETS

Why significant

As a result of the formation of the Australian tax consolidated group, the general income tax consolidation provisions apply relating to the setting of the tax cost base of the assets of the subsidiary members of the tax consolidated group. The resetting of the tax bases resulted in recognition of deferred tax assets of \$23,828,000 being recognised at 30 June 2017 on the consolidated statement of financial position.

The income tax position in relation to the recognition of deferred tax assets was significant to our audit as the amount was material to the financial report and the assessment process requires judgment. Independent advice was obtained by the Group to support the position adopted at 30 June 2017.

The Group accounts for its deferred taxes as disclosed in Note 2(f) to the financial report.

How our audit addressed the key audit matter

In obtaining sufficient and appropriate audit evidence, we:

- a) Considered the adequacy of the Group's revenue recognition accounting policies and assessed compliance with the policies against the requirements of AASB 118 Revenue.
- b) Assessed and tested the design and operating effectiveness of relevant controls relating to revenue recognition.
- c) Performed analytical procedures on the rollforward of the initial sale of the PCP, deferral and subsequent recognition of the related PCP revenue based on the change in usage pattern during the year. Where material variances were identified above our set testing threshold, supporting documentation was examined and enquiries were made of the Group.
- d) Tested the Group's calculations for the change in estimate in revenue recognition, which included testing samples of the underlying PCP repairs usage data. The Group's estimates rely on actual customer usage patterns.

How our audit addressed the key audit matter

In obtaining sufficient and appropriate audit evidence, we involved our tax specialists and:

- a) Evaluated the Group's assumptions supporting the calculation of deferred tax assets arising in respect of the underlying assets and the recovery of the assets with regard to the Group's business plans.
- b) Assessed the valuation prepared by the Group's independent tax expert and compared this to the assumptions used by the Group. We assessed the independence and competence of the Group's tax expert.
- c) Considered the adequacy of the taxation disclosures made in the financial report.

INFORMATION OTHER THAN THE FINANCIAL REPORT AND AUDITOR'S REPORT

The directors are responsible for the other information. The other information comprises the information included in the Group's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL REPORT

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

REPORT ON THE AUDIT OF THE REMUNERATION REPORT

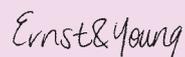
Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Michael Hill International Limited for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

Responsibilities

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


Ernst & Young


Alison de Groot, Partner
Brisbane
18 August 2017

Analysis of Shareholding

Twenty largest shareholders as at 31 August 2017

	Ordinary Shares	% of Shares
Hoglett Hamlett Limited	148,330,600	38.28
New Zealand Central Securities Depository Ltd	46,078,839	11.89
JP Morgan Nominees Australia Limited	22,926,350	5.92
HSBC Custody Nominees (Australia) Limited	22,432,857	5.79
Mole Hill Limited	19,156,926	4.94
Squeakidin Limited	19,156,926	4.94
Citicorp Nominees Pty Limited	10,916,458	2.82
National Nominees Limited	8,171,286	2.11
Forsyth Barr Custodians Limited	3,611,918	0.93
HSBC Custody Nominees (Australia) Limited	3,562,694	0.92
Custodial Services Limited	2,818,801	0.73
P.R. Taylor	2,000,000	0.52
BNP Paribas Nominees Pty Ltd	1,914,966	0.49
W.K. & C.A. Butler	1,760,000	0.45
Vanward Investments Limited	1,466,180	0.38
S. Mead	1,200,000	0.31
FNZ Custodians Limited	1,070,800	0.28
K.G. Stock	1,010,000	0.26
D.R. Sim & Franklin Trustee Services Ltd	800,000	0.21
Forsyth Barr Custodians Limited	761,111	0.20
Total	319,146,712	82.37
Total remaining holders balance	68,291,801	17.63

Shareholding by range of shares as at 31 August 2017

	No. of Holders	% of Holders	No. of Shares
1 - 1,000	519	0.09	346,815
1,001-5,000	1,209	0.98	3,796,245
5,001-10,000	839	1.79	6,943,935
10,001-100,000	1,259	9.70	37,595,317
100,001 - over	113	87.43	338,756,201
Total	3,939	100.00	387,438,513

Unmarketable parcels

	No. of Holders	Minimum parcel size	Units
Minimum \$500.00 parcel at \$1.23 per share	118	407	22,431

Substantial holders of 5% or more of fully paid ordinary shares as at 31 August 2017*

	Notice Date	Shares
Hoglett Hamlett Limited	13 October 2016	148,330,600
Mark Simon Hill	13 October 2016	167,487,526
Emma Jane Hill	13 October 2016	167,487,526
Fisher Funds Management Limited	10 July 2017	34,564,923

* as disclosed in substantial shareholder notices received by the Company.

Investor Calendar

2017 Dates	Details
18 August 2017	Full year results and final dividend announcement
29 September 2017	Final dividend payment date
31 October 2017	Annual General Meeting

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Corporate directory

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Sir Richard Michael Hill KNZM
G.W. Smith BComm, FCA, FAICD
R.I. Fyfe
J.S. Allis

COMPANY SECRETARY

Mary-Anne Greaves
LLM, LLB, FCIS, FGIA

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