

MICHAEL HILL INTERNATIONAL LIMITED

ABN 25 610 937 598

APPENDIX 4E

RESULTS FOR ANNOUNCEMENT TO THE MARKET

REPORTING PERIOD

Reporting period:	53 weeks ending 2 July 2023
Previous reporting period:	52 weeks ending 26 June 2022

RESULTS FOR ANNOUNCEMENT TO THE MARKET

				\$'000
Revenue from contracts with customers	Up	5.8%	to	629,562
Earnings before interest and taxation (EBIT)*	Down	19.6%	to	58,883
Net profit after tax for the period attributable to members	Down	24.7%	to	35,182

*EBIT is non-IFRS information and is unaudited. Please refer to non-IFRS information in the Directors' Report for an explanation of non-IFRS information and a reconciliation of EBIT.

BRIEF EXPLANATION OF FIGURES REPORTED ABOVE TO ENABLE THE FIGURES TO BE UNDERSTOOD

This report is based on the consolidated financial statements which have been audited and an unqualified opinion given. For commentary on the results, please refer to the attached full financial report for all other disclosures in respect of the Appendix 4E.

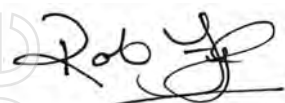
DIVIDENDS

	Amount per security cents per share	Franked amount per security cents per share
Interim dividend for the year ended 2 July 2023 declared and paid	4.0	-
Final dividend for the year ended 2 July 2023 declared	3.5	-

NET TANGIBLE ASSETS

	2023 \$	2022 \$
Net tangible asset ² backing per ordinary security	0.35	0.49

² Net tangible assets were calculated including the Group's right-of-use assets and lease liabilities recognised under AASB16 Leases.



R. J. Fyfe
Chair

Brisbane
25 August 2023

Webcast scheduled to take place at 9.30am (AEST) on Friday, 25 August 2023. Please use the following link to register.
<https://web.lumiconnect.com/339859459>

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MICHAEL HILL INTERNATIONAL LIMITED

ABN 25 610 937 598

DIRECTORS' REPORT AND ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 2 JULY 2023

TABLE OF CONTENTS

CORPORATE DIRECTORY	1
DIRECTORS' REPORT	2
AUDITOR'S INDEPENDENCE DECLARATION	19
FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	20
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	21
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	22
CONSOLIDATED STATEMENT OF CASH FLOWS	23
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	24
DIRECTORS' DECLARATION	51

DISCLAIMER

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

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

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

Should one or more of these risks or uncertainties materialise, or should any underlying assumptions prove to be incorrect, the Company’s actual financial condition, cash flows or results of operations could differ materially from that described herein as anticipated, believed, estimated or expected.

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

MICHAEL HILL INTERNATIONAL LIMITED

CORPORATE DIRECTORY

DIRECTORS	<p>R I Fyfe B.Eng, F.E.N.Z., C.N.Z.M. <i>Chair</i></p> <p>Sir R M Hill K.N.Z.M.</p> <p>E J Hill B.Com., M.B.A.</p> <p>G W Smith B.Com., F.C.A., F.A.I.C.D.</p> <p>J E Naylor M.A.I.C.D.</p> <p>D Whittle B.A., B.Com (appointed 2 August 2023)</p> <p>D Bracken</p>
COMPANY SECRETARIES	<p>A Lowe BCom, LLB (Hons), MAppFin, CA, CTA</p> <p>E Bird LLB (Hons), BA (Psych), GradDipLegalPrac, GradDipAppCorpGov, GAICD</p>
PRINCIPAL REGISTERED OFFICE IN AUSTRALIA	<p>34 Southgate Avenue</p> <p>Cannon Hill QLD 4170</p> <p>+61 7 3114 3500</p>
SHARE REGISTER	<p>Computershare Investor Services Pty Ltd</p> <p>Level 1</p> <p>200 Mary Street</p> <p>Brisbane QLD 4000</p> <p>1300 552 270 (within Australia)</p> <p>+61 3 9415 4000 (outside of Australia)</p>
AUDITOR	<p>Ernst & Young</p> <p>Level 51</p> <p>111 Eagle Street</p> <p>Brisbane QLD 4000</p>
SOLICITOR	<p>Allens Linklaters</p> <p>Level 26</p> <p>480 Queen Street</p> <p>Brisbane QLD 4000</p>
BANKERS	<p>Australia and New Zealand Banking Group Limited</p> <p>ANZ Banking Group (New Zealand) Limited</p> <p>HSBC Australia Limited</p> <p>Bank of Montreal</p> <p>Bank of America</p>
WEBSITES	<p>www.michaelhill.com.au</p> <p>www.michaelhill.co.nz</p> <p>www.michaelhill.ca</p> <p>www.michaelhill.com</p> <p>www.medleyjewellery.com.au</p> <p>www.bevilles.com.au</p> <p>www.medleyjewellery.com.au</p> <p>www.watchesgalore.com.au</p> <p>http://investor.michaelhill.com</p>
EMAIL	<p>online@michaelhill.com.au</p>

MICHAEL HILL INTERNATIONAL LIMITED

DIRECTORS' REPORT

2 JULY 2023

The Directors present their report on the consolidated entity (referred to hereafter as the 'Group') consisting of Michael Hill International Limited ACN 610 937 598 ('Michael Hill International' or the 'Company') and all controlled subsidiaries for the year ended 2 July 2023. FY23 is a 53-week period (27 June 2022 to 2 July 2023) compared to FY22 a 52-week period (28 June 2021 to 26 June 2022).

PRINCIPAL ACTIVITIES

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

DIVIDENDS

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

	2023 \$'000	2022 \$'000
Final dividend for the year ended 26 June 2022 of 4.0 cents (2021: 3.0 cents) per fully paid share paid on 23 September 2022 (2021: 24 September 2021)	15,531	11,649
Interim dividend for the year ended 2 July 2023 of 4.0 cents (2022: 3.5 cents) per fully paid share paid on 24 March 2023 (2022: 25 March 2022)	15,188	13,590
The directors have declared the payment of a final dividend of 3.5 cents per fully paid ordinary share (2022: 4.0 cents). The final dividend will be unfranked for Australian purposes, with nil New Zealand imputation credits and with conduit foreign income. The aggregate amount of the proposed dividend expected to be paid on 22 September 2023 out of retained earnings, but not recognised as a liability at year end, is:	13,289	15,531

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 Review of Operations and Strategic Update sections of this report.

REVIEW OF OPERATIONS

The Group achieved the following key outcomes for the 2023 financial year:

Key Financial Results

- Group operating revenue increased by 5.8% to \$629.6m (2022: \$595.2m, 2021: \$556.5m).
- Comparable EBIT* decreased by 6.3% to \$58.9m (2022: \$62.9m), given inflationary cost pressures and substantial investments in New Zealand security measures. This compares favourably to FY21 by 4% (2021: \$56.6m).
- Group same store sales were up 8.0% for the year, with H1 +6.3% and H2 +13.2%.
- Group gross margin decreased by 50 bps to 64.2% (2022: 64.7%), yet 150 bps ahead of FY21 (62.7%).
- Statutory net profit after tax decreased to \$35.2m (2022: \$46.7m), with the variance to comparable EBIT performance largely driven by AASB16 *Leases* and SaaS.
- Healthy inventory position to support elevated sales at \$203.3m (2022: \$181.5m), with the increase mainly attributable to the Bevilles acquisition.
- Deployment of cash on share buy-back, dividends, the Bevilles acquisition and reinvestment in the business, resulted in a net cash position of \$8.4m (2022: \$95.8m).
- A three year \$90m banking facility was finalised on favourable terms in June, providing access to an additional \$20m, to support strategic growth initiatives.
- Final dividend of 3.5 cents per share declared, delivering total dividends for the year of 7.5 cents per share (2022: 7.5 cents per share).

Operational Performance

- Group revenue was up 5.8% for the year, with Australia +9.1%, New Zealand +5.8% and Canada flat.
- Digital sales were largely flat at \$41.3m (2022: \$41.9m, 2021: \$34.0m) for the year, demonstrating a strong second half recovery from -9% at the end of the first half.
- *Brilliance by Michael Hill* membership now over 2 million (2022: ~1.4 million members), driving repeat customers and higher ATV.
- Key initial focus for Bevilles is on integration and store roll outs, with three sites secured and another three sites close to finalisation for pre-Christmas opening, with a further tranche of sites already identified for the second half. The newly acquired Bevilles business contributed four weeks of sales to the FY23 Group result.
- For Michael Hill, three new stores opened (AU: 2, CA: 1) and five under-performing stores permanently closed (AU: 3, NZ: 2) during the year. With the inclusion of 26 acquired Bevilles stores, the store network totals 304 across all markets at the end of the year (2022: 280).

*EBIT and Comparable EBIT are non-IFRS information and are unaudited. Please refer to non-IFRS information section in this report for an explanation of non-IFRS information and a reconciliation of EBIT and Comparable EBIT.

FY23 - GROUP BUSINESS PERFORMANCE

The Group has reported operating revenue of \$629.6m (2022: \$595.2m) for the 2023 financial year (53-week retail financial year ended 2 July 2023). Comparable EBIT* for the Group was reduced to \$58.9m for the year (2022: \$62.9m), a decline of 6.3% year on year, due to higher COGS pressure, wage inflation and elevated New Zealand security costs.

While the Company delivered record revenue for the year, this was driven by a particularly strong first half performance, followed by a more challenging second half as macroeconomic conditions deteriorated and consumer confidence declined.

Notwithstanding the impact of sustained elevated raw material input costs (diamonds and gold), and while slightly down on prior year, the Company still delivered strong gross margins. This performance was underpinned by the aspirational brand strategy and the ability to elevate ATV even in a challenging retail environment.

Whilst the Company's digital channels declined in the first half as it cycled the pandemic digital surge, there was a strong return to growth in the second half driven by improved customer experience, traffic and conversion. Throughout the year, the Company has continued to make good progress in its various omni-channel offerings, with 50% of digital sales now being fulfilled via a store.

In August 2022, the Company executed a seamless relocation of its global headquarters to new purpose-built leased premises housing the global support functions, reimagined artisanal jewellery workshop and a state-of-the-art Australasian distribution centre. These new premises provide a contemporary, dynamic and productive environment, strategically aligned to Michael Hill's aspirational brand journey.

On 1 June 2023, the Company completed the Bevilles acquisition, successfully transitioning all team members, stores and inventory to the Group. Accordingly, four weeks of Bevilles trade are reflected in the Group and Australian segment results.

Inventory year-end holdings were \$203.3m (2022: \$181.5m), with Michael Hill on target and broadly in line with prior year. The lift in stock holdings was largely driven by the inventory acquired in the Bevilles transaction.

During the year, the Company benefited from strong operating cashflows, successfully acquired Bevilles, returned capital to shareholders through a buy-back and dividends, continued investment in both the core business and growth initiatives, which resulted in a year end net cash position of \$8.4m (2022: \$95.8m). Furthermore, the Company refinanced a three year \$90m bank facility on favourable terms, which will support future strategic growth initiatives.

Michael Hill opened three new stores (AU: 2, CA: 1) and closed five under-performing stores across the network (AU: 3, NZ: 2) during the year. With the inclusion of 26 acquired Bevilles stores, the store network totals 304 across all markets at the end of the year (2022: 280).

SEGMENT RESULTS

FY23 delivered strong results in all markets, despite cycling record results in FY22 and facing challenging economic market conditions during FY23H2.

The results below are expressed in local currency.

Australian Retail Performance

OPERATING RESULTS (AU \$'000)

	2023	2022	2021	2020	2019
Revenue	331,007	303,409	312,264	266,610	313,587
Gross profit	211,823	196,936	194,148	161,030	194,052
Gross margin	64.0%	64.9%	62.2%	60.4%	61.9%
Comparable EBIT	53,549	51,750	54,347	27,641	32,626
Comparable EBIT as a % of revenue	16.2%	17.1%	17.4%	10.4%	10.6%
Number of stores	172	147	150	155	167

Retail segment revenue increased by 9.1% to \$331.0m for the year.

In addition to a record sales performance, the segment also delivered a strong gross margin for the year of 64.0%, slightly down on prior year (FY22: 64.9%), yet up 210 bps on pre-pandemic levels (FY19: 61.9%).

During the year, two stores opened, and three under-performing stores closed, resulting in 172 stores (including 26 Bevilles stores) at year end (FY22: 147).

New Zealand Retail Performance

OPERATING RESULTS (NZ \$'000)

	2023	2022	2021	2020	2019
Revenue	132,359	125,090	127,067	106,696	120,064
Gross profit	81,961	79,288	78,771	63,641	73,011
Gross margin	61.9%	63.4%	62.0%	59.6%	60.8%
Comparable EBIT	25,622	30,130	35,119	21,067	24,125
Comparable EBIT as a % of revenue	19.4%	24.1%	27.6%	19.7%	20.1%
Number of stores	46	48	49	49	52

Retail segment revenue increased by 5.8% to NZ\$132.4m for the year.

Gross margin for the year was 61.9% (FY22: 63.4%), largely attributable to the higher penetration of diamond sales in this market. This result was still 110 bps above pre-pandemic levels (FY19: 60.8%).

New Zealand earnings were directly and adversely impacted by a ~\$5m investment required to be made for uplifted and ongoing security measures to protect our team, customers and stores. Additionally, impacted stores experienced softer sales in the period immediately following an incident.

During the year, two under-performing stores closed, resulting in 46 stores at year end (FY22: 48).

Canada Retail Performance

OPERATING RESULTS (CA \$'000)

	2023	2022	2021	2020	2019
Revenue	158,894	159,661	118,445	110,799	133,146
Gross profit	100,531	103,623	72,643	63,991	80,726
Gross margin	63.3%	64.9%	61.3%	57.8%	60.6%
Comparable EBIT	27,110	28,785	12,320	(2,412)	9,797
Comparable EBIT as a % of revenue	17.1%	18.0%	10.4%	(2.2)%	7.4%
Number of stores	86	85	86	86	86

Retail segment revenue was CA\$158.9m for the year, largely flat to prior year.

Gross margin declined to 63.3% for the year, as the segment cycled a record gross margin in FY22 (64.9%). This result was still 270 bps ahead of pre-pandemic levels (FY19: 60.6%).

The overall performance of this segment is a credit to the strategic focus placed on Canada in recent years. With strong and refreshed leadership, brand awareness continues to increase, and productivity metrics have lifted significantly.

During the year, one store opened, resulting in 86 stores at year end (FY22: 85).

CAPITAL MANAGEMENT - DIVIDENDS AND SHARE BUY-BACK

Taking into consideration the Group's performance and strength of balance sheet, the Board has decided to declare a final dividend of 3.5 cents per share, unfranked for Australian purposes, with nil New Zealand imputation credits and with conduit foreign income.

This delivers a total dividend for the year of 7.5 cents per share, representing ~70% of adjusted annual NPAT, and at the higher end of the Group's Dividend Distribution Policy target range of 50% to 75%.

Subject to the Company's ongoing trading performance and growth plans, the Board's intention is for dividends to remain at the higher end of the target range.

The Company commenced its on-market share buy-back on 19 September 2022, which was paused on 21 November 2022. The directors have decided to discontinue the buy-back. Under the buy-back, the Company acquired 8,631,237 shares (ASX 4,350,875; NZX 4,280,362), being 2.2% of Company's shares on issue at the commencement of the buy-back, at a total cash cost of A\$10,206,543. The total number of shares on issue following the completion of the on-market share buy-back is 379,688,884.

GROUP STRATEGY - EMPHASIS ON GROWTH

As the Michael Hill brand continues its aspirational brand journey to a more premium position, the acquisition of the Bevilles business in late FY23 provides a vehicle to take market share at the value end of the fine jewellery category. Additionally, in the first half of FY24, the Company will launch its new bespoke brand *TenSevenSeven*, focused on servicing the high-end of the market with its unique personalised diamond ring proposition.

With these additional brands, the Michael Hill Group now services all significant customer segments of the fine jewellery category, and delivers multiple new growth pipelines.

The Bevilles brand will deliver both sales and profit growth through a significant real estate expansion strategy, coupled with digital growth and an optimised business model. For FY24, three sites have been secured and another three sites are close to finalisation for pre-Christmas opening, with a further tranche of sites already identified for the second half. Leveraging group capabilities and partnerships, Bevilles will benefit from optimisation of both supply chain and vendor relationships delivering margin and cost benefits to the business. With system integration planned for the second half of FY24, this will drive further opportunities in both productivity and efficiencies by leveraging a common technology platform.

TenSevenSeven is a new start-up brand designed to test a completely unique and elevated proposition, capturing an entirely new high-end customer. The brand will be brought to life through an immersive digital experience supported by the gradual roll-out of a limited number of showrooms in key capital cities. Customers will be invited to select from thousands of unique diamonds, paired with a ring design of their choice and ultimate handcrafting in our artisanal Australian workshop.

The Michael Hill Brand continues to deliver growth through its elevated brand strategy driving higher productivity and strong margins across all channels.

1. Brand & Loyalty

The strategy to elevate and modernise the Michael Hill brand underpins the overarching vision for the business. Highly engaging and emotive marketing campaigns focusing on key life moments, with an emphasis on product, quality and craft, are leading the transition away from price and promotion, towards emotional long-term customer relationships. The *Brilliance by Michael Hill* loyalty program underpins customer engagement and has now grown to over two million members.

2. Digital & Omni-channel

Michael Hill's digital transformation continues with a shift to a new headless website architecture, providing greater flexibility, productivity and improved customer experience. The role of our digital platforms is not only to serve as a transactional channel but also to provide product education, and brand messaging to drive traffic to our physical stores. With more than half of our online transactions now fulfilled from stores, and with data insights show a large proportion of our instore sales originate from online and digital marketing, demonstrating the success of the Michael Hill's omni-channel strategy.

3. Retail Fundamentals

Bricks and mortar retail is at the core of the Michael Hill business, driving more than 90% of its sales. The retail fundamentals strategy has delivered a 21% lift in productivity per store over the last four years. During FY23, the business invested in refreshing a significant portion of our store network as we elevate the instore experience to align with the brand strategy. The retail team continues to focus on productivity as the key performance metric for stores, in conjunction with a deliberate emphasis on lifting average transaction value.

4. Product Evolution

Product evolution is at the centre of a customer-led retail strategy, and is critical to achieve sales growth and support elevated margin. The laboratory grown diamond category continues to expand, with higher sales growth and margins, helping to offset high input costs for both mined diamonds and gold. During the course of the year, the business invested in new talent and capability across product, buying, sourcing and procurement, as well as technology investments in merchandise planning. The Michael Hill artisanal Australian manufacturing facility was upgraded as part of the move to new global headquarters, optimising both production and costs.

5. New Territories & Services

As the business shifts from transformation to growth, the opportunity to stretch the brand into new territories and services is a key focus. The Michael Hill marketplace strategy has continued, building on partnerships in all three core markets, and now available in both Singapore and Malaysia through a new partnership with Zalora. Following strong early insights from The Bay in Canada, michaelhill.ca now has a dual language offering to engage with French speaking customers in both Quebec and across the country, and early signs are very promising. The pure-play Medley business, while still relatively small, delivered sales growth of 31% on last year, and continues to test and trial new products in the demi-fine jewellery category.

During the year, the Group developed a number of new digitally-led services offerings: the new bespoke brand, *TenSevenSeven*; the new gold recycling platform, *Re:cycle*; and the ability to introduce jewellery insurance to customers in Australia. Furthermore, the Company is in the process of reinventing its repair service offering, initially with the creation of an app to modernise and improve customer experience, with the end goal of creating a seamless repair business to drive incremental revenue.

6. Cost Conscious Culture

During the year, the Michael Hill business successfully relocated its global headquarters including its Australasian distribution centre. This new state-of-the-art distribution centre is technology enabled and has generated significant efficiencies in processing stock, fulfilment to stores and delivery to customers. The embedded cost conscious culture continues, with an absolute focus on cost discipline, inventory and working capital management. In particular, the business has invested in technology to support labour optimisation and rostering to ensure targeted productivity levels can be achieved.

7. Sustainability

In August 2022, Michael Hill announced its ESG manifesto for 2030, centered around three key pillars – People, Product and Planet, with more detail in the Annual Report. An integral part of this strategy is the launch of a circular jewellery ecosystem, *Re:new*. During the year, the first phase was launched via *Re:cycle* – a digitally enabled gold recycling program, that encourages customers to give “new life to their old loves”, by recycling gold jewellery pieces in exchange for a Michael Hill gift card. The second phase, *Re:store*, will focus on jewellery repairs, and the third phase, *Re:imagine*, a diamond upgrade program.

RISK MANAGEMENT

The Board believes that a strong risk management framework supports the Group's growth and success. The Group regularly reviews its risk environment and has identified the following at risk areas and mitigating strategies:

Risk	Strategies and mitigation
Global uncertainty due to changing political landscapes and increased sanctions of raw materials creates volatility for the Group's operating environments	The Group has a growth strategy that embraces omni-channel expansion and strategic acquisitions in markets that limit cannibalisation of sales and focusses on improving the customer experience. Furthermore, there is executive oversight of all drivers, both internal and external, and prudent policy execution to adjust accordingly. There are several sourcing options that are employed, including forward planning and securing core ranges to curb the impact of rising prices of raw materials and to ensure financial exposures are well managed.
Increase in cyber-attacks disrupting operations and increased reliance on third-party platform providers to have robust cyber controls	The Group has tasked the Technology Governance Committee to oversee its response to cyber risk and the maturing of our cyber resilience. The Group continues to invest in new technologies and remove vulnerable points of attack throughout its digital network. External partners have been engaged to uplift our capabilities, including both proactive and reactive responses to cyber-attacks. Penetration testing and disaster recovery planning are built into our operating rhythm to further prepare and respond to attacks.
Theft appeal of our product increases during periods of financial hardship and uncertainty	The safety and security of our staff and customers is our most important priority. We are investing in initiatives and processes which improve the overall security of our stores and contribute to the safety of our staff and customers. We are working with both local and national law enforcement bodies and other external parties to better the overall retail environment for our staff and customers. With the ongoing escalation of theft and violence in New Zealand, the Group continues to have a dedicated executive led taskforce responding to these challenges and continue to implement appropriate actions.

Risk	Strategies and mitigation
Sustainability goals and supply chain transparency	<p>The Group has also outlined its goals in the Sustainability Strategy of having all suppliers meeting our expectations on their social and environmental impacts by 2030.</p> <p>There are dedicated workstreams supporting each of our pillars of people, planet and product.</p> <p>In the product and people pillars, the Group is working closely with our key suppliers across our sourcing and procurement ecosystems to ensure our suppliers' manufacturing and operations comply with our responsible sourcing practices. Further, the Group has developed a modern slavery roadmap to minimise the risk of modern slavery occurring in our business and supply chains.</p>
Talent acquisition and retention in increasing regulated markets and higher competition for resources	<p>The Group has talent management strategies and processes to ensure the business is well equipped to manage peak trading periods and fulfilment of specialised roles critical to our business. These include succession planning, reviewing pipeline of external recruits and mentoring and coaching of staff to promote internally.</p> <p>Emphasis has been focused on ensuring our workforce engagement scores are above industry benchmarks, and also ongoing commitment to diversity and inclusion through educating our teams, sharing experiences and reporting on key metrics.</p>
Breach of regulation or law in one of our jurisdictions in an increasingly complex compliance environment	<p>The Group has in-house legal and compliance teams who are focused on compliance in our three markets and utilise external firms for specialised advice when required. Any new legislative requirements or rectification initiatives have dedicated teams focused on ensuring our compliance and training our teams appropriately.</p>

NON-IFRS FINANCIAL INFORMATION

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

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

The non-IFRS measures used in describing the business performance include:

- Same store sales reflect sales through store and online channels on a comparable trading day basis
- Earnings before interest, tax, depreciation and amortisation (EBITDA)
- Earnings before interest and tax (EBIT)
- Comparable EBIT
- Significant item

Comparable EBIT

Comparable EBIT has been calculated as follows:

	2023 \$'000	2022 \$'000
Statutory EBIT	58,883	73,236
Add back costs relating to:		
Impact of IFRIC SaaS-related guidance	7,356	5,986
Employee restructure costs	734	-
Bevilles acquisition transaction costs	1,960	-
Less items relating to:		
Impact of AASB16 Leases	(10,044)	(13,489)
Government grants received (AU, NZ, CA)	-	(2,864)
Comparable EBIT	58,889	62,869

ENVIRONMENTAL REGULATIONS

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

INFORMATION ON DIRECTORS

Information on the directors of Michael Hill International Limited in office during the financial year and until the date of this report are set out below.

Director	Experience and Directorships	Special Responsibilities	Directors' Interests in shares and options
Robert Fyfe B.Eng, F.E.N.Z. C.N.Z.M.	Rob was appointed a Director of the Company on 9 June 2016 and has served as Director of Michael Hill's listed entity since 6 January 2014. He was appointed Chair of the Board in June 2021. 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 and subsequent to his time at Air New Zealand, Rob has gained extensive general management and board experience in various retail businesses operating in New Zealand, Australia and Great Britain, across sectors including retail banking, telecommunications, pay television, sport, manufacturing and outdoor apparel. In 2015 Rob was awarded an Honorary Doctor of Commerce from University of Canterbury and on New Year's Eve 2020, Rob was appointed as a Companion of the New Zealand Order of Merit for services to business and tourism. Rob is also a Director of Air Canada and has not had any former directorships of listed entities in the last three years.	<ul style="list-style-type: none"> • Chair • Non-executive and independent director • Member of ARMC • Member of PDRC 	1,953,578 Ordinary Shares
Sir Richard (Michael) Hill K.N.Z.M.	Sir Michael is the founder of Michael Hill, and his visionary leadership has been the foundation for the Company's successful international expansion. Sir Michael 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 led the Group as Chairman from 1987 until 2015 and was appointed a Director of the Company on 9 June 2016, having served as Director of Michael Hill's listed entity since its initial listing on the New Zealand Stock Exchange. In 2008 he was recognised as Ernst & Young's 'Entrepreneur of the Year' and in 2011 was appointed a Knight Companion of the New Zealand Order of Merit for services to business and the arts. Sir Michael was appointed Founder President of the New Zealand listed entity in 2015 in recognition of his special connection with Michael Hill for over 35 years. Sir Michael is not a Director of any other listed entities and has not had any former directorships of listed entities in the last three years.	<ul style="list-style-type: none"> • Non-executive director 	148,330,600 Ordinary Shares
Emma Hill B.Com, M.B.A	Emma was appointed a Director of the Company on 9 June 2016 and has served as Director of Michael Hill's listed entity since 22 February 2007. She served as Deputy Chair of the Group from 2011 until 2015 when she was appointed Chair. Emma stepped down from the Chair role in June 2021. Emma has over 30 years' experience with subsidiaries of the Company commencing on the shop floor in Whangarei, New Zealand. She held a number of management positions in the Australian company before successfully leading the expansion of the Group into Canada as Retail General Manager in 2002. Emma holds a Bachelor of Commerce degree and an MBA from Bond University. Emma is not a Director of any other listed entities and has not had any former directorships of listed entities in the last three years.	<ul style="list-style-type: none"> • Non-executive director • Chair of PDRC 	167,487,526 Ordinary Shares
Gary 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 and has served as Director of Michael Hill's listed entity since 2 November 2012. Gary has had extensive Director experience across a range of boards and tourism related industry bodies. He is Chairman of Flight Centre Travel Group Ltd, one of Australia's top 100 public companies and is a member of their Audit and Remuneration sub-committees. He is a Chartered Accountant and a Fellow of the Australian Institute of Company Directors. Gary is a Director of Flight Centre Travel Group Limited and has not had any former directorships of listed entities in the last three years.	<ul style="list-style-type: none"> • Non-executive and independent director • Chair of ARMC • Member of PDRC 	80,000 Ordinary Shares

Director	Experience and Directorships	Special Responsibilities	Directors' Interests in shares and options
Jacqueline Naylor M.A.I.C.D.	<p>Jacqueline was appointed a Director of the Company on 15 July 2020. Jacqueline is a highly regarded Australian retail leader with over thirty years' executive and board experience in retail, fashion and eCommerce. She is currently an Independent Non-Executive Director of Myer and was previously a Director of PAS Group, Macpac and the Virgin Australia Melbourne Fashion Festival. This follows an extensive career as a retail executive (and later an Executive Director) at the Just Group, where Jacqueline oversaw merchandising, marketing and brand strategies across a portfolio of 800 stores.</p> <p>Jacqueline is a Director of Myer Holdings Limited and has not had any former directorships of listed entities in the last three years.</p>	<ul style="list-style-type: none"> • Non-executive and independent director • Member of ARMC 	160,000 Ordinary Shares
David Whittle B.A., B.Com	<p>Dave has considerable brand, data, technology, omni-channel retail and digital transformation experience. He is a Founder of Lexer, a global software company helping brands and retailers genuinely understand and engage their customers. In 2015, Dave became the youngest ASX 200 Non-Executive Director when he joined the board of Myer.</p> <p>Previously, Dave spent 10 years with global advertising group M&C Saatchi in a number of local and international leadership roles, culminating in three years as Managing Director in Australia. Prior to joining M&C Saatchi, Dave was the first employee of a marketing services group that built four digital service and software businesses.</p>	<ul style="list-style-type: none"> • Non-executive and independent director 	Nil Ordinary Shares
Daniel Bracken	<p>Daniel joined Michael Hill International as the CEO in November 2018 and was appointed to the Board in June 2021. He has more than 25 years' experience managing some of the world's most iconic brands. He has an extensive background in corporate strategy, brand development, product design, customer engagement, digital expansion and has been instrumental in executing turnaround initiatives across many retail businesses.</p> <p>Daniel is not a Director of any other listed entities and has not had any former directorships of listed entities in the last three years.</p>	<ul style="list-style-type: none"> • Managing director • Chief Executive Officer 	<p>201,869 Ordinary Shares</p> <p>4,331,046 Share Rights</p>

COMPANY SECRETARIES

The Company has appointed two company secretaries, Andrew Lowe and Emily Bird.

Andrew Lowe, who is also the Chief Financial Officer of the Group, was appointed to the position of Company Secretary on 1 March 2019, having held that position previously (15 December 2017 to 22 January 2018). Andrew holds a Bachelor of Commerce, a Bachelor of Laws (Hons) and a Masters of Applied Finance, and is a qualified Chartered Accountant and a Chartered Taxation Adviser of the Taxation Institute of Australia. Andrew has extensive experience in finance and leadership roles across a range of listed corporate groups with Australian and offshore operations.

Emily Bird, who is also the General Counsel of the Group, was appointed to the position of Company Secretary on 31 July 2020. Emily joined Michael Hill in September 2019 as Senior Legal Counsel, and was appointed General Counsel & Company Secretary in July 2020. She holds a Bachelor of Laws, Bachelor of Arts (Psychology), Graduate Diploma in Legal Practice, Graduate Diploma in Applied Corporate Governance and Risk, and has completed the Company Directors Course at the Australian Institute of Company Directors. Emily has broad legal experience with in-house roles at Lactalis Australia (formerly Parmalat Australia), Virgin Blue (now Virgin Australia) and a secondment at Tarong Energy (now Stanwell Corporation), having started her legal career at top-tier firm Clayton Utz.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 2 July 2023, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meeting of committees			
	A	B	Audit and Risk Management		People Development and Remuneration	
	A	B	A	B	A	B
R I Fyfe	15	15	5	5	7	7
Sir R M Hill	12	15	-	-	-	-
E J Hill	15	15	-	-	7	7
G W Smith	13	15	5	5	7	7
J E Naylor	15	15	5	5	-	-
D Whittle*	-	-	-	-	-	-
D Bracken	15	15	-	-	-	-

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

*D Whittle was appointed as director subsequent to balance sheet date.

COMMITTEE MEMBERSHIP

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

Audit and Risk Management Committee

Gary Smith (Chair)
Robert Fyfe
Jacqueline Naylor

People Development and Remuneration Committee

Emma Hill (Chair)
Robert Fyfe
Gary Smith

AUDITED REMUNERATION REPORT

The directors present the 2023 Michael Hill International Limited remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded during FY23. The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

CONTENTS

Section 1	Letter from the Chair of the People Development and Remuneration Committee
Section 2	Remuneration Overview
Section 3	Remuneration Framework
Section 4	Relationship of Remuneration to Group Performance
Section 5	FY23 Executive KMP Remuneration
Section 6	FY23 Non-Executive Director Remuneration

SECTION 1 LETTER FROM THE CHAIR OF THE PEOPLE DEVELOPMENT AND REMUNERATION COMMITTEE

Dear Shareholders,

On behalf of Michael Hill Group, I am pleased to present the FY23 remuneration report. The report outlines the Group's remuneration strategy and framework and details how the Board has approached remuneration to retain and incentivise key management personal (KMP) while aligning reward with shareholder value creation.

Over the past several years Michael Hill Group has achieved significant growth and transformation on the journey to become a high performing, modern, differentiated, omni-channel jewellery group. In FY23 however, the Group experienced a decline on FY22 in Comparable EBIT. This decline can be attributed to higher COGS pressure, wage inflation and elevated New Zealand security costs. In addition, we experienced a more challenging second half as macroeconomic conditions deteriorated and consumer confidence declined.

Key results from FY23 include:

- Total Group revenue of \$629.6m (2022: \$595.2m) - an increase of 5.8%
- Statutory EBIT* of \$58.9m (2022: \$73.2m) - a decrease of 19.6%
- Comparable EBIT* of \$58.9m (2022: \$62.9m) - a decrease of 6.3%
- EPS of 9.20 cents (2022: 12.03 cents) - a decrease of 23.5%

**Statutory EBIT and Comparable EBIT are non-IFRS information and are unaudited. Please refer to non-IFRS information section in the Directors' Report for an explanation of non-IFRS information and a reconciliation of EBIT and Comparable EBIT.*

It is the Company's policy to conduct Executive remuneration benchmarking every three years and to consider outcomes in line with Company policy including market trends. Late last year we reviewed our remuneration practices to ensure the structure and level of award was reflective of modern compensation packages.

PricewaterhouseCoopers conducted benchmarking of KMP and the broader Executive Team using a consumer discretionary peer group of companies 50% to 200% of our market cap as reference data. The insights from this review resulted in changes to KMP and executive packages to ensure continued retention of our high performing Executive while more closely aligning compensation mix with long term value creation.

The structure of compensation is designed with a mix of market competitive fixed remuneration, short term incentives (STI) to reward annual performance and long term incentives (LTI) to align long term financial performance and shareholder value creation.

As a result of the benchmarking the CEO's base salary increased by 4.50%, STI potential as a percentage of total fixed remuneration reduced by 13% and LTI potential increased by 42%. The CFO's base salary increased by 4.96%, STI potential as a percentage of total fixed remuneration increased by 1% and LTI potential increased by 7.5%.

FY23 Remuneration

The STI awarded for the year was 35% of potential and 70% of on target for both the CEO and CFO. The KPI for on target EBIT was not achieved, however, in consideration of the significant costs related to New Zealand security which materially impacted profit in New Zealand, the Committee applied discretion to award 50% of the on target STI for the Financial KPI. The deliverables related to the non financial KPIs of Strategy, Customer and People were achieved and 100% of STI applicable to these KPIs was awarded.

LTI awarded over the year was 95% of fixed remuneration for CEO and 40% for CFO. 570,674 awards vested to the CEO and 187,776 award vested to the CFO in the year.

Non-Executive Director (NED) fees were increased by the Wage Price Index (WPI) of 2.6%. There were no other changes to the structure of NED fees.

In conclusion, the Board believes the remuneration changes and outcomes for FY23 reflect an appropriate alignment between pay and performance during the year and are also fair in terms of the operating environment in which decisions have been made. Whilst experiencing challenging trading, security and economic conditions that contributed to a decline in comparable EBIT, the Company did have a record year in revenue results. The Executive remuneration set out in this report is considered by the Board to be reflective of this performance.

Regards,



Emma Hill

Chair of the People Development and Remuneration Committee

SECTION 2 REMUNERATION OVERVIEW

This report sets out the remuneration arrangements for Michael Hill International's key management personnel (KMP). KMP have the authority and responsibility for planning, directing and controlling the activities of the entity. All KMP listed below have held their positions for the entire reporting period unless indicated otherwise.

Name	Position	Commencement as KMP
Non-Executive Directors		
Robert Fyfe	Chair and non-executive director	2016
Sir Richard Michael Hill	Founder and non-executive director	2016
Emma Hill	Non-executive director	2016
Gary Smith	Non-executive director	2016
Jacqueline Naylor	Non-executive director	2020
Managing Director and CEO		
Daniel Bracken	Managing Director and Chief Executive Officer	2019
Executives		
Andrew Lowe	Chief Financial Officer and Company Secretary	2017

People Development and Remuneration Committee

The primary objective of the People Development and Remuneration Committee (PDRC) is to assist the Board fulfil its corporate governance and oversight responsibilities in relation to the Company's people strategy including remuneration components, performance measurements and accountability frameworks, recruitment, engagement, retention, talent management and succession planning.

The following non-executive directors are members of the PDRC for the 2023 reporting period:

- Emma Hill - Chair of the PDRC
- Robert Fyfe - Chair of the Board of Directors
- Gary Smith - Independent non-executive director

Use of Remuneration Consultants

The PDRC obtains independent advice every three years on the appropriateness of remuneration practices of the Group given trends in comparative companies and the objectives of the Group's remuneration strategy. This advice was gained in FY22 and considered in FY23 remuneration decisions. No advice was sought in FY23. Advice will next be gained in FY25 to assist in informing remuneration outcomes in FY26.

SECTION 3 REMUNERATION FRAMEWORK

Our remuneration philosophy is guided by our vision to be a modern, differentiated, omni channel jewellery group. The structure of compensation is designed with a mix of market competitive fixed remuneration, short term incentives to reward annual performance and long term incentives to align financial performance and shareholder value creation.

Our Values

We care	We are professional	We are inclusive and diverse	We create outstanding experiences
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Our Remuneration Philosophy

Attract, motivate and retain talent	Reward the achievement of strategic objectives	Align to shareholder value creation
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Our Remuneration Framework

	Fixed remuneration	Short term incentive	Long term incentive
How is it set?	Fixed remuneration is set with reference to market competitive rates in comparative companies for similar positions, adjusted to account for the experience, ability and effectiveness of the individual Executive.	Executive KMP participate in the Group's STI program which is directed to achieving Board approved on target and outperformance targets.	The Company has established an LTI plan as deferred compensation.
How is it delivered?	Base salary plus any fixed elements including superannuation and leave entitlements.	Cash for on target performance and for outperformance.	An issue of share rights is made to Executive KMP. The rights vest at the end of the performance period if certain performance hurdles and vesting conditions are met.
What is the objective?	Attract and retain key Executive talent.	Drive annual profit growth and align Executive reward with achievement of performance targets that underpin strategy.	Reward Executive KMP for sustainable long term growth aligned to shareholders' interests.

SECTION 4 RELATIONSHIP OF REMUNERATION TO GROUP PERFORMANCE

The remuneration framework operates to create a clear link between Executive remuneration and the Group's performance. Increased incentive remuneration outcomes for KMP reflect increased revenue, NPAT and dividends. The overall level of remuneration takes into consideration the performance of the Group over several years. The performance of the Group over the past five years is summarised below:

	2023	2022	2021	2020	2019
Revenue (\$'000)	629,562	595,210	556,486	492,060	569,500
Comparable EBIT* (\$'000)	58,889	62,870	56,594	25,686	34,608
Profit for the year attributable to owners of the Company (\$'000)	35,182	46,712	41,015	3,059	16,498
Earnings per share (cents)	9.20c	12.03c	10.57c	0.79c	4.26c
Dividends paid during the financial year ¹ (\$'000)	30,719	25,239	11,636	5,817	19,365
Market capitalisation (\$'000)	339,822	361,105	322,158	131,841	209,385
Share price at year end (\$)	0.90	0.93	0.83	0.34	0.54
Return on average total assets ²	6.7%	9.3%	9.0%	0.7%	4.3%

*EBIT and Comparable EBIT are Non-IFRS Information and are unaudited. Please refer to Non-IFRS Information in the Directors' Report for an explanation of Non-IFRS information and a reconciliation of EBIT and Comparable EBIT.

¹ The dividends paid in FY21 are the postponed interim dividend for FY20 and the interim dividend for FY21. No final dividend was declared for FY20.

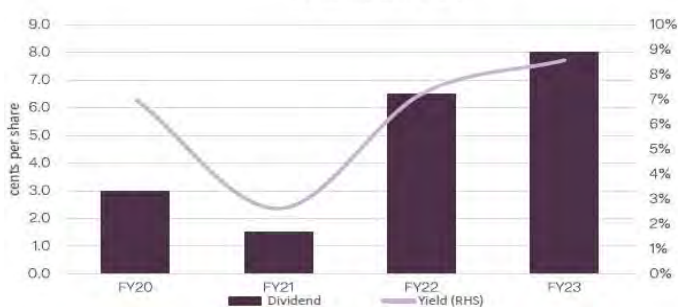
² For 2021 - Return on average total assets is not restated as the required adjustment to total assets for 2020 has not been calculated.

The first graph below shows the share price growth and movement compared to the ASX300 whilst the second graph shows the dividend paid and yield per financial year.

Share Price and ASX 300

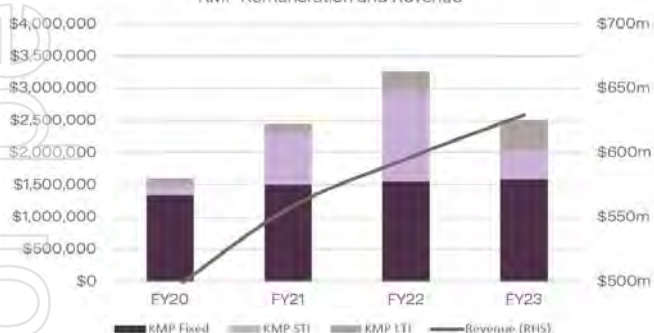


Dividend and Yield

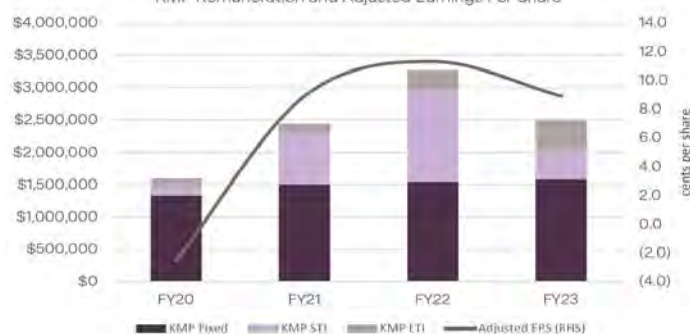


The graphs below show the relationship of KMP remuneration to revenue and Adjusted Earnings Per Share³ for the last four financial years.

KMP Remuneration and Revenue



KMP Remuneration and Adjusted Earnings Per Share



³ Adjusted Earnings Per Share is calculated similarly to statutory Earnings Per Share except EBIT is adjusted to Comparable EBIT as set out in the Directors' Report.

SECTION 5 FY23 EXECUTIVE KMP REMUNERATION

In the lead up to FY23, PricewaterhouseCoopers were engaged to conduct benchmarking on KMP remuneration. As per our policy, this formal benchmarking activity is conducted every three years. The findings from this activity contributed to the remuneration outcomes for FY23 KMP remuneration. Any changes to remuneration mix are outlined in this section.

Remuneration Mix

The total remuneration for Executive KMPs comprises both fixed remuneration and at risk components in the form of on target STI, outperformance STI and LTI. The remuneration mix is designed to compensate KMP in a way that strongly correlates to Group performance. The outperformance STI gives the Executive KMPs the ability to earn the equivalent on target STI value in cash.

KMP	Fixed Remuneration	Maximum STI	LTI	Total
Daniel Bracken - CEO	35.0%	32.0%	33.0%	100.0%
Andrew Lowe - CFO	49.0%	32.0%	19.0%	100.0%

Fixed Remuneration

Fixed remuneration is reviewed annually, and our policy in this review is to consider the consumer price index (CPI), Executive performance and retention, and increases to any applicable superannuation concessional contributions cap. Remuneration is set with reference to market competitive rates in comparable companies for similar positions adjusted for the experience, ability and effectiveness of the individual Executive KMP. Fixed remuneration includes base salary and superannuation contributions at the rate of the concessional contributions cap. At the commencement of the reporting period, the base salary of the CEO increased by 4.50% and the base salary of the CFO increased by 4.96%. Superannuation was maintained at the concessional contributions cap of \$27,500 for both KMP.

Short Term Incentive Scheme

The Group's STI program is designed to reward delivery of annual profit targets and ensure achievement of strategic and operational objectives. The STI is detailed in performance scorecards that are set by the PDRC. The scorecards detail the performance goals, targets and weightings for each Executive across the key performance areas of financial, strategy, customer and people. The CEO's scorecard is comprised of core objectives from each Executive's scorecard.

The program is supported by a performance management system giving visibility and transparency of progress by each Executive. Performance against key performance indicators (KPIs) is formally measured on a biannual basis and informally in regular meetings.

The STI program in FY23 for KMP was structured as follows:

Performance period	Annual award for Financial KPI Six monthly award for Strategy, Customer and People KPIs
Opportunity	CEO – 92% of fixed remuneration comprised of 46% for on target performance, and 46% for outperformance (this represents a reduction of 13% on FY22) CFO – 66% of fixed remuneration comprised of 33% for on target performance, and 33% for outperformance (this represents an increase of 1% on FY22)
How the STI is paid?	In cash for on target performance and in cash for outperformance
On target performance measures	Financial KPI 60% weighting Strategy, Customer and People KPIs 40% weighting
Performance measure for outperformance component	Starting at \$2.0m above FY23 budgeted EBIT and increasing progressively
How is STI assessed?	The PDRC reviews the CEO's performance against the performance targets and objectives set for that year. The CEO assesses the performance of the CFO, with the CEO having oversight of his direct reports and the day-to-day functions of the Company. The PDRC reviews the assessed performance for Board endorsement.

STI Outcomes

The following tables detail the FY23 STI scorecard KPIs and assessment applied to the CEO.

CEO

KPI	2023 Performance Assessment
FINANCIAL (60% weighting)	
EBIT	The Committee used discretion to award 50% of the on target EBIT STI due to the significant costs related to New Zealand security which materially impacted profit in New Zealand
STRATEGY (15% weighting)	
Growth, Cyber security, Store of the future, Brand ambassador	On target performance achieved for all objectives
CUSTOMER (15% weighting)	
Store refresh program, Insurance, <i>Brilliance by Michael Hill</i> loyalty program, data and insights	On target performance achieved for all objectives
PEOPLE (10% weighting)	
Culture and engagement, ESG	On target performance achieved for all objectives

The CEO and CFO earned 70% of their on target STI. This STI was awarded due to the achievement of 100% of the strategy, customer and people performance measures, and 50% of on target EBIT performance due to the discretion the Committee applied.

Analysis Of Bonuses Included In Remuneration

KMP's short-term incentive cash bonuses	Incentive			Remuneration		Amount forfeited
	On target achieved	Out-performance achieved	Total potential available	Cash STI component	Total STI included	
	%	%	\$	\$	\$	\$
Daniel Bracken	70	0	979,570	342,850	342,850	636,721
Andrew Lowe	70	0	359,700	125,895	125,895	233,805

LTI Scheme

The FY23 LTI program for KMP was structured as follows:

Performance period	3 years
Opportunity	CEO - 95% of fixed remuneration (this represents an increase of 42% on FY22) CFO - 40% of fixed remuneration (this represents an increase of 7.5% on FY22)
Instrument	Share rights
Performance metric	Total Shareholder Return (TSR) compound annual growth rate (CAGR) over 3 years Earnings per Share (EPS) CAGR over 3 years
Vesting condition	Subject to remaining an employee of the Group at the performance hurdle assessment date (10 days following the release of the FY25 results), and satisfaction of the TSR and EPS target metrics, share rights will vest in accordance with a sliding vesting schedule. The absolute TSR sliding vesting schedule is as follows: <ul style="list-style-type: none"> - No rights vest if TSR is equal to or less than 10% CAGR - 10% of share rights vest for each 1% increase in CAGR performance between 10% CAGR to 20% CAGR - 100% of share rights vest if TSR is equal to or above 20% CAGR The EPS sliding vesting schedule is as follows: <ul style="list-style-type: none"> - No rights vest if EPS is equal to or less than 5% CAGR - 10% of share rights vest for each 1% increase in CAGR between 5% CAGR to 10% CAGR - 100% of share rights vest if EPS is equal to or above 10% CAGR Awards are subject to a service condition requiring the Executive KMP to remain employed by the Group until the performance hurdle assessment date
Rationale for the performance metric and condition	The absolute TSR and EPS metrics have been deemed by the PDRC to be a suitable market based measure to create alignment between the interests of Executive KMP and the interests of shareholders
What happens when a KMP ceases employment?	If the KMP's employment is terminated for cause, or due to resignation, all unvested share rights will lapse, unless the Board determines otherwise
Dividends and voting rights	Share rights do not confer on the holder any entitlement to any dividends or other distributions by the Group or any right to attend or vote at any general meeting of the Group

FY23 LTI Outcomes

Both Executive KMP were eligible to participate in the FY23 LTI in accordance with the LTI program detailed in the preceding table. For the CEO, the grant of share rights under the FY23 LTI plan was approved by shareholders at the FY23 Annual General Meeting. Further details of the number of share rights granted to the CEO and CFO in relation to the FY23 LTI can be found later in this report under the heading 'Reconciliation of Options and Share Rights held by KMP'.

Other benefits

Executive KMP do not receive additional benefits, such as non-cash benefits, other than superannuation, as part of the terms and conditions of their appointment. Loans are not provided.

Service contracts

It is the Group's policy that service contracts for KMP are unlimited in term but capable of termination on three months' notice (six months in the case of the CEO) and that the Group retains the right to terminate the contract immediately, by making payment equal to three months' pay in lieu of notice (or six months in the case of the CEO). KMP are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

SECTION 6 FY23 NON-EXECUTIVE DIRECTOR REMUNERATION

Total compensation for all Non-Executive Directors, last voted upon by shareholders on 29 June 2016, is not to exceed \$840,000 per annum. Directors' base fees for FY23 were \$106,945 per annum. The Board Chair receives twice the base fee. Additional fees are paid where a Director is Chair of a committee.

Committee Chair fees

People Development and Remuneration	22,095
Audit and Risk	33,143

It is the Company's policy to consider CPI and the WPI in determining any increase to Directors' fees annually. In FY23, CPI was 6.1% and WPI was 2.6%. It was decided that the appropriate measure to apply was WPI and the Non-Executive Director fees increased by the WPI percentage of 2.6%.

All Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarizes the Board policies and terms, including remuneration, relevant to the office of Director. 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.

SECTION 6

DIRECTOR AND EXECUTIVE REMUNERATION OUTCOMES FOR FY23

Details of the nature and amount of each major element of remuneration of each Director of the Company and other KMP of the consolidated entity are:

Name	Short-term				Long-term	Post-employment		Share-based payments	Total	Proportion remuneration performance related	Value of rights as proportion of remuneration
	Salary & fees*	STI cash bonus	Non-monetary benefits (deferred share rights)	Total	Long service leave	Superannuation benefits	Termination benefits	Share rights			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
NON-EXECUTIVE DIRECTORS											
Emma Jane Hill											
2023	128,748	-	-	128,748	-	-	-	-	128,748	-	-
2022	121,907	-	-	121,907	-	-	-	-	121,907	-	-
Sir Richard Michael Hill											
2023	106,702	-	-	106,702	-	-	-	-	106,702	-	-
2022	101,034	-	-	101,034	-	-	-	-	101,034	-	-
Gary Warwick Smith											
2023	126,634	-	-	126,634	-	13,454	-	-	140,088	-	-
2022	124,125	-	-	124,125	-	12,413	-	-	136,538	-	-
Robert Ian Fyfe											
2023	213,405	-	-	213,405	-	-	-	-	213,405	-	-
2022	202,068	-	-	202,068	-	-	-	-	202,068	-	-
Jacqueline Elizabeth Naylor											
2023	96,674	-	-	96,674	-	10,390	-	-	107,064	-	-
2022	94,759	-	-	94,759	-	9,476	-	-	104,235	-	-
TOTAL DIRECTOR REMUNERATION											
2023	672,163	-	-	672,163	-	23,844	-	-	696,007	-	-
2022	643,893	-	-	643,893	-	21,889	-	-	665,782	-	-
KMP											
Daniel Bracken, CEO											
2023	1,062,937	342,850	-	1,405,787	21,252	27,500	-	290,033	1,744,572	19.65%	16.62%
2022	1,050,052	535,544	535,543	2,121,139	35,231	27,500	-	156,176	2,340,046	45.77%	6.67%
Andrew Lowe, CFO											
2023	523,568	125,895	-	649,463	11,117	27,500	-	78,139	766,219	16.43%	10.20%
2022	502,689	169,179	169,179	841,047	15,673	27,500	-	47,161	931,381	36.33%	5.06%
TOTAL KMP REMUNERATION											
2023	1,586,505	468,745	-	2,055,250	32,369	55,000	-	368,172	2,510,791	18.67%	14.66%
2022	1,552,741	704,723	704,722	2,962,186	50,904	55,000	-	203,337	3,271,427	43.08%	6.22%
TOTAL DIRECTOR AND KMP REMUNERATION											
2023	2,258,668	468,745	-	2,727,413	32,369	78,844	-	368,172	3,206,798	14.62%	11.48%
2022	2,196,634	704,723	704,722	3,606,079	50,904	76,889	-	203,337	3,937,209	35.80%	5.16%

*Salary and fees include the net leave entitlement accrual, calculated as leave accrued less leave taken.

ADDITIONAL STATUTORY INFORMATION

EQUITY INSTRUMENTS

All options or rights refer to options or rights over ordinary shares of Michael Hill International Limited, which are exercisable on a one-for-one basis under the executive incentive plan.

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 KMP) have been altered or modified by the issuing entity during the reporting period or the prior period. 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 Australia foreign exchange rate on that date. The exercise price of any future option grants will be set by using the same method, with reference to the Australian Securities Exchange ('ASX').

ANALYSIS OF OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

No options were granted to KMP as compensation for the financial year.

SHARE RIGHTS

The number of share rights issued to KMP and senior management during FY23 was 4,001,391 share rights. Of these, share rights issued to KMP are set out below. Refer to note D3 of the accompanying financial report for further details.

	Issued during the year Number	Fair value per share right \$
KMP		
Daniel Bracken	1,386,750	0.85
Andrew Lowe	347,060	0.85

RECONCILIATION OF OPTIONS AND SHARE RIGHTS HELD BY KMP

No options are held by KMP. The number of rights over ordinary shares held during the financial year by KMP, including the number issued, vested, exercised and forfeited is set out below:

	Balance at start of the year						Balance at end of the year	
	Vested and Exercisable	Unvested	Issued	Forfeited	Vested	Exercised	Vested and Exercisable	Unvested
KMP share rights movements								
Daniel Bracken*								
FY19 LTI Plan								
Tranche one	-	27,504	-	-	27,504	-	27,504	-
Tranche two	-	27,504	-	-	27,504	-	27,504	-
Tranche three	-	55,010						55,010
FY20 LTI Plan								-
Tranche one	-	35,615	-	-	35,615	-	35,615	-
Tranche two	-	35,615	-	-	-	-	-	35,615
Tranche three	-	71,229	-	-	-	-	-	71,229
FY21 LTI Plan								-
Single Issue	-	2,057,738	-	-	-	-	-	2,057,738
FY22 LTI Plan								-
Single Issue	-	634,081	-	-	-	-	-	634,081
FY22 STI Plan								-
Single Issue	-	-	480,051	-	480,051	-	480,051	-
FY23 LTI Plan								-
Single Issue	-	-	906,699	-	-	-	-	906,699

	Balance at start of the year						Balance at end of the year	
	Vested and Exercisable	Unvested	Issued	Forfeited	Vested	Exercised	Vested and Exercisable	Unvested
Andrew Lowe	-							
FY18 LTI Plan								
Tranche two	-	4,325	-	-	4,325	(4,325)	-	-
Tranche three	-	8,648	-	-	8,648	-	8,648	-
FY19 LTI Plan								
Tranche one	-	8,365	-	-	8,365	(8,365)	-	-
Tranche two	-	8,365	-	-	8,365	-	8,365	-
Tranche three	-	16,733	-	-	-	-	-	16,733
FY20 LTI Plan								
Tranche one	-	6,424	-	-	6,424	-	6,424	-
Tranche two	-	6,424	-	-	-	-	-	6,424
Tranche three	-	12,847	-	-	-	-	-	12,847
FY21 LTI Plan								
Single Issue	-	603,119	-	-	-	-	-	603,119
FY22 LTI Plan								
Single Issue	-	200,307	-	-	-	-	-	200,307
FY22 STI Plan								
Single Issue	-	-	151,649	-	151,649	-	151,649	-
FY23 LTI Plan								
Single Issue	-	-	195,411	-	-	-	-	195,411
Total	-	3,819,853	1,733,810	-	758,450	(12,690)	745,760	4,795,213

*Share rights granted to Daniel Bracken during the reporting period were approved by shareholders at the Company's 2022 AGM as required by ASX Listing Rule 10.14.

SHAREHOLDINGS

The number of ordinary shares held during the financial year by KMP is set out below:

	Balance at start of the year Number	Received on exercise of rights Number	Other changes Number	Balance at end of the year Number
NON-EXECUTIVE DIRECTORS				
Emma Hill*	167,487,526	-	-	167,487,526
Sir Richard (Michael) Hill*	148,330,600	-	-	148,330,600
Gary Smith	80,000	-	-	80,000
Robert Fyfe	2,293,640	-	(340,062)	1,953,578
Jacqueline Naylor	160,000	-	-	160,000
KMP				
Daniel Bracken	201,869	-	-	201,869
Andrew Lowe	4,325	12,690	-	17,015

*Includes common shareholding due to a related party.

VOTING OF SHAREHOLDERS AT LAST YEAR'S ANNUAL GENERAL MEETING

The Company received 94.7% of "For" votes on its remuneration report for FY22. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

INSURANCE OF OFFICERS AND INDEMNITIES

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

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

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:

	2023	2022
	\$	\$
ERNST & YOUNG (AUSTRALIA)		
Advisory fees	-	3,682
Total remuneration for non-audit services	-	3,682

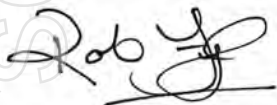
AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001 (Cth)* is included in this report.

ROUNDING OF AMOUNTS

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

This report is made on 25 August 2023 in accordance with a resolution of directors as required by section 298 of the Corporations Act 2001.



R I Fyfe
Chair

Brisbane
25 August 2023



**Building a better
working world**

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Auditor's independence declaration to the directors of Michael Hill International Limited

As lead auditor for the audit of the financial report of Michael Hill International Limited for the financial year ended 2 July 2023, 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;
- b. No contraventions of any applicable code of professional conduct in relation to the audit; and
- c. No non-audit services provided that contravene 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

Kellie McKenzie
Partner
25 August 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	2023 \$'000	2022 \$'000
Profit or loss			
Revenue from contracts with customers	A2	629,562	595,210
Other income	A3	2,256	8,913
Cost of goods sold		(225,122)	(210,384)
Employee benefits expense	D1	(168,357)	(155,332)
Occupancy costs		(9,928)	(9,446)
Marketing expenses		(44,152)	(41,174)
Selling expenses		(20,871)	(17,674)
Reversal/(impairment) of property, plant and equipment and other assets	B1	2,244	(3,774)
Depreciation and amortisation expense	F1	(57,724)	(51,944)
Loss on disposal of property, plant and equipment		(116)	(231)
Administrative expenses		(25,533)	(24,157)
Other expenses		(22,581)	(16,755)
Finance expenses	F1	(9,931)	(7,549)
Profit before income tax		49,747	65,703
Income tax expense	F8	(14,565)	(18,991)
Profit for the year		35,182	46,712

	NOTES	2023 \$'000	2022 \$'000
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Currency translation differences arising during the year		(2,554)	(977)
Other comprehensive income for the year, net of tax		(2,554)	(977)
Total comprehensive income for the year		32,628	45,735
Total comprehensive income for the year is attributable to:			
Owners of Michael Hill International Limited		32,628	45,735

	NOTES	2023 cents	2022 cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	F2	9.20	12.03
Diluted earnings per share	F2	9.00	11.86

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	2023 \$'000	2022 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	B1	20,867	95,844
Trade and other receivables	F3	14,533	7,541
Inventories	A4	203,260	181,539
Current tax receivables		689	944
Contract assets	A2	452	845
Other current assets		5,061	5,419
Total current assets		244,862	292,132
Non-current assets			
Trade and other receivables	F3	995	227
Right-of-use assets	A5	139,052	107,385
Property, plant and equipment	F4	57,806	41,012
Goodwill	G1	17,695	-
Other intangible assets	F5	36,215	10,989
Deferred tax assets	F8	49,118	58,552
Contract assets	A2	371	488
Other non-current assets		374	394
Total non-current assets		301,626	219,047
Total assets		546,488	511,179
LIABILITIES			
Current liabilities			
Trade and other payables	F6	71,202	78,397
Lease liabilities	A5	41,075	38,183
Contract liabilities	A2	20,685	24,818
Provisions	F7	13,245	14,306
Current tax liabilities		6,768	2,093
Deferred revenue		212	799
Deferred consideration	G1	1,814	-
Total current liabilities		155,001	158,596
Non-current liabilities			
Lease liabilities	A5	117,518	91,386
Contract liabilities	A2	59,418	58,605
Borrowings	B2	12,500	-
Provisions	F7	10,879	7,497
Deferred consideration	G1	2,557	-
Total non-current liabilities		202,872	157,488
Total liabilities		357,873	316,084
Net assets		188,615	195,095
EQUITY			
Contributed equity	F10	11,112	11,388
Reserves		2,609	3,369
Retained profits		174,894	180,338
Total equity		188,615	195,095

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	NOTES	CONTRIBUTED EQUITY	SHARE BASED PAYMENTS RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED PROFITS	TOTAL EQUITY
Attributable to owners of Michael Hill International Limited		\$'000	\$'000	\$'000	\$'000	
Balance at 27 June 2021		11,285	637	3,579	158,812	174,313
Profit for the year		-	-	-	46,712	46,712
Currency translation differences		-	-	(977)	-	(977)
Total comprehensive income for the year		-	-	(977)	46,712	45,735
Transactions with members in their capacity as owners:						
Dividends paid	B3	-	-	-	(25,239)	(25,239)
Issue of share capital on exercise of share rights	F11	103	(103)	-	-	-
Transfer option reserve on forfeiture of vested options	D3	-	(53)	-	53	-
Share-based payments expense	D3	-	286	-	-	286
		103	130	-	(25,186)	(24,953)
Balance at 26 June 2022		11,388	767	2,602	180,338	195,095
Profit for the year		-	-	-	35,182	35,182
Currency translation differences		-	-	(2,554)	-	(2,554)
Total comprehensive income for the year		-	-	(2,554)	35,182	32,628
Transactions with members in their capacity as owners:						
Dividends paid/provided	B3	-	-	-	(30,719)	(30,719)
Issue of share capital on exercise of share rights	F10	24	(24)	-	-	-
Share-based payments expense	D3	-	1,818	-	-	1,818
Share buy-back	F10	(300)	-	-	(9,907)	(10,207)
		(276)	1,794	-	(40,626)	(39,108)
Balance at 2 July 2023		11,112	2,561	48	174,894	188,615

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

	NOTES	2023 \$'000	2022 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST and sales taxes)		693,744	686,575
Payments to suppliers and employees (inclusive of GST and sales taxes)		(571,361)	(541,509)
		122,383	145,066
Proceeds from sale of in-house Canadian customer finance debtors		-	14,209
Interest received		792	16
Other revenue received		1,460	4,477
Interest paid		(919)	(795)
Leasing interest paid	A5	(8,791)	(6,682)
Income tax paid		(6,728)	(8,280)
Net GST and sales taxes paid		(28,125)	(36,437)
Net cash inflow from operating activities	B1	80,072	111,574
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		61	36
Payments for property, plant and equipment	F4	(26,479)	(15,611)
Payments for intangible assets	F5	(7,792)	(6,860)
Acquisition of Bevilles, net of cash acquired	G1	(48,113)	-
Net cash (outflow) from investing activities		(82,323)	(22,435)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	B2	21,500	-
Repayment of borrowings	B2	(9,000)	-
Principal portion of lease payments	A5	(45,098)	(40,464)
Dividends paid to Company's shareholders	B3	(30,719)	(25,239)
Share buyback / share options exercised	F10	(10,207)	-
Net cash (outflow) from financing activities		(73,524)	(65,703)
Net increase in cash and cash equivalents		(75,773)	23,435
Cash and cash equivalents at the beginning of the financial year		95,844	72,361
Effects of exchange rate changes on cash and cash equivalents		796	48
Cash and cash equivalents at the end of the financial year	B1	20,867	95,844

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CORPORATE INFORMATION	25	F OTHER INFORMATION	38
A FINANCIAL OVERVIEW	25	F1 Expenses	38
A1 Segment information	25	F2 Earnings per share	38
A2 Revenue	26	F3 Trade and other receivables	39
A3 Other income	27	F4 Property, plant and equipment	37
A4 Inventories	27	F5 Intangible assets	41
A5 Leases	28	F6 Trade and other payables	41
B CASH MANAGEMENT	30	F7 Provisions	42
B1 Cash and cash equivalents	30	F8 Tax	42
B2 Borrowings	30	F9 Auditors' remuneration	44
B3 Dividends	30	F10 Contributed equity	44
C FINANCIAL RISK MANAGEMENT	30	F11 Reserves	44
C1 Financial risk management	32	G BUSINESS COMBINATION	45
C2 Derivative financial instruments	32	G1 Acquisition of Bevilles	45
C3 Capital management	34	H GROUP STRUCTURE	46
D REWARD AND RECOGNITION	34	H1 Interests in other entities	46
D1 Employee benefits	35	H2 Deed of cross guarantee	46
D2 Key management personnel	35	H3 Parent entity financial information	49
D3 Share-based payments	35	I UNRECOGNISED ITEMS	50
E RELATED PARTIES	37	I1 Contingencies and commitments	50
		I2 Events occurring after the end of the reporting period	50
		J SUMMARY OF ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES AND JUDGEMENTS	51
		J1 Summary of significant accounting policies	51
		J2 Significant estimates and judgements	57

NOTES TO THE FINANCIAL STATEMENTS

CORPORATE INFORMATION

The consolidated financial statements of Michael Hill International Limited and its subsidiaries (collectively, the Group) for the year ended 2 July 2023 were authorised for issue in accordance with a resolution of the directors on 25 August 2023. Michael Hill International Limited (the Company or Parent) is a for profit company limited by shares incorporated in Australia. The Company is listed on the Australian Securities Exchange ('ASX') as its primary listing, and maintains a secondary listing on the New Zealand Stock Exchange ('NZX').

A FINANCIAL OVERVIEW

- A1 Segment information
- A2 Revenue
- A3 Other income
- A4 Inventories
- A5 Leases

A1 SEGMENT INFORMATION

Management have determined the operating segments based on the reports reviewed by the Board and Executive Management team (chief operating decision makers (CODM)) that are used to make strategic decisions. The Board and Executive Management team consider, organise and manage the business primarily from a geographic perspective, being the country of origin where the sale and service was performed.

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

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

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

The segment disclosures are prepared excluding the impact of AASB16 *Leases* and IFRIC SaaS guidance. An adjustment column representing these entries has been included for the purposes of reconciliation to statutory results.

TYPES OF PRODUCTS AND SERVICES

Michael Hill International Limited and its controlled entities operate predominately in the sale of jewellery and related services.

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.

SEGMENT RESULTS

	Australia	New Zealand	Canada	Corporate & other	Group pre-adjustments	Adjustments	Group
Year ended 2 July 2023	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating revenue	331,007	121,470	176,442	643	629,562	-	629,562
Gross profit	211,823	75,193	111,629	5,795	404,440	-	404,440
Gross margin	64.0%	61.9%	63.3%		64.2%		64.2%
EBITDA*	63,774	26,842	36,753	(48,701)	78,668	37,939	116,607
Depreciation and amortisation	(10,242)	(3,292)	(6,742)	(2,197)	(22,473)	(35,251)	(57,724)
Segment EBIT*	53,532	23,550	30,011	(50,898)	56,195	2,688	58,883
EBIT as a % of revenue	16.2%	19.4%	17.0%		8.9%		9.4%
Interest income	3	-	-	792	795	-	795
Finance costs	(155)	(3)	-	(982)	(1,140)	(8,791)	(9,931)
Net profit before tax	53,380	23,547	30,011	(51,089)	55,850	(6,103)	49,747
Income tax expense							(14,565)
Net profit after tax							35,182

	Australia	New Zealand	Canada	Corporate & other	Group pre-adjustments	Adjustments	Group
Year ended 26 June 2022	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating revenue	303,409	117,594	174,030	177	595,210	-	595,210
Gross profit	196,936	74,716	112,947	227	384,826	-	384,826
Gross margin	64.9%	63.5%	64.9%		64.7%		64.7%
EBITDA*	58,826	30,765	39,648	(46,114)	83,125	42,055	125,180
Depreciation and amortisation	(7,021)	(2,356)	(5,455)	(2,560)	(17,392)	(34,552)	(51,944)
Segment EBIT*	51,805	28,409	34,193	(48,674)	65,733	7,503	73,236
EBIT as a % of revenue	17.1%	24.2%	19.6%		11.0%		12.3%
Interest income	-	-	-	16	16	-	16
Finance costs	(50)	(2)	-	(815)	(867)	(6,682)	(7,549)
Net profit before tax	51,755	28,407	34,193	(49,473)	64,882	821	65,703
Income tax expense							(18,991)
Net profit after tax							46,712

*EBIT and EBITDA are non-IFRS information. Please refer to non-IFRS information in the Directors' Report for an explanation of non-IFRS information and a reconciliation of EBIT to statutory results.

A2 REVENUE

	2023	2022
	\$'000	\$'000
Revenue from sale of goods and repair services	595,105	561,293
Revenue from Professional Care Plans (PCP)	32,905	30,742
Interest and other revenue from in-house customer finance program	590	2,437
Revenue from Lifetime Diamond Warranty (LTDW)	962	738
Total revenue from contracts with customers	629,562	595,210

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

2023	Australia	New Zealand	Canada	Corporate & other	Total
Timing of revenue recognition	\$'000	\$'000	\$'000	\$'000	\$'000
At a point in time	311,884	114,588	168,248	385	595,105
Over time	19,123	6,882	8,194	258	34,457
	331,007	121,470	176,442	643	629,562

2022	Australia	New Zealand	Canada	Corporate & other	Total
Timing of revenue recognition	\$'000	\$'000	\$'000	\$'000	\$'000
At a point in time	286,687	111,886	162,665	55	561,293
Over time	16,722	5,708	11,365	122	33,917
	303,409	117,594	174,030	177	595,210

ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

	2023	2022
	\$'000	\$'000
Right of return assets	257	577
Deferred PCP bonuses	566	756
Total contract assets	823	1,333
Deferred service revenue - PCP	73,860	77,148
Deferred service revenue - Lifetime Diamond Warranty	5,664	4,808
Rights of return liabilities	579	1,467
Total contract liabilities	80,103	83,423

REVENUE RECOGNISED IN RELATION TO CONTRACT LIABILITIES

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

	2023 \$'000	2022 \$'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	22,075	24,896
Impact on revenue recognised relating to performance obligations satisfied in previous years	2,319	-

Revenue recognition patterns are regularly reassessed based on new and historical trends resulting in remeasurement of revenue recognised in previous years.

ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(i) Sale of goods

Sales of goods are recognised when a Group entity delivers a product to the customer. Retail sales are usually by cash, payment and instalment plans or debit and credit cards. The recorded revenue is the gross amount of sale (excluding taxes), including any fees payable for the transaction and net amounts deferred under AASB15 *Revenue from Contracts with Customers* such as significant financing components and potential customer returns.

(ii) Repair services

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

(iii) Deferred service revenue and expenses

The Group offers a PCP product which is considered deferred revenue until such time that service has been provided. A PCP is a plan under which the Group offers future services, such as cleaning, repairs and resizing, to customers based on the type of plan purchased. The Group subsequently recognises the income in revenue in the Consolidated Statement of Profit or Loss and Other Comprehensive Income once these services are performed. An estimate based on the timing and quantum of expected services under the plans is used as a basis to establish the amount of service revenue to recognise in the Consolidated Statement of Profit or Loss and Comprehensive Income.

Direct and incremental sales staff bonuses associated with the sale of PCPs are capitalised in contract assets and amortised in proportion to the PCP revenue recognised.

(iv) Deferred interest revenue

Interest revenue is deferred on the in-house customer finance program when the sale of the good or service occurs. 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) Right of return assets and liabilities

Rights of return recognises the estimated returned sales under the Group's return policy, being 30 days for all countries.

Management estimates the returned sales based on historical sale return information and any recent trends that may suggest future claims could differ from historical amounts. For sales that are expected to be returned, the Group recognises a right of return liability. The associated inventory value for sales that are expected to be returned is recognised as a right of return asset.

(vi) Lifetime Diamond Warranty

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

A3 OTHER INCOME

	2023 \$'000	2022 \$'000
Net foreign exchange gains	-	169
Government grants	-	2,864
Interest received	792	16
Other items	1,464	5,864
	2,256	8,913

Net foreign exchange losses of \$1,570,000 have been presented in Other expenses (2022: net foreign exchange gains of \$169,000).

A4 INVENTORIES

	2023 \$'000	2022 \$'000
Raw materials	9,547	13,033
Finished goods	185,602	162,138
Packaging and other consumables	8,111	6,368
	203,260	181,539

Finished goods are held at the lower of cost and net realisable value (NRV). During the year, finished goods incurred a write-down of \$805,000 (2022: \$2,565,000) to be carried at NRV. This is recognised in cost of goods sold.

A5 LEASES

	2023	2022
	\$'000	\$'000
RIGHT-OF-USE ASSETS		
Right-of-use assets	296,237	221,894
Less: Accumulated depreciation	(156,575)	(113,863)
Less: Accumulated impairment	(610)	(646)
	139,052	107,385

	NOTES	2023	2022
		\$'000	\$'000
RECONCILIATION OF RIGHT-OF-USE ASSETS			
Opening carrying value		107,385	105,882
Additional right-of-use assets relating to leases entered into during the year	G1	59,341	34,395
Lease modifications agreed during the year		14,486	6,514
Depreciation expense	F1	(42,211)	(39,257)
Reduction in right-of-use assets as a consequence of COVID-19 on rent concessions		(658)	(1,106)
Impairment of right-of-use assets		(54)	-
Foreign currency translation		763	957
Closing carrying value		139,052	107,385

	2023	2022
	\$'000	\$'000
LEASE LIABILITIES		
Current	41,075	38,183
Non-current	117,518	91,386
	158,593	129,569

	NOTES	2023	2022
		\$'000	\$'000
RECONCILIATION OF LEASE LIABILITIES			
Opening carrying value		129,569	133,686
Additional lease liabilities entered into during the year	G1	59,355	35,173
Lease modifications agreed during the year		14,446	1,108
Net reduction in future lease payments as a consequence of COVID-19 on rent concessions		(658)	(1,106)
Interest expense	F1	8,791	6,682
Lease repayments		(53,889)	(47,146)
Foreign currency translation		979	1,172
Closing carrying value		158,593	129,569

The incremental borrowing rate used in determining the lease liability ranged between 1.44% and 10.06% (2022: 1.44% and 9.30%).

ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets which are recognised in the profit or loss. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in note J1(F).

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

At commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payment (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group has several lease contracts that include extension options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension options are reasonably certain to be exercised (refer to note J1).

Set out below are the undiscounted potential future rental payments relating to the period following the exercise date of extension options that are not included in the lease term:

	2023			2022		
	Within five years	More than five years	Total	Within five years	More than five years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Extension options expected not to be exercised	1,058	144	1,202	163	202	365

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are expensed on a straight-line basis over the lease term.

B CASH MANAGEMENT

B1 Cash and cash equivalents

B2 Borrowings

B3 Dividends

B1 CASH AND CASH EQUIVALENTS

	2023 \$'000	2022 \$'000
Cash at bank and on hand	20,867	95,844

RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	NOTES	2023 \$'000	2022 \$'000
Profit for the year		35,182	46,712
Adjustment for:			
Depreciation of property, plant and equipment	F4	12,632	10,954
Depreciation of right-of-use assets	A5	42,211	39,257
Amortisation of intangible assets	F5	2,881	1,733
Impairment of property, plant and equipment	F4	(2,293)	521
Impairment of other assets		49	3,253
Non-cash employee benefits expense - share-based payments	D3	1,818	286
Make good interest		220	109
Net loss on sale of non-current assets		116	231
Net exchange differences		(2,508)	335
Other non-cash movements		-	(5,338)
Change in operating assets and liabilities			
(Increase)/decrease in trade and other receivables		(8,446)	14,037
(Increase)/decrease in inventories		(2,772)	(10,812)
(Increase)/decrease in deferred tax assets		9,433	9,778
(Increase)/decrease in other non-current assets		137	393
(Increase)/decrease in other current assets		1,249	(904)
(Decrease)/increase in trade and other payables		(15,839)	187
(Decrease)/increase in current tax liabilities		4,931	(6)
(Decrease)/increase in provisions		5,080	855
(Decrease)/increase in contract liabilities		(4,009)	(7)
Net cash inflow from operating activities		80,072	111,574

B2 BORROWINGS

	2023			2022		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Bank loans	-	12,500	12,500	-	-	-
Total secured borrowings	-	12,500	12,500	-	-	-

On 30 June 2023, the Group extended its financing agreement with ANZ Banking Group and HSBC Australia for an availability period of three years. The financial arrangement includes a \$92 million multi-option borrowing facility and ancillary working capital facilities in line with the business requirements of the Group. At balance date, \$12.5m was drawn on these facilities. Refer to note C3 for details of covenants relating to the financing facilities.

B3 DIVIDENDS

	2023 \$'000	2022 \$'000
Ordinary shares		
Final dividend for the year ended 26 June 2022 of 4.0 cents (2021: 3.0 cents) per fully paid share paid on 23 September 2022 (2021: 24 September 2021)	15,531	11,649
Interim dividend for the year ended 2 July 2023 of 4.0 cents (2022: 3.5 cents) per fully paid share paid on 24 March 2023 (2022: 25 March 2022)	15,188	13,590
	30,719	25,239

	2023 \$'000	2022 \$'000
Dividends not recognised at the end of the reporting period		
Since year-end, the Directors have recommended a 3.5 cents (2022: 4.0 cents) per fully paid share final dividend.	13,289	-

	2023 \$'000	2022 \$'000
Franking and imputation credits		
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2022: 30.0%)	2,812	2,679
Imputation credits (NZ\$) available for subsequent reporting periods based on New Zealand tax rate of 28.0% (2022: 28.0%)	2,196	12,116

The dividends paid during the current financial period and corresponding previous financial period were fully imputed and not franked.

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

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

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

The final dividend, which was unpaid at balance sheet date, will be unfranked for Australian purposes, with nil New Zealand imputation credits and with conduit foreign income.

C FINANCIAL RISK MANAGEMENT

- C1 Financial risk management
- C2 Derivative financial instruments
- C3 Capital management

C1 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 seeks to use derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures as required by its treasury policy. 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 ageing 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 and sensitivity analysis	Forward exchange contracts (FEC)
- interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Interest rate swaps
- input prices	Components of finished goods	Sensitivity analysis	End product pricing flexibility
Credit risk	Cash and cash equivalents and trade receivables	Ageing analysis	Diversification of bank deposits, credit limits and letters of credit
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

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

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

MARKET 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, including the purchase of inventory. Where it is considered appropriate, the Group enters into forward foreign exchange contracts to buy specified amounts of various foreign currencies in the future at a pre-determined exchange rate.

Exposure

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

	2 July 2023				26 June 2022			
	USD \$'000	NZD \$'000	CAD \$'000	EUR \$'000	USD \$'000	NZD \$'000	CAD \$'000	EUR \$'000
Cash and cash equivalents	344	-	1	12	10,348	-	-	117
Trade receivables	(36)	4	59	54	318	3	9	15
Trade payables	(8,484)	-	(29)	(784)	(11,302)	(108)	(59)	(793)
Forward exchange contracts:								
Buy foreign currency	5,400	-	-	-	-	-	-	-
Sell foreign currency	-	-	-	-	-	-	-	-
Net foreign currency exposure	(2,776)	4	31	(718)	(636)	(105)	(50)	(661)

Sensitivity

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to foreign currency risk. The foreign exchange sensitivities are based on the Group's exposure existing at balance date. Sensitivity figures are pre-tax.

Foreign exchange rate sensitivities	Impact on pre-tax profit		Impact on other components of equity	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
AUD increases 10%	485	190	-	-
AUD decreases 10%	(593)	(232)	-	-

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 core debt in line with the Group's treasury policy. As the Group has a working capital facility, no core debt was identified.

To manage variable interest rate borrowings risk, the Group may enter 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. At 2 July 2023, the Group had no core debt and there were no swaps in place (2022: no swaps in place).

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 borrowings to interest rate changes at the end of the reporting year are as follows:

	2023 \$'000	% of total loans	2022 \$'000	% of total loans
Variable rate borrowings	12,500	100.0%	-	0.0%
	12,500	100.0%	-	0.0%

An analysis by maturities is provided below. The percentage of total loans shows the proportion of loans that are currently at variable rates in relation to the total amount of borrowing.

The details of the variable rate borrowings outstanding are outlined below.

	Weighted average interest rate %	2 July 2023 Balance \$'000	Weighted average interest rate %	26 June 2022 Balance \$'000
Bank overdrafts and bank loans	6.01%	12,500	0.00%	-
Net exposure to cash flow interest rate risk		12,500		-

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	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Interest rates - increase by 100 basis points	84	958	-	-
Interest rates - decrease by 100 basis points	(84)	(958)	-	-

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.

At the reporting date, no material credit risk exposure existed in relation to potential counterparty failure on financial instruments. The Group provides interest-free consumer credit in Canada as a secondary product and the credit risk exposure which exists against this financial instrument is detailed in note F3. Other than the loss allowance recognised in trade and other receivables in note F3, no financial assets were impaired or past due. The maximum exposure to credit risk at the end of the reporting year is the carrying amount of each class of financial assets disclosed in note F3.

LIQUIDITY RISK

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

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.

The Group had access to an overdraft facility, as well as a \$90m working capital facility. The following were undrawn from these facilities at the end of the reporting year:

	2023 \$'000	2022 \$'000
Floating rate		
- Expiring beyond one year (bank overdrafts)	1,914	1,909
- Expiring beyond one year (bank loans)	77,500	70,000
	79,414	71,909

The termination date of the financing facilities provided to the Group by both Australia and New Zealand Banking Group Limited and The Hongkong and Shanghai Banking Corporation Limited, Sydney Branch is 31 August 2026.

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.

	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flow
Contractual maturities of financial liabilities						
At 2 July 2023	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives						
Lease liabilities	25,699	20,069	33,274	48,336	15,766	143,144
Trade payables	71,202	-	-	-	-	71,202
Borrowings	-	-	-	12,500	-	12,500
Total non-derivatives	96,901	20,069	33,274	60,836	15,766	226,846
Derivatives						
Outward payments FECs	8,011	-	-	-	-	8,011
Inward receipts FECs	(8,163)	-	-	-	-	(8,163)
Net FECs	(152)	-	-	-	-	(152)

At 26 June 2022

Non-derivatives						
Lease liabilities	21,730	19,806	32,499	51,798	20,146	145,979
Trade payables	78,397	-	-	-	-	78,397
Total non-derivatives	100,127	19,806	32,499	51,798	20,146	224,376

C2 DERIVATIVE FINANCIAL INSTRUMENTS

The Group is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are foreign currency risk and interest rate risk. The Group does not apply hedge accounting.

C3 CAPITAL MANAGEMENT

The Group's objectives when managing capital are to:

- safeguard its ability to continue as a going concern, so that it 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 banks quarterly on a pre-AASB16 *Leases* basis. The principal covenants relating to capital management are the EBIT fixed cover charge ratio, consolidated debt to EBITDA, consolidated debt to capitalisation, and consolidated debt to inventory. There have been no breaches of these covenants and the Group continues to collaborate with the external financing partners as required.

D REWARD AND RECOGNITION

- D1 Employee benefits
- D2 Key management personnel
- D3 Share-based payments

D1 EMPLOYEE BENEFITS

	2023	2022
	\$'000	\$'000
EMPLOYEE BENEFITS		
Employee wages	147,781	139,155
Employee wages on-costs and post-retirement benefits	18,758	15,891
Employee share-based payments expense	1,818	286
	168,357	155,332

D2 KEY MANAGEMENT PERSONNEL

	2023	2022
	\$	\$
Short-term employee benefits	2,727,413	3,606,080
Long-term benefits	32,369	50,904
Post-employment benefits	78,844	76,889
Share-based payments	368,172	203,337
	3,206,798	3,937,210

D3 SHARE-BASED PAYMENTS

OPTIONS

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 expire ten years after granted, vest over five years, are exercisable at any time during the final five years and vesting is subject to remaining employed by the Group.

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

	Average exercise price per option	2023 Number of options	Average exercise price per option	2022 Number of options
Set out below are summaries of options granted under the plan:				
Opening balance NZD options	1.70	700,000	1.63	1,000,000
Vested options forfeited during the year	-	-	1.46	(300,000)
Closing balance NZD options	1.70	700,000	1.70	700,000
Opening balance AUD options	1.56	300,000	1.56	300,000
Closing balance AUD options	1.56	300,000	1.56	300,000

Options outstanding at the end of the year have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price	2023	2022
29 November 2013	30 September 2023	NZ\$1.82	500,000	500,000
10 November 2014	30 September 2024	NZ\$1.63	100,000	100,000
22 January 2016	30 September 2025	NZ\$1.14	100,000	100,000
22 September 2016	30 September 2026	AU\$2.12	100,000	100,000
5 October 2017	30 September 2027	AU\$1.44	100,000	100,000
22 September 2018	30 September 2028	AU\$1.11	100,000	100,000
			1,000,000	1,000,000

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.7 years (2022: 2.8 years).

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

SHARE RIGHTS

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

Under the plan, a senior executive may be granted share rights by the Company. Each share right represents a right to receive one ordinary share in the Company, subject to the terms and conditions of the plan.

In addition to the LTI scheme, during the financial year, members of the executive team were offered share rights in lieu of cash. These are incorporated into the analysis below.

An allocation of share rights is made to each eligible participant on an annual basis to a value of 65% of their target opportunity. The performance metric used is Total Shareholder Return (TSR) compound annual growth rate (CAGR) over 3 years.

Subject to remaining an employee of the Group for a period of 3 years and satisfaction of TSR target metric, the share rights issued during the year will vest in accordance with the sliding vesting schedule:

- no share rights vest if TSR is equal to or less than 10% CAGR;
- 10% share rights vest for each 1% increase in CAGR performance between 10% CAGR to 20% CAGR;
- 100% share rights vest if TSR is equal to or above 20% CAGR.

During the year, the Board agreed to grant 4,001,391 share rights to eligible participants of the deferred compensation plan, subject to continual employment for a period of three years and an absolute Total Shareholder Return condition for vesting in three years.

	2023		2022	
	Average fair value per share right	Number of share rights	Average fair value per share right	Number of share rights
Opening balance	0.21	6,112,332	0.20	4,577,518
Granted	0.85	4,001,391	0.29	2,106,647
Exercised	0.74	(34,747)	0.86	(143,225)
Forfeited	0.29	(24,095)	0.30	(428,608)
Closing balance	0.37	10,054,881	0.21	6,112,332

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 Limited shares over ten trading days following the shares trading subsequent to the final Annual results announcement.

Share rights issued during the current financial year used the Monte Carlo model to determine the fair value of share rights using the following inputs:

	2023	2022
Number of rights	4,001,391	2,106,647
Share price	\$1.15	\$0.85
Annualised volatility	45%	40%
Expected dividend yield	6.8%	7.0%
Risk free rate	3.42%	0.18%
Fair value of share right	\$0.85	\$0.29

	2023	2022
	\$'000	\$'000
Expenses arising from share-based payment transactions	1,818	286

ACCOUNTING POLICY

Options

The fair value was measured at grant date and is recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date for options issued during prior financial years was independently determined using a Binomial option pricing model, which is an iterative model for options that can be exercised at times prior to expiry. The model takes into account the grant date, exercise price, market performance conditions, 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 (e.g. the entity's share price)
- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified period), and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or holdings shares for a specific period 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-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

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

Share rights

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

The fair value was measured at grant date using the Monte Carlo method and is recognised over the period during which the employees become unconditionally entitled to the rights.

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

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

E RELATED PARTIES

	2023	2022
Related party transactions	\$	\$
A contribution to the Michael Hill Violin Charitable Trust was paid by the Group during the year	37,624	-
Graphic design services rendered by a related party of board members	-	16,621

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

F OTHER INFORMATION

F1	Expenses
F2	Earnings per share
F3	Trade and other receivables
F4	Property, plant and equipment
F5	Intangible assets
F6	Trade and other payables
F7	Provisions
F8	Tax
F9	Auditors' remuneration
F10	Contributed equity
F11	Reserves

F1 EXPENSES

	NOTES	2023 \$'000	2022 \$'000
DEPRECIATION AND AMORTISATION			
Depreciation on property, plant and equipment	F4	12,632	10,954
Depreciation on right-of-use assets	A5	42,211	39,257
Total depreciation		54,843	50,211
Amortisation on software	F5	2,881	1,733
Total amortisation		2,881	1,733
Total depreciation and amortisation		57,724	51,944

	NOTES	2023 \$'000	2022 \$'000
FINANCE COSTS			
Interest on lease liabilities	A5	8,791	6,682
Bank and interest charges		920	758
Interest on make good provision		220	109
		9,931	7,549

	2023 \$'000	2022 \$'000
FOREIGN EXCHANGE		
Net foreign exchange loss	1,570	-

F2 EARNINGS PER SHARE

	2023 \$'000	2022 \$'000
RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	35,182	46,712
Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company	35,182	46,712

	2023 Number	2022 Number
WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	382,252,063	388,268,845
Adjustments for calculation of diluted earnings per share:		
Share rights	8,446,083	5,668,197
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	390,698,146	393,937,042

Options and share rights granted to employees under the Michael Hill International Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. All options outstanding at financial year end were considered to be non-dilutive. The options and share rights have not been included in the determination of basic earnings per share. Details are set out in note D3.

F3 TRADE AND OTHER RECEIVABLES

	Current	Non-current	2023 Total	Current	Non-current	2022 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade receivables	3,494	-	3,494	3,795	-	3,795
Provision for expected credit loss	(225)	-	(225)	(657)	-	(657)
	3,269	-	3,269	3,138	-	3,138
Canadian in-house customer finance	5,041	1,027	6,068	524	240	764
Provision for expected credit loss	(152)	(32)	(184)	(202)	(13)	(215)
	4,889	995	5,884	322	227	549
Sundry debtors	6,375	-	6,375	4,081	-	4,081
	14,533	995	15,528	7,541	227	7,768

Trade receivables

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

Canadian in-house customer finance

In October 2012, the Group 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 40 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 expected credit losses (ECL).

The Canadian in-house customer finance loan book was previously determined to be an asset held for sale, refer to note F4. The sale was finalised during the prior period. The balance remaining consists of the unsold loan accounts, and any customer sales made under the program after the completion date of the loan book sale.

Sundry debtors

Sundry debtors relates to supplier credits, security deposits and other sundry receivables. Based on the credit history of these debtors, it is expected that these amounts will be received when due and no impairment is recognised.

Effective interest rates

All receivables are non-interest bearing except for a small portion of in-house customer finance receivables. In-house customer finance receivables are recognised net of significant financing components determined in accordance with AASB15 *Revenue from Contracts with Customers*.

ECL and risk exposure

An ECL analysis is performed at each reporting date. The maximum exposure to credit risk is the carrying value of in-house customer finance program and trade receivables. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to these receivables as low. For further details refer to note C1.

Ageing of trade receivables

	2023 \$'000	2022 \$'000
Current	3,197	2,829
< 30 days past due	91	254
30 - 60 days past due	64	84
60+ days past due	142	628
	3,494	3,795

Movements in the provision for ECL of trade receivables are as follows:

	2023 \$'000	2022 \$'000
Opening balance	657	373
Additional provisions recognised	225	614
Net amounts written off	(657)	(329)
Exchange differences	-	(1)
Closing balance	225	657

Ageing of Canadian in-house customer debtor finance

	2023 \$'000	2022 \$'000
Current, aged 0 - 30 days	5,171	600
Past due, aged 31 - 90 days	409	40
Past due, aged more than 90 days	488	124
	6,068	764

Movements in the provision for ECL of Canadian in-house customer debtor finance are as follows:	2023 \$'000	2022 \$'000
Opening balance	215	-
Additional provisions recognised	531	1,382
Net amounts written off	(565)	(1,149)
Exchange differences	3	(18)
Closing balance	184	215

F4 PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment \$'000	Fixtures and fittings \$'000	Leasehold improvements \$'000	Display materials \$'000	Total \$'000
At 28 June 2021					
Cost	33,906	34,291	78,996	2,184	149,377
Accumulated depreciation and impairment	(27,294)	(28,152)	(56,563)	(915)	(112,924)
Net book amount	6,612	6,139	22,433	1,269	36,453
Year ended 26 June 2022					
Opening net book amount	6,612	6,139	22,433	1,269	36,453
Exchange difference	(36)	12	325	27	328
Additions	2,835	2,192	6,648	4,297	15,972
Disposals	(77)	(97)	(69)	(23)	(266)
Depreciation charge	(2,569)	(2,254)	(5,498)	(633)	(10,954)
Impairment loss	(23)	(151)	(219)	(128)	(521)
Closing net book amount	6,742	5,841	23,620	4,809	41,012
At 26 June 2022					
Cost	36,315	35,733	86,673	6,489	165,210
Accumulated depreciation and impairment	(29,573)	(29,892)	(63,053)	(1,680)	(124,198)
Net book amount	6,742	5,841	23,620	4,809	41,012
Year ended 2 July 2023					
Opening net book amount	6,742	5,841	23,620	4,809	41,012
Exchange difference	(62)	43	192	31	204
Additions	5,875	3,515	12,455	2,945	24,790
Acquisition of Bevilles	270	-	1,725	321	2,316
Disposals	(62)	(13)	(58)	(44)	(177)
Depreciation charge	(2,478)	(2,132)	(5,603)	(2,419)	(12,632)
Impairment write-back/(loss)	242	223	1,893	(65)	2,293
Closing net book amount	10,527	7,477	34,224	5,578	57,806
At 2 July 2023					
Cost	41,122	38,353	98,342	9,743	187,560
Accumulated depreciation and impairment	(30,595)	(30,876)	(64,118)	(4,165)	(129,754)
Net book amount	10,527	7,477	34,224	5,578	57,806

IMPAIRMENT LOSS

As per the Group's accounting policies, the Group impairs assets where the recoverable amount is less than the carrying amount and reverses the impairment if no longer applicable. This also includes assets held at stores facing closure. Any assets held at an impaired store that are able to be redeployed throughout the Group are not impaired.

A review of impairment indicators was performed. The accounting policy for this is disclosed in note J1. There were no indicators of impairment identified. The Group treats each store as a separate cash-generating unit for impairment testing of property, plant and equipment and right of use assets.

DEPRECIATION METHODS AND USEFUL LIVES

Depreciation is calculated using the straight-line method to allocate the cost or revalued amounts of the assets, 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	4 - 7 years
● Motor vehicles	3 - 5 years
● Fixtures and fittings	6 - 10 years
● Leasehold improvements	6 - 10 years
● Display materials	2 - 5 years

F5 INTANGIBLE ASSETS

	Brand, Loyalty Programs & Trademarks \$'000	Computer software \$'000	Total \$'000
At 28 June 2021			
Cost	79	18,928	19,007
Accumulated amortisation and impairment	-	(12,994)	(12,994)
Net book amount	79	5,934	6,013
Year ended 26 June 2022			
Opening net book amount	79	5,934	6,013
Exchange difference	-	(151)	(151)
Additions	-	6,860	6,860
Amortisation charge	-	(1,733)	(1,733)
Closing net book amount	79	10,910	10,989
At 26 June 2022			
Cost	79	25,715	25,794
Accumulated amortisation	-	(14,805)	(14,805)
Net book amount	79	10,910	10,989
Year ended 2 July 2023			
Opening net book amount	79	10,910	10,989
Exchange difference	-	(106)	(106)
Additions	-	7,792	7,792
Acquisition of Bevilles	20,421	-	20,421
Amortisation charge	-	(2,881)	(2,881)
Closing net book amount	20,500	15,715	36,215
At 2 July 2023			
Cost	20,500	33,509	54,009
Accumulated amortisation and impairment	-	(17,794)	(17,794)
Net book amount	20,500	15,715	36,215

IMPAIRMENT LOSS

A review of intangibles impairment indicators was performed during the period, with no indicators identified.

F6 TRADE AND OTHER PAYABLES

	2023 \$'000	2022 \$'000
Trade payables	39,422	44,558
Annual leave liability	10,376	10,211
Accrued expenses	4,006	4,620
Consumption taxes payable	2,803	3,376
Other payables	14,595	15,632
	71,202	78,397

F7 PROVISIONS

	2023			2022		
	Current	Non-current	Total	Current	Non-current	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Employee benefits	9,986	2,090	12,076	10,617	1,667	12,284
Assurance-type warranties	1,927	-	1,927	1,613	120	1,733
Make good provision	594	8,789	9,383	1,876	5,710	7,586
Restructuring costs	738	-	738	80	-	80
Diamond warranty	-	-	-	120	-	120
	13,245	10,879	24,124	14,306	7,497	21,803

	Employee benefits	Assurance-type warranties	Make good provision	Restructuring costs	Diamond warranty	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening carrying amount	12,284	1,733	7,586	80	120	21,803
Changes in provisions recognised	390	194	921	733	-	2,238
Recognised on Bevilles acquisition	724	-	-	-	-	724
Amounts incurred and charged	(1,348)	-	(109)	(80)	(120)	(1,657)
Exchange differences	26	-	985	5	-	1,016
Closing carrying amount	12,076	1,927	9,383	738	-	24,124

ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Employee benefits

Employee benefits includes provision for long service leave, revaluation of employee benefits in New Zealand and the provision for remediation. 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.

In determining the employee remediation provision, management has applied certain assumptions and judgements including interpretation of relevant legal requirements and expectations regarding final settlement of obligations with the regulator. Any such estimates and assumptions may change as new information becomes available and/or when the remediation program is completed and approved by the regulator.

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.

Assurance-type warranties

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

Make good provision

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

Restructuring

A provision has been raised for the estimated staffing exit costs from business structure changes. Restructuring provisions are recognised only when the Group has a constructive obligation, which is when:

- there is a detailed formal plan that identifies the business or part of the business concerned, the location and number of employees affected, the detailed estimate of the associated costs, and the timeline; and
- the employees affected have been notified of the plan's main features.

F8 TAX

INCOME TAX EXPENSE	2023	2022
	\$'000	\$'000
Current tax		
Current tax on profits for the year	11,043	7,329
Adjustments for current tax of prior periods	(964)	1,618
Total current tax expense	10,079	8,947
Deferred income tax		
(Increase)/Decrease in deferred tax assets	3,517	11,833
Adjustments for deferred tax of prior periods	969	(1,789)
Total deferred tax expense/(benefit)	4,486	10,044
Income tax expense	14,565	18,991

	2023	2022
	\$'000	\$'000
NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE		
Profit before income tax expense	49,744	65,703
Tax at the Australian tax rate of 30.0% (2022: 30.0%)	14,923	19,711
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenditure/non-assessable income	50	83
Sundry items	-	(11)
	14,973	19,783
Difference in overseas tax rates	(542)	(787)
Adjustments for current tax of prior periods	(964)	1,618
Adjustments for deferred tax of prior periods	969	(1,789)
Utilisation of tax losses not recognised	-	(1)
Tax losses not recognised	172	-
Change in tax rate on deferred tax balance	(43)	167
Income tax expense	14,565	18,991

	2023	2022
	\$'000	\$'000
TAX LOSSES		
Unused United States tax losses for which no deferred tax asset has been recognised	35,497	35,512
Potential tax benefit @ 25.0%	8,874	8,878
Unused New Zealand tax losses for which no deferred tax asset has been recognised	2,597	2,575
Potential tax benefit @ 28.0%	727	721

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

	2023	2022
	\$'000	\$'000
DEFERRED TAX BALANCES		
The balance comprises temporary differences attributable to:		
Expected credit loss provision	114	246
Fixed assets and intangibles	1,552	10,558
Intangible assets from intellectual property transfer	21,825	23,468
Deferred expenditure	(162)	(213)
Prepayments	(89)	(12)
Deferred service revenue	399	1,002
Right-of-use assets	(40,149)	(30,485)
Lease liabilities	48,513	37,349
Provisions	17,267	16,486
Unrealised foreign exchange losses	(124)	43
Sundry items	(25)	47
Inventories	(3)	63
Net deferred tax assets	49,118	58,552
Expected settlement:		
Deferred tax assets expected to be recovered within 12 months	21,377	21,082
Deferred tax assets expected to be recovered after more than 12 months	27,741	37,470
	49,118	58,552
Movements:		
Opening balance at 27 June 2022	58,552	68,329
Credited/(charged) to the income statement	(3,517)	(11,833)
Acquisition of Bevilles	(5,105)	-
Prior year adjustment	(969)	1,790
Foreign exchange differences	157	266
Closing balance at 2 July 2023	49,118	58,552

F9 AUDITORS' REMUNERATION

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

	2023	2022
	\$	\$
ERNST & YOUNG (AUSTRALIA)		
Fees for auditing the statutory financial report of the Company and its subsidiaries	528,563	502,903
Fees for other services		
Advisory fees	-	3,682
	528,563	502,903

F10 CONTRIBUTED EQUITY

	2023	2022	2023	2022
	Shares	Shares	\$'000	\$'000
SHARE CAPITAL				
Ordinary shares - fully paid	379,688,884	388,285,374	11,112	11,388
Total share capital	379,688,884	388,285,374	11,112	11,388

	Number of shares	Total \$'000
MOVEMENTS IN ORDINARY SHARES		
Opening balance at 28 June 2021	388,142,149	11,285
Rights converted	143,225	103
Balance at 26 June 2022	388,285,374	11,388
Rights converted	34,747	24
Share buy-back	(8,631,237)	(300)
Balance at 2 July 2023	379,688,884	11,112

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.

During the year the Group engaged in an on-market share buy-back program, purchasing 8,631,237 shares at an average price of AUD1.18 per share. The buyback was apportioned against Share Capital and Retained Earnings on a par-value basis. As a result, the Contributed Equity of the Company reflected a reduction in Share Capital of \$300,000 with the remainder shown as a reduction in Retained Earnings.

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 D3.

Rights issue

Information relating to share rights issued under the Company's deferred compensation plan, including details of rights issued, exercised and lapsed during the financial year and rights outstanding at the end of the financial year, is set out in note D3.

F11 RESERVES

NATURE AND PURPOSES OF OTHER RESERVES

Share-based payments

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remunerations. Refer to note D3 for further details of these plans.

Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note J1(C) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

G BUSINESS COMBINATION**G1 Acquisition of Bevilles****G1 ACQUISITION OF BEVILLES****ACQUISITION OF BEVILLES**

On 1 June 2023, the Group acquired the business and selected assets of Bevilles, with consideration consisting of cash upfront (after adjustments) and earn-out payments over two years.

Bevilles is a fast growing and profitable Australian jewellery and watch retailer that centres its brand and products on the 'value' customer segment. As such, this provides a strong strategic fit and complements the strategy to elevate the Michael Hill brand to a 'premium' market positioning.

The Group measures the assets and liabilities assumed in the acquisition at fair value.

ASSETS ACQUIRED AND LIABILITIES ASSUMED

The fair values of the identifiable assets and liabilities of Bevilles as at the date of acquisition were:

	Fair value recognised on acquisition \$'000
ASSETS	
Cash	22
Trade receivables	49
Inventories	18,909
Property, plant and equipment	2,316
Intangibles	20,421
Right-of-use assets	10,812
Other current assets	172
Total assets	52,700
LIABILITIES	
Trade payables	1,098
Contract liabilities	1,162
Employee entitlements	2,212
Lease liabilities	10,812
Provisions	1,001
Deferred tax liabilities	5,105
Total liabilities	21,390
Total identifiable net assets at fair value	31,310
Goodwill arising on acquisition	17,695
Purchase consideration transferred	49,006

The Group has assessed the value of the net assets brought on at acquisition date and has consolidated the above on a provisional basis.

From the date of acquisition, Bevilles contributed \$3,759,000 in revenue and a loss of \$319,000 to profit before tax of the Group.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition.

The deferred tax liability mainly comprises the tax effect of acquisition of intangible assets.

Intangible assets identified on acquisition include the Bevilles brand and the loyalty program run by the business. The brand has an indefinite useful life and the loyalty program will be provisionally amortised over a three year period.

Goodwill comprises the value of expected synergies arising from the acquisition as well as the assembled workforce.

PURCHASE CONSIDERATION	\$'000
Cash consideration paid to the vendor	44,635
Deferred contingent consideration paid in escrow	3,500
Deferred consideration payable	871
Total consideration	49,006

CONTINGENT CONSIDERATION

As part of the purchase agreement with the previous owners of Bevilles, a contingent consideration has been agreed. There will be additional cash payments to the previous owners of Bevilles of:

- A minimum of \$1,000,000; and
- An earnings based on the Michael Hill International Limited share price with the first gate at \$1.50 increasing to over \$1.80. At \$1.50 the consideration will be \$450,000 multiplied by the share price at the time. At over \$1.80 the earn out will be equivalent to \$1,080,000 multiplied by the share price. An independent valuation has not ascribed a material value to this component of consideration.

As at the acquisition date, the fair value of the deferred consideration discounted to balance sheet date was estimated to be \$871,000.

H GROUP STRUCTURE

H1	Interests in other entities
H2	Deed of cross guarantee
H3	Parent entity financial information

H1 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 J1(B):

	Country of incorporation	Ownership interest held by the group	
		2023 %	2022 %
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
MH Bespoke Diamonds AU Pty Ltd (previously Michael Hill Online Pty Ltd)	Australia	100	100
Fine Jewellery Retail AU Pty Ltd (previously Emma & Roe Pty Limited)	Australia	100	100
Medley Jewellery Pty Limited	Australia	100	100
Durante Holdings Pty Limited	Australia	100	100
Michael Hill New Zealand Limited	New Zealand	100	100
Michael Hill Jeweller Limited	New Zealand	100	100
Michael Hill Finance (NZ) Limited	New Zealand	100	100
Michael Hill Franchise Holdings Limited	New Zealand	100	100
MHJ (US) Limited	New Zealand	100	100
Emma & Roe NZ Limited	New Zealand	100	100
Michael Hill Online Holdings Limited	New Zealand	100	100
Michael Hill Jeweller (Canada) Pty Limited	Canada	100	100
Michael Hill LLC	United States	100	100

H2 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, MH Bespoke Diamonds AU Pty Ltd, Michael Hill Charms Pty Ltd, Fine Jewellery Retail AU Pty Ltd, Medley Jewellery 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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS, STATEMENT OF COMPREHENSIVE INCOME AND SUMMARY OF MOVEMENTS IN CONSOLIDATED RETAINED EARNINGS

Set out below is a consolidated statement of profit or loss, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings for the year ended 2 July 2023 of the closed group consisting of Michael Hill International Limited and the entities noted above.

	2023 \$'000	2022 \$'000
Consolidated statement of profit or loss		
Revenue from sales of goods and services	435,796	421,019
Sales to Group companies not in Closed Group	17,121	39,354
Other income	(236)	6,063
Cost of goods sold	(160,161)	(186,589)
Employee benefits expense	(129,675)	(117,851)
Occupancy costs	(4,812)	(6,711)
Marketing expenses	(31,594)	(29,329)
Selling expenses	(12,845)	(11,971)
Depreciation and amortisation expense	(44,960)	(38,850)
Loss in disposal of property, plant and equipment	(114)	(231)
Other expenses	(22,885)	(15,211)
Finance costs	(6,583)	(5,371)
Profit before income tax	39,052	54,322
Income tax expense	(12,964)	(15,019)
Profit for the year	26,088	39,303

OTHER COMPREHENSIVE INCOME	2023 \$'000	2022 \$'000
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	1,379	4,977
Other comprehensive income for the period, net of tax	1,379	4,977
Total comprehensive income for the year	27,467	44,281

STATEMENT OF CHANGES IN EQUITY	2023 \$'000	2022 \$'000
Equity at the beginning of the financial year	472,985	453,554
Share buy-back	10,207	-
Total comprehensive income/(loss)	27,467	44,281
Share rights through share-based payments reserve	1,794	286
Issue of share capital on exercise of share rights	-	103
Dividends paid	(30,719)	(25,239)
Total equity at the end of the financial year	481,734	472,985

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Set out below is a consolidated statement of financial position as at 2 July 2023 of the Closed Group consisting of Michael Hill International Limited and the entities noted above.

	2023	2022
	\$'000	\$'000
CURRENT ASSETS		
Cash and cash equivalents	9,971	55,499
Trade receivables	5,950	7,010
Inventories	151,266	137,374
Loans to related parties	246,710	251,706
Other current assets	4,714	5,102
Total current assets	418,611	456,691
NON-CURRENT ASSETS		
Property, plant and equipment	41,756	27,032
Right-of-use assets	108,121	73,601
Investments in subsidiaries	83,346	87,834
Other non-current assets	18,341	767
Intangible assets	36,215	10,989
Deferred tax assets	40,767	48,971
Total non-current assets	328,546	249,194
Total assets	747,157	705,885
CURRENT LIABILITIES		
Trade and other payables	54,035	58,671
Lease liabilities	31,074	28,351
Current tax liabilities	9,450	2,093
Deferred revenue	14,616	18,812
Provisions	12,310	14,219
Total current liabilities	121,485	122,146
NON-CURRENT LIABILITIES		
Lease liabilities	88,947	58,295
Deferred revenue	44,113	45,081
Provisions	10,878	7,378
Total non-current liabilities	143,938	110,754
Total liabilities	265,423	232,900
Net assets	481,734	472,985
EQUITY		
Contributed equity	320,585	310,378
Reserves	(16,352)	(19,525)
Retained profits	177,501	182,132
Total equity	481,734	472,985

H3 PARENT ENTITY FINANCIAL INFORMATION

SUMMARY FINANCIAL INFORMATION

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

	2023	2022
	\$'000	\$'000
STATEMENT OF FINANCIAL POSITION		
Current assets	286	198
Non-current assets	387,715	425,363
Total assets	388,001	425,561
Current liabilities	11,664	1,398
Total liabilities	11,664	1,398
Net assets	376,337	424,163
Issued capital	291,255	291,531
Reserves	33,504	41,617
Retained earnings	51,578	91,015
Total equity	376,337	424,163
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		
Loss for the year	(39,437)	(28,024)
Total comprehensive loss	(39,437)	(28,024)

GUARANTEES ENTERED INTO BY THE PARENT ENTITY

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

- (i) 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.
- (ii) 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, Medley Jewellery Pty Ltd, Michael Hill Online Holdings Ltd and Emma & Roe NZ Ltd.

CONTINGENT LIABILITIES OF THE PARENT ENTITY

The Parent entity had no material contingent liabilities as at balance date.

I UNRECOGNISED ITEMS

I1 Contingencies and commitments

I2 Events occurring after the end of the reporting period

I1 CONTINGENCIES AND COMMITMENTS

CONTINGENT LIABILITIES

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

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

The Group had no material contingent liabilities as at balance date.

CONTINGENT ASSETS

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

COMMITMENTS

The following sets out the various lease contracts that the Group has entered into and have yet to commence as at 2 July 2023.

	Within one year \$'000	One to five years \$'000	Greater than five years \$'000	Total \$'000
Future lease payments for these non-cancellable lease contracts	413	3,812	2,981	7,206

I2 EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

On 2 August 2023, David Whittle was appointed as a non-executive director of Michael Hill International Limited.

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.

J SUMMARY OF ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES AND JUDGEMENTS

J1 Summary of significant accounting policies

J2 Significant estimates and judgements

J1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

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

The financial 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.

For reporting purposes, the Group adopts a weekly 'retail calendar' closing each Sunday. The current 53 week reporting period ended on 02 July 2023.

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

(B) PRINCIPLES OF CONSOLIDATION

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.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Michael Hill International Limited.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the transferred asset.

(C) FOREIGN CURRENCY TRANSLATION

Functional currency translation

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Group financial statements are presented in Australian dollars, which is the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Net 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 as other income or other expenses, 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.

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.

(D) 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 and liabilities are classified as non-current assets and liabilities.

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

Tax consolidation group

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

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

(E) GOODS AND SERVICES TAX (GST)

Revenues, expenses, assets and liabilities 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.

(F) 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.

Where the recoverable amount exceeds the carrying amount of an asset, an impairment loss is recognised. Right-of-use assets are also incorporated into the calculation. Subsequent to an impairment occurring, if the recoverable amount from assets exceeds the carrying value, the impairment loss is reversed to the extent that it has been recognised.

(G) CASH AND CASH EQUIVALENTS

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

(H) INVENTORIES

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

Management review stock holdings based on recoverability at a product level and write-down as appropriate.

(I) FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

(i) Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under AASB15 Revenue from Contracts with Customers. Refer to the accounting policies in note A2.

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Derecognition

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

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

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

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

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in note F3.

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

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

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

(ii) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by AASB9 *Financial Instruments*. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB9 *Financial Instruments* are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings at amortised cost

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

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

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note C1.

Derecognition

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

Offsetting of financial instruments

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

(J) PROPERTY PLANT AND EQUIPMENT

All property, plant and equipment is stated at historical cost less depreciation and impairment. 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 (note F4).

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 J1(F)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(K) INTANGIBLE ASSETS

Goodwill

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Brand

Bevilles has an established brand operating for 89 years in the specialty retail industry. The Bevilles brand name has been valued using the relief-from-royalty method assuming an indefinite useful life.

Loyalty program

Bevilles operate a customer loyalty program which attributes value to the business by offering a returning customer base. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

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;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available;
- it can be demonstrated how the software will generate probable future economic benefits; and
- the expenditure attributable to the software during its development can be reliably measured.

In respect to cloud computing arrangements, the Group assesses whether the arrangement contains a lease and if not, whether the arrangement provides the Group with a resource that it can control. Costs associated with implementation are then assessed as to whether they can be capitalised in accordance with relevant accounting standards.

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

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

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

Useful life

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life i.e. three years for customer loyalty program and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

(L) PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

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.

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.

(M) EMPLOYEE ENTITLEMENTS

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.

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

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 the Milliman G100 discount rates at the end of the reporting period. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

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

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.

Retirement benefit obligations

The Group provides retirement benefits to employees through a defined contribution superannuation fund. Contributions are recognised as expenses as they become payable.

(N) BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses. At the acquisition date, identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values, except deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements which are recognised and measured in accordance with AASB 112 Income Taxes and AASB 119 Employee Benefits respectively.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with AASB 9. Other contingent consideration that is not within the scope of AASB 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

(O) 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.

(P) 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.

(Q) EARNINGS PER SHARE

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 (note F2).

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 (note F2).

(R) ROUNDING OF AMOUNTS AND COMPARATIVES

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.

Some comparative amounts included within these financial statements have been reclassified, to allow greater transparency when comparing current period to prior period. The reclassification adjustments have had no impact on the prior period Profit Before Tax, Profit After Tax, or Net Assets.

(S) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Several other amendments and interpretations apply for the first time in 2023, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

J2 SIGNIFICANT ESTIMATES AND JUDGEMENTS

Significant Estimates And Judgements

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

The significant accounting judgements relate to the pattern of PCP revenue recognition (note A2), and employee remediation (note F7). Accounting for the acquisition of Bevilles is prepared on a provisional basis (note G1).

DIRECTORS' DECLARATION

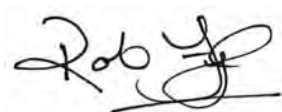
In the directors' opinion:

- (a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) the financial statements and notes of the Group for the financial year ended 2 July 2023, 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 2 July 2023 and of its performance for the financial year ended on that date;
- (c) as at the date of this declaration, there are reasonable grounds to believe that the members of the extended group identified in note H1 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee described in note H2.

Note J1(A) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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



R I Fyfe
Chair

Brisbane
25 August 2023



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working world**

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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 2 July 2023, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a. Giving a true and fair view of the consolidated financial position of the Group as at 2 July 2023 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 (including Independence Standards)* (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	How our audit addressed the key audit matter
<p>As at 2 July 2023 the Group's inventories balance is \$203 million or 38% of the Group's total assets.</p> <p>Inventories are primarily kept in the Group's 304 retail stores located in Australia, New Zealand and Canada, and the distribution and manufacturing centres. Inventories comprise a large number of physically small but high value items which are subject to misappropriation and other loss.</p> <p>The Group accounts for inventories in accordance with the policy disclosed in Note J1(H) and further disclosure is included in Note A4 of the financial report.</p> <p>Inventory is considered a key audit matter due to the nature, size and geographic spread of locations where items are held.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▶ Attended stocktakes conducted at 15 Michael Hill branded and 5 Bevilles branded retail stores across Australia, New Zealand and Canada. ▶ In addition to the retail stores, we attended the stocktakes completed at each of the distribution and manufacturing centres in June 2023 prior to year end. ▶ Testing the operating effectiveness of key controls relevant to the conduct of physical stocktakes, the review and investigation of stocktake variances, and the approval of adjustments made to stock quantities. ▶ At these stocktakes at the retail stores, distribution and manufacturing centres, we observed compliance with the stocktake instructions (including the suspension of inventory movements during the stocktake process) and selected a sample of items to re-count to establish the accuracy of the counts performed by the Group. ▶ For each of the locations attended, and for a further representative sample of retail stores, we inspected evidence that stocktakes had been conducted in accordance with Group policies, stock variances identified had been reviewed and approved, and that the adjustments were accurately recorded. ▶ Where stocktakes were completed prior to the year end date, we performed inventory movement analysis, and on a sample basis, evidenced changes in inventory quantities to evaluate the movement of inventories between the stocktake date and year end date. For retail locations not attended at stocktake, we performed movements analysis on a store-by-store basis and further analysis where the year end balances were outside our set expectations. ▶ We obtained details of stock-in-transit at year end, as well as movements either side of the year end date and performed procedures to address the risk of incorrect cut-off of inventory quantities at year end.

Professional Care Plan (PCP) revenue recognition

Why significant	How our audit addressed the key audit matter
<p>The balance of the deferred PCP revenue liability at 2 July 2023 was \$73.9 million, and PCP revenue recognised in the income statement for the year ended 2 July 2023 was \$32.9 million as disclosed in Note A2 of the financial report.</p> <p>The recognition of Professional Care Plan (PCP) revenue is a key audit matter due to the significant degree of estimation involved in determining the appropriate revenue recognition pattern for lifetime, 10 year and 3 year plans offered to the Group's customers. Under these plans, revenue is deferred on receipt of the payment from the customer and recognised over time in a manner that reflects the proportion of actual services used by customers relative to the total amount of expected services to be provided under the PCPs.</p> <p>The estimation process for PCP revenue is based on an analysis of actual services (through historical cleaning, repairs and re-sizing service data) performed under these plans since inception in October 2010, with management judgement applied to take account of emerging trends in customer behaviour, industry data and exceptional circumstances such as COVID related store closures.</p> <p>The result of the estimation process is reviewed by the Group on at least an annual basis. As circumstances change over time, the Group updates its measure of progress, and any adjustments are recognised as a cumulative catch up in revenue recognition (or reversal) in the current year results.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▶ Assessed the Group's PCP revenue recognition accounting policies and compliance with the requirements of Australian Accounting Standards. ▶ Assessed the accuracy of the data used in the PCP revenue estimation calculation and challenged the reasonableness of the key judgements including: <ul style="list-style-type: none"> ▶ Obtained details of the sales of PCP products to customers during the year and tested the cash receipts were appropriately deferred. ▶ Obtained details of the actual cleaning, repairs and resizing services during the year and tested a sample of transactions to understand if repairs are accurately tagged to the associated PCP plan date. ▶ Performed analysis over the historic repairs data, to determine whether the assumptions made by the Group were supportable, including the length of the lookback period, any adjustments made for the impact of COVID related store closures in recent years, and the weighting of recent trends compared to older data. ▶ Tested the mathematical accuracy of the PCP revenue estimation model and reperformed the Group's calculation supporting the change in estimate relating to PCP revenue recognition. ▶ Re-performed management's sensitivity analysis over the assumptions using reasonable alternative scenarios to determine whether there would be a material impact on revenue recognised in the year. ▶ Assessed the adequacy of disclosures included in the Notes to the financial statements of PCP revenue recorded and deferred at year-end and the associated estimation uncertainty.

Acquisition of Bevilles

Why significant	How our audit addressed the key audit matter
<p>On 1 June 2023 the Group acquired the business and selected assets of Bevilles, with consideration consisting of cash upfront of \$44.6m, deferred consideration of \$0.9m and contingent consideration of \$3.5m relating to earn out payments over the next two years. The details of the provisional business combination accounting for the acquisition are disclosed in Note G1 of the financial report.</p> <p>The acquisition has been accounted for as a business combination in accordance with Australian Accounting Standards, and due to the proximity of the acquisition to year end, the business combination is accounted on a provisional basis.</p> <p>In undertaking the provisional acquisition accounting, the Group is required to measure the fair value of consideration transferred, the fair values of identifiable assets, assumed liabilities and contingent liabilities acquired at the acquisition date, and determine the amount of goodwill to be recognised.</p> <p>The fair value measurements require significant judgement and complex estimation, including the:</p> <ul style="list-style-type: none"> ► identification and measurement of all assets, liabilities and contingencies of the business; ► valuation of intangible assets acquired including brand names utilised by the Bevilles business; and ► The valuation of contingent and deferred consideration, a portion of which is linked to the Group's share price at future dates. <p>As a result, we considered the Group's provisional business combination accounting and the related disclosures in the financial report to be a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> ► Assessing the accuracy of treating the acquisition as a business combination in accordance with Australian Accounting Standards. ► Assessing the Group's determination of the acquisition date of the business combination. ► Evaluating the Group's determination of the purchase consideration and the fair value of future payments. ► Evaluating the qualifications, competence and objectivity of the Group's external experts used to determine the provisional values recorded particularly for intangible assets recorded. ► Using our valuation experts to independently assess the reasonability of provisional fair value estimates determined by the Group's external experts, particularly for intangible assets. ► Performing valuation cross checks on the acquired intangible assets with reference to market and transaction multiples. ► Testing the working capital balances, including cash, inventory, trade receivable and payables, contract liabilities and provisions at the acquisition date. Our procedures on inventory included attendance at 5 retail store stocktakes and the stocktake of the head office location at the date of acquisition. ► Testing the provisional right of use assets and lease liabilities recorded in accordance with Australian Accounting Standards and underlying lease documentation. ► Involving our taxation specialists in assessing the deferred tax balances associated with the provisional accounting for the acquisition. ► Assessed the adequacy of the financial report disclosures included in the Notes to the financial report setting out the nature and basis of the provisional business combination accounting.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2023 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, with the exception of the Remuneration Report and our related assurance opinion.

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

If, based on the work we have performed, 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, actions taken to eliminate threats or safeguards applied.

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

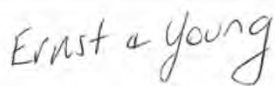
Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 2 July 2023.

In our opinion, the Remuneration Report of Michael Hill International Limited for the year ended 2 July 2023, 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



Kellie McKenzie
Partner
Brisbane
25 August 2023