

# MICHAEL HILL INTERNATIONAL LIMITED

## ABN 25 610 937 598

### APPENDIX 4E

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

#### REPORTING PERIOD

Reporting period:	52 weeks ending 26 June 2022
Previous reporting period:	52 weeks ending 27 June 2021

#### RESULTS FOR ANNOUNCEMENT TO THE MARKET

				\$'000
Revenue from contracts with customers	Up	7.0%	to	595,210
Earnings before interest and taxation (EBIT)*	Up	9.8%	to	73,236
Net profit after tax for the period attributable to members	Up	13.9%	to	46,712

\*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

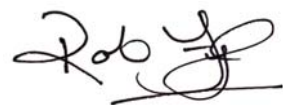
	Amount per security cents per share	Franked amount per security \$'000
Interim dividend for the year ended 26 June 2022 declared and paid	3.5	-
Final dividend for the year ended 26 June 2022 declared	4.0	-

#### NET TANGIBLE ASSETS

	2022 \$	2021 \$ RESTATED <sup>1</sup>
Net tangible asset <sup>2</sup> backing per ordinary security	0.47	0.43

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

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



R I Fyfe  
Chair

Brisbane  
26 August 2022

Webcast scheduled to take place at 9.30am (AEST) on Monday, 29 August 2022. 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 26 JUNE 2022

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## 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	R I Fyfe B.Eng, F.E.N.Z., C.N.Z.M. <i>Chair</i> Sir R M Hill K.N.Z.M. E J Hill B.Com., M.B.A. G W Smith B.Com., F.C.A., F.A.I.C.D. J E Naylor D Bracken (appointed 28 June 2021)
COMPANY SECRETARIES	A Lowe BCom, LLB (Hons), MAppFin, CA, CTA E Bird LLB (Hons), BA (Psych), GradDipLegalPrac, GradDipAppCorpGov, GAICD
PRINCIPAL REGISTERED OFFICE IN AUSTRALIA	34 Southgate Avenue Cannon Hill QLD 4170 +61 7 3114 3500
SHARE REGISTER	Computershare Investor Services Pty Ltd Level 1 200 Mary Street Brisbane QLD 4000 1300 552 270 (within Australia) +61 3 9415 4000 (outside of Australia)
AUDITOR	Ernst & Young Level 51 111 Eagle Street Brisbane QLD 4000
SOLICITOR	Allens Linklaters Level 26 480 Queen Street Brisbane QLD 4000
BANKERS	Australia and New Zealand Banking Group Limited ANZ Banking Group (New Zealand) Limited HSBC Australia Limited Bank of Montreal Bank of America
WEBSITES	<a href="http://www.michaelhill.com.au">www.michaelhill.com.au</a> <a href="http://www.michaelhill.co.nz">www.michaelhill.co.nz</a> <a href="http://www.michaelhill.ca">www.michaelhill.ca</a> <a href="http://www.michaelhill.com">www.michaelhill.com</a> <a href="http://www.medleyjewellery.com.au">www.medleyjewellery.com.au</a> <a href="http://investor.michaelhill.com">http://investor.michaelhill.com</a>
EMAIL	<a href="mailto:online@michaelhill.com.au">online@michaelhill.com.au</a>

# MICHAEL HILL INTERNATIONAL LIMITED

## DIRECTORS' REPORT

26 JUNE 2022

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 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:

	2022 \$'000	2021 \$'000
Final dividend for the year ended 27 June 2021 of 3.0 cents per fully paid share paid on 24 September 2021 (2020: no final dividend)	11,649	-
Interim dividend for the year ended 26 June 2022 of 3.5 cents (2021: 1.5 cents) per fully paid share paid on 25 March 2022 (2021: 26 March 2021)	13,590	5,820
The directors have declared the payment of a final dividend of 4.0 cents per fully paid ordinary share (2021: 3.0 cents). The final dividend will be unfranked for Australian shareholders and fully imputed for New Zealand shareholders. The aggregate amount of the proposed dividend expected to be paid on 23 September 2022 out of retained earnings, but not recognised as a liability at year end, is:	15,531	11,649

### 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 2022 financial year:

#### Key Financial Results

- Group operating revenue increased by 7.0% to \$595.2m (2021: \$556.5m), with ~10,000 lost store trading days in each of FY22 and FY21.
- Comparable EBIT\* increased by 11.1% to \$62.9m (2021: \$56.6m).
- Statutory net profit after tax increased by 13.9% to \$46.7m (2021: \$41.0m (Restated<sup>1</sup>)).
- Group gross margin increased by 200 bps to 64.7% (2021: 62.7%), underpinned by our strategic initiatives.
- Healthy inventory levels to support elevated sales at \$181.5m (2021: \$171.2m).
- Balance sheet benefited from strong operating cashflows and sale of the Canadian credit book, resulting in a closing cash position of \$95.8m (2021: \$72.4m).
- Final dividend of 4.0 cents per share declared, delivering total dividends for the year of 7.5 cents per share.
- Board announces that it will implement an on-market share buy-back of up to 5% of the Company's issued capital.

#### Operational Performance

- Group same store sales were up 8.0% for the year, with Canada +11.3%, New Zealand +8.9%, and Australia +4.2%.
- Digital sales increased by 23.4% to a record \$42.0m, representing 7.1% of total sales, up from 6.3% last year.
- New pure play brand *Medley* delivered over \$1m in sales for its first full year of trade.
- Loyalty strategy continues to deliver with 76% of sales from members – *Brilliance by Michael Hill* now over 1.4 million members (2021: ~800,000 members).
- Extensive H1 temporary store closures in NSW, VIC and Auckland, culminated in 10,020 lost trading days for the year (2021: 10,447).
- One new store opened and six under-performing stores were closed during the year, giving a network total of 280 stores at year-end (2021: 285 stores).

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

\*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.

### FY22 - GROUP BUSINESS PERFORMANCE

The Group has reported operating revenue of \$595.2m (2021: \$556.5m) for the 2022 financial year, producing a net profit after tax (NPAT) of \$46.7m (2021: \$41.0m (Restated<sup>1</sup>)). The Group reported Comparable EBIT\* of \$62.9m for the year ended 26 June 2022 (2021: \$56.6m) an increase of \$6.3m year on year, driven by a combination of strong sales growth and margin expansion.

For the year, the Group delivered same store sales growth of 8.0% and gross margin increased by 200 bps to 64.7%. Since FY19Q3, the Group has achieved twelve quarters of same store sales growth. These continued strong results demonstrate the success of the Group's strategic transformation and the increasing strength of the brand during more than two years of significant global disruption.

During the year, the Michael Hill global store network suffered 10,020 lost store trading days (2021: 10,447) due to a combination of government mandated lockdowns and COVID impacting store teams. Despite these disruptions to trading conditions and the global store network, total revenue grew by 7.0% to \$595.2m (2021: \$556.5m) as the Group continues to elevate and modernise the brand, and transform the customer journey.

The Group's digital businesses delivered another record year with sales of \$42.0m, now representing 7.1% of total sales. During the year, the Group successfully launched "click & collect" in all three markets, and rolled out "ship from store" across our global network, further enhancing the Group's omni-channel ecosystem. The Group's marketplace strategy has progressed in all its existing markets, with activation in Australia (The Iconic, Westfield Direct), New Zealand (The Iconic) and Canada (The Bay).

Prior to the key Christmas trading period, the business opened its Canadian 3PL distribution centre in Ontario, creating a cost-efficient flow of inventory from vendors, improving speed of delivery to customers and ensuring reliable continuity of supply and optimal stock levels. During the year, the product range continued to evolve in line with the elevated brand journey including the successful relaunch of the Group's premium bridal offering – *Sir Michael Hill Designer Bridal* collection. Demonstrating the increased focus on ESG, the Group expanded its distribution of laboratory grown diamonds to all stores globally, providing customers with a certified Sustainable and Climate Neutral choice. Additionally, the Group also launched its De Beers *Code of Origin Diamonds* collection to all stores, demonstrating a deep commitment to social and environmental responsibility.

Supporting the Group's ongoing growth agenda, our strategic increase in ATV and elevated product offerings, the Group made considered investments in core inventory, which saw year-end stock holdings of \$181.5m (2021: \$172.2m).

The Group's balance sheet has benefited from strong operating cashflows, delivering a year-end cash position of \$95.8m (2021: \$72.4m) and nil debt. During the year, the Group successfully sold its in-house Canadian credit book delivering cash proceeds of \$14.2m, while also launching a long-term partnership with Flexiti Financial Inc, to provide a new enhanced consumer credit proposition.

During the year, the Group opened one new store in Australia and closed six under-performing stores across the network (AU: 4, NZ: 1, CA: 1), resulting 280 stores at year-end (2021: 285 stores).

## SEGMENT RESULTS

FY22 was another year of COVID disruption for our retail network, with significant first half store closures in both Australia and New Zealand, and the impacts of Omicron across all countries in the second half. Despite these disruptions, all markets delivered strong results.

The results below are expressed in local currency and for comparative purposes exclude the Emma & Roe discontinued operations in all years.

### Australian Retail Performance

OPERATING RESULTS (AU \$'000)	2022	2021	2020	2019	2018
Revenue	303,358	312,206	265,915	309,066	325,707
Gross profit	196,609	193,908	160,579	191,895	206,301
Gross margin	64.8%	62.1%	60.4%	62.1%	63.3%
Comparable EBIT	51,750	54,347	27,641	32,626	48,621
Comparable EBIT as a % of revenue	17.1%	17.4%	10.4%	10.6%	14.9%
Number of stores	147	150	155	167	171

Same store sales increased by 4.2%, however significant temporary store closures and the closure of four under-performing stores led to a decline in retail segment revenue by 2.8% to \$303.4m for the year. This result is a testament to the resilience of the Australian team, new leadership and the Group's strategic initiatives. The government mandated store closures across Victoria, South Australia, Australian Capital Territory and New South Wales, resulted in 7,551 lost store trading days (2021: 3,458 days) during the year.

As well as a strong sales performance, the segment also delivered expanded gross margin for the year to 64.8% (2021: 62.1%), the country's highest margin in the last five years.

During the year, one new store opened, and four under-performing stores closed, resulting in 147 stores at year-end (2021: 150 stores).

### New Zealand Retail Performance

OPERATING RESULTS (NZ \$'000)	2022	2021	2020	2019	2018
Revenue	125,090	127,067	106,696	120,064	125,239
Gross profit	79,288	78,771	63,641	73,011	77,673
Gross margin	63.4%	62.0%	59.6%	60.8%	62.0%
Comparable EBIT	30,130	35,119	21,067	24,125	27,800
Comparable EBIT as a % of revenue	24.1%	27.6%	19.7%	20.1%	22.2%
Number of stores	48	49	49	52	52

Same store sales increased by 8.9%, which was a particularly strong result, but temporary store closures through the year did see a decline in retail segment revenue of 1.6% to NZ\$125.1m for the year. This result was underpinned by strong retail metrics, omni-channel initiatives, and the Group's strategic agenda. The government mandated store closures, predominantly in the Auckland region, resulted in 2,241 lost store trading days (2021: 464 days) during the year.

Gross margin for the year was 63.4% (2021: 62.0%), a strong year on year performance, and significant improvement on both FY19 and FY20. During the year one store closed, resulting in 48 stores at year-end (2021: 49 stores).

### Canada Retail Performance

OPERATING RESULTS (CA \$'000)	2022	2021	2020	2019	2018
Revenue	159,661	118,445	110,799	133,146	130,762
Gross profit	103,623	72,643	63,991	80,726	81,576
Gross margin	64.9%	61.3%	57.8%	60.6%	62.4%
Comparable EBIT	28,785	12,320	(2,412)	9,797	14,605
Comparable EBIT as a % of revenue	18.0%	10.4%	(2.2)%	7.4%	11.2%
Number of stores	85	86	86	86	83

Same store sales increased by 11.3%, and retail segment revenue increased by an impressive 34.8% to CA\$159.7m for the year. This is a record result for Canada, supported by a number of strategic initiatives, along with a reinvigorated leadership driving a significant lift in productivity and team engagement. There was minimal temporary store disruption during the year with only 228 lost store trading days (2021: 6,525 days).

In addition to a record sales result, the segment also achieved a record gross margin for the year of 64.9% (2021: 61.3%), underpinned by an absolute focus on retail fundamentals and productivity metrics.

During the year, one under-performing store was closed, resulting in 85 stores at year end (2021: 86 stores).

## CASH FLOW

Net operating cash inflow was \$111.6m (2021: \$134.5m (Restated<sup>1</sup>)). Excluding the sale of the in-house Canadian credit program (\$14.2m), this was the result of the Group's solid trading and cost initiatives implemented in the last three years coming to fruition.

Through further disciplined inventory and working capital management, the Group remains in a resilient financial position with \$95.8m in net cash (2021: \$72.4m) available to continue to invest in improvements to its systems, infrastructure, and capabilities.

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

## CAPITAL MANAGEMENT - DIVIDENDS, SHARE BUY-BACK AND INVESTMENT UPDATE

Taking into consideration the Group's performance and strength of balance sheet, the Board has decided to declare a final dividend of 4.0 cents per share unfranked, fully imputed with conduit foreign income.

This delivers a total dividend for the year of 7.5 cents per share, representing ~67% of adjusted annual NPAT, and at the higher end of the Group's recently revised Dividend Distribution Policy target range of 50% to 75%.

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

Furthermore, the Board is also pleased to announce that it will implement an on-market share buy-back of up to 5% of the Company's issued capital, funded from existing cash reserves. The buy-back is expected to commence in September 2022. The total number of shares to be purchased under the buy-back will be dependent on business and market conditions.

In addition to the above, the Group still retains sufficient balance sheet strength and cash reserves for deployment into new earnings accretive organic growth initiatives and to also pursue acquisition opportunities in the jewellery sector, which meet our strict strategic and investment criteria.

## STRATEGIC UPDATE - WITH AN INCREASED FOCUS ON SUSTAINABILITY

Much of the Group's strong performance can be attributed to the strategic transformation and elevation of the brand, along with overarching emphasis on sales and margin growth. The strategic framework underpins the future growth of the business, is customer-led and continually evolving, which is best demonstrated with the introduction of a new pillar dedicated to "Sustainability".

### 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 with an emphasis on product, quality and craft, are leading the transition away from price and promotion, towards emotional long-term customer relationships. Simultaneously, the *Brilliance by Michael Hill* loyalty program is proving to be a key lever for growth and customer engagement. The program has increased by more than 600,000 members in the year, and provides the business with essential data to drive more frequent and more profitable customers. Both brand and loyalty are key to driving medium to long term sustainable growth in both sales and margin for the Group.

### 2. Digital & Omni-channel

Michael Hill's digital transformation continues to gather pace delivering another record year in FY22. Strong performances on the Group's direct to consumer websites were driven by improved customer experience, higher traffic and increased conversion rates, and now represent over 7% of total Group sales. The successful deployment of "click & collect" and "ship-from-store", now available in all stores globally, enhanced our omni-channel capabilities as the Group continues its customer-led digital transformation journey.

### 3. Retail Fundamentals

Bricks and mortar retail is at the core of the Michael Hill business, driving more than 90% of the Group's sales. Elevating the in-store experience across visual presentation and customer engagement have delivered considerable increases in gross margins, conversion rates and ATV. An unwavering focus on people and performance, operational excellence, and effective labour management underpin our retail productivity which has seen significant lifts in all markets. A new senior leadership structure is now firmly in place across all markets and delivering strong results.

### 4. Product Evolution

Product evolution is at the centre of a customer-led retail strategy, and is critical to achieve sales and margin growth. Laboratory grown diamonds are gaining momentum in the business, delivering increased quality and higher margins while providing customers with a certified Sustainable and Climate Neutral choice. Elevated quality and craftsmanship are essential to our aspirational brand journey, and this will be delivered through the evolution of our supply chain, and further investment in the artisanal capabilities of our Australian manufacturing facility. During the year, the business commenced a phased deployment of a new comprehensive merchandise planning platform to improve buying processes, margin optimisation, product ranging and inventory management. The Group's ongoing focus on product mix continues to be a key enabler for sustained margin expansion. Product newness is critical to achieve higher inventory turn and frequency of purchase.

### 5. New Territories & Services

As the Group pivots from transformation to growth, the opportunity to stretch the brand into new territories and services is a key focus. Through the course of the year, the Group has executed its marketplace strategy across its three core segments, partnering with The Iconic in Australia and New Zealand, and The Bay in Canada. Additionally, the Group is now focused on extending its Canadian website to the currently untapped Quebec market, and in the near future launching international shipping to all countries from our websites. The business is also well underway in developing a digital eco-system with a number of new revenue driving service offerings across bespoke design, sustainability, and financial services.

## 6. Cost Conscious Culture

The Group made great progress with its global supply chain strategy, with the successful delivery of a new Canadian 3PL distribution centre – lowering input costs and duties while significantly improving customer experience and delivery times. Additionally, in-market New Zealand warehouse capability was activated during the second half. The Group's credit strategy was further enhanced with the sale of the in-house Canadian credit book and partnering with a specialist third party consumer credit provider across all Canadian stores, and in a first for the Group, an online long-term credit offering. Importantly, the Group's embedded cost conscious culture maintains an absolute focus on cost discipline, inventory and working capital management.

## 7. Sustainability

Michael Hill is elevating its strategic focus on ESG, launching our 2030 vision centred around People, Product and Planet. Underpinned with detailed goals and milestones, the Michael Hill 2030 ESG vision aims to transform; how we source and manufacture our products; how we impact our planet; and how we improve peoples' lives across our entire value chain. We are committed to bringing change in how we operate in order to drive forward sustainable practices that benefit our customers, our planet and future generations and aim to move our business and influence the broader jewellery industry toward a more sustainable, innovative and responsible future.

## RISK MANAGEMENT

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

Risk	Strategies and mitigation
Ongoing challenges from COVID continue longer than expected impacting customers, suppliers and staff	The Group has a COVID Crisis Management Team focussed on monitoring the status in key countries where it operates and has supply chain impacts. Where possible, we seek to leverage government financial assistance for our staff, and the Group has implemented processes to manage outbreaks to reduce the impact to customers and staff. Furthermore, we work closely with suppliers to manage impacts to our supply chain, including the establishment of a Canadian warehouse to reduce delivery times within Canada but also offer alternative sourcing strategies.
Costs of raw materials impacted by global sanctions and scarcity of material	The Group has a dedicated team focussed on ensuring the continued supply of raw materials for our production facilities and finished products. 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	The Group has tasked the IT Steering Committee to oversee its response to cyber 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	Our focus is on the safety and security of our staff and we are investing in initiatives and processes that improve the overall security of our stores, and contribute to the safety of our staff. We work with local law enforcement bodies and other external parties to better the overall retail environment for our staff and customers. With the ongoing escalation of violence in New Zealand, the Group has established an executive led taskforce responding to these challenges and implementing appropriate actions.
Supply chain transparency and modern slavery	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. 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.
Talent acquisition and retention	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. Emphasis has been focussed 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.
Breach of regulation or law in one of our jurisdictions in an increasingly complex legal compliance environment	The Group has an in-house legal team who are focussed on compliance in our three markets and utilise external legal firms for specialised legal advice when required. Any new legislative requirements or rectification initiatives have dedicated teams focussed on ensuring our compliance.



## 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:

	2022 \$'000	2021 \$'000 RESTATED <sup>1</sup>
<b>Statutory EBIT</b>	<b>73,236</b>	<b>66,672</b>
Add back costs relating to:		
In-house Canadian credit book revaluation	-	2,986
Less items relating to:		
Government grants received (AU, NZ, CA)	(2,864)	(14,593)
Impact of AASB16 Leases	(13,489)	(4,197)
Impact of IFRIC SaaS-related guidance	5,986	5,724
<b>Comparable EBIT</b>	<b>62,869</b>	<b>56,592</b>

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

## 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.	<p>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 experience in various retail businesses operating in New Zealand, Australia and Great Britain, across sectors including retail banking, telecommunications, pay television and outdoor apparel. 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.</p> <p>Rob is also a director of Air Canada and has not had any former directorships of listed entities in the last three years.</p>	<ul style="list-style-type: none"> <li>• Chair</li> <li>• Non-executive and independent director</li> <li>• Member of ARMC</li> <li>• Member of PDRC</li> </ul>	2,293,640 Ordinary Shares
Sir Richard (Michael) Hill K.N.Z.M.	<p>Sir Michael is the founder of Michael Hill 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 in 1990. He led the Group as Chairman from 1987 until 2015. 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's visionary leadership has been the foundation for the Company's successful international expansion. In 2008 he was recognised as Ernst &amp; 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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>• Non-executive director</li> </ul>	148,330,600 Ordinary Shares
Emma Hill B.Com, M.B.A	<p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>• Non-executive director</li> <li>• Chair of PDRC</li> </ul>	167,487,526 Ordinary Shares
Gary Smith B.Com, F.C.A., F.A.I.C.D.	<p>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. 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-committee. He is a Chartered Accountant and a Fellow of the Australian Institute of Company Directors.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>• Non-executive and independent director</li> <li>• Chair of ARMC</li> <li>• Member of PDRC</li> </ul>	80,000 Ordinary Shares

Director	Experience and Directorships	Special Responsibilities	Directors' Interests in shares and options
Jacqueline Naylor	<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"> <li>• Non-executive and independent director</li> <li>• Member of ARMC</li> </ul>	160,000 Ordinary Shares
Daniel Bracken	<p>Daniel joined Michael Hill International as the CEO in November 2018. 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"> <li>• Managing director</li> <li>• Chief Executive Officer</li> </ul>	201,869 Ordinary Shares  2,944,296 Share Rights

## 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 26 June 2022, 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
R I Fyfe	12	12	3	3	5	5
Sir R M Hill	12	12	-	-	-	-
E J Hill	12	12	-	-	5	5
G W Smith	11	12	3	3	5	5
J E Naylor	12	12	3	3	-	-
D Bracken	12	12	-	-	-	-

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

## 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 2022 Michael Hill International Limited remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded during FY22. 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	FY22 Executive KMP Remuneration
Section 6	FY22 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 FY22 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 three years Michael Hill Group has achieved significant growth and transformation on the journey to become a high performing, modern, differentiated, omnichannel jewellery group. The success of the transformation agenda has seen growth in sales, margin and profit, translating into earnings per share (EPS) and dividends per share (DPS) of 12.0 cents and 7.5 cents respectively.

Highlights from FY22 include:

- Total Group revenue of \$595.2m (2021: \$556.5m) - an increase of 7.0%
- EBIT\* of \$73.2m (2021: \$66.7m (Restated<sup>1</sup>)) - an increase of 9.8%
- Comparable EBIT of \$62.9m (2021: \$56.6m) - an increase of 11.1%
- EPS of 12.03 cents (2021: 10.57 cents (Restated<sup>1</sup>)) - an increase of 13.8%

*\*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.*

*<sup>1</sup>Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.*

### FY22 Remuneration

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.

Compensation awarded over the year reflected results delivered. In accordance with our policy executive KMP salaries were adjusted by the Consumer Price Index (CPI) of 3.8%. STI awarded was 100% of on target STI and 100% of outperformance STI. The outperformance component of our STI is awarded in share rights, deferred for 12 months. The move to outperformance being awarded in share rights is a change from FY21 and is intended to enhance management's focus on long term performance. The outperformance component allows executives to earn double the target STI value for outstanding performance and the award is self-funded through profit generation in excess of target.

LTI awarded over the year was 52.5% of fixed remuneration for CEO and 32.5% for CFO. No awards to the CEO or CFO vested in the year.

Non-executive director (NED) fees were increased by the CPI of 3.8%. There were no other changes to the structure of NED fees.

### Continuous improvement in our remuneration practices is important to us

It is the Company's policy to conduct executive remuneration benchmarking every three years and to consider outcomes in line with Company policy. During the 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 (no remuneration recommendations were made). This exercise commenced in FY22 and continued early into FY23. The insights from this review are being finalised to ensure continued retention of our high performing executive while more closely aligning compensation mix with long term value creation.

Our remuneration report this year provides increased detail and transparency on the link of reward to performance through detailing STI targets and outcomes. Our aim is to demonstrate the effectiveness of our incentive program in driving performance outcomes and to give shareholders increased confidence in our remuneration practices.

In conclusion, the committee believes the remuneration changes and outcomes for FY22 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. We are confident that shareholders will recognise this as a continuation of our long held approach to prior years. The results the Company has achieved in the last 12 months are outstanding and 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 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 performance of the Group over the past five years is summarised below:

	2022	2021 RESTATED <sup>1</sup>	2020	2019	2018
Revenue (\$'000)	595,210	556,486	492,060	569,500	604,319
EBIT* (\$'000)	73,236	66,672	14,079	21,115	8,854
Profit for the year attributable to owners of the Company (\$'000)	46,712	41,015	3,059	16,498	1,557
Earnings per share (cents)	12.03c	10.57c	0.79c	4.26c	0.40c
Dividends paid during the financial year <sup>2</sup> (\$'000)	25,239	11,636	5,817	19,365	19,371
Market capitalisation (\$'000)	361,105	322,158	131,841	209,385	375,815
Share price at year end (\$)	0.93	0.83	0.34	0.54	0.97
Return on average total assets <sup>3</sup>	9.3%	9.0%	0.7%	4.3%	8.2%

\*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.

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

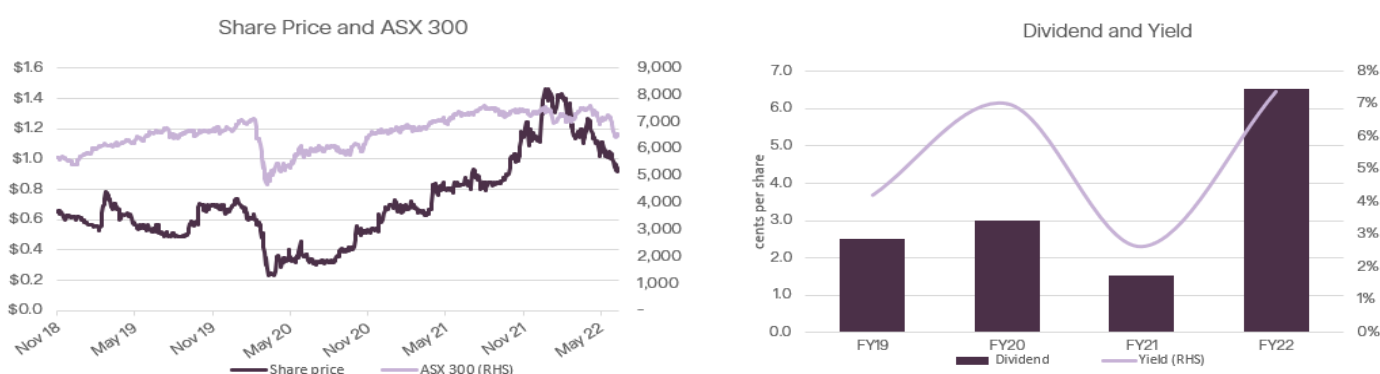
<sup>2</sup> The dividends paid in FY21 are the postponed interim dividend for FY20 and the interim dividend for FY21. No final dividend was declared for FY20.

<sup>3</sup> For 2021 - Return on average total assets is not restated as the required adjustment to total assets for 2020 has not been calculated.

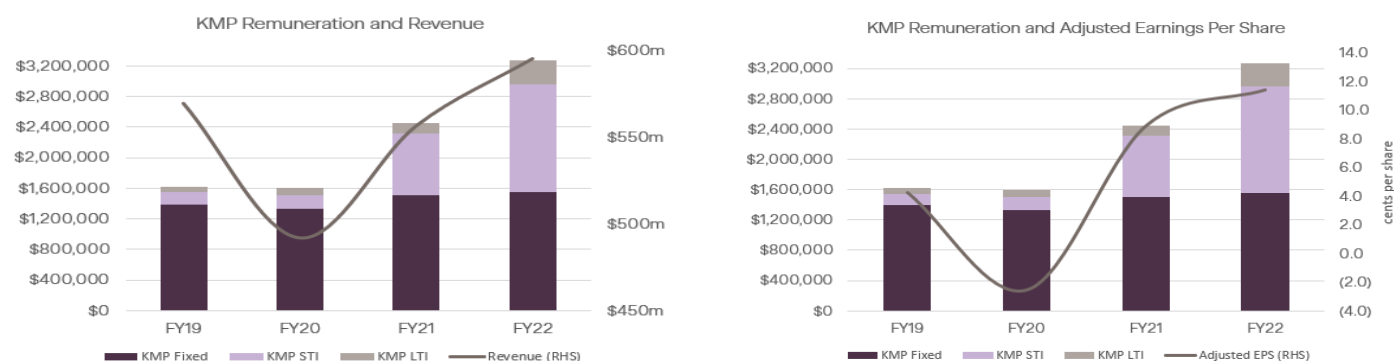
Profit amounts for 2018 to 2022 years have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. This also complies with IFRS as issued by the International Accounting Standards Board.

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

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.



The graphs below show the relationship of KMP remuneration<sup>4</sup> to revenue and Adjusted Earnings Per Share<sup>5</sup> for the last four financial years.



<sup>4</sup> Note that KMP remuneration is based on constant KMPs (Daniel Bracken and Andrew Lowe) and where Daniel Bracken started mid-way through the year, this has been extrapolated on a straight line basis. KMP STI for FY22 includes share rights deferred for 12 months for outperformance.

<sup>5</sup> 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 FY22 EXECUTIVE KMP REMUNERATION

### 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 on target STI value in the form of share rights, deferred for 12 months.

KMP	Fixed Remuneration	Maximum STI	LTI	Total
Daniel Bracken - CEO	39.0%	41.0%	20.0%	100.0%
Andrew Lowe - CFO	51.0%	33.0%	16.0%	100.0%

### Fixed Remuneration

Fixed remuneration is reviewed annually, and our policy in this review is to consider the consumer price index (CPI). 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 statutory superannuation contributions. Superannuation is increased in line with any increase to the concessional contributions cap.

Base salaries were increased by CPI, 3.8%, at the commencement of the reporting period.

### 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 agreed with 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 FY22 for KMP was structured as follows:

<b>Performance period</b>	Annual award for Financial KPIs Six monthly award for Strategy, Customer and People KPIs
<b>Opportunity</b>	CEO – 105% of fixed remuneration comprised of 52.5% for on target performance, and 52.5% for outperformance CFO – 65% of fixed remuneration comprised of 32.5% for on target performance, and 32.5% for outperformance
<b>How the STI is paid?</b>	In cash for on target performance In share rights for outperformance, deferred for 12 months
<b>On target performance measures</b>	Financial KPIs 60% weighting Strategy, Customer and People KPIs 40% weighting
<b>Performance measure for outperformance component</b>	Starting at \$1.5m above FY21 EBIT and increasing progressively
<b>How is STI assessed?</b>	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 FY22 STI scorecard KPIs and assessment applied to the CEO.

#### CEO

KPI	2022 Performance Assessment
<b>FINANCIAL (60% weighting)</b>	
EBIT	Outperformance target achieved for EBIT
Sales, Margin, Costs	On target performance achieved for Sales, Margin and Costs
<b>STRATEGY (15% weighting)</b>	
Click and collect, Canadian credit, Marketplace model, New channel growth strategy, ESG strategy, New support office, Capital allocation	On target performance achieved for all objectives
<b>CUSTOMER (15% weighting)</b>	
Store refresh program, Canadian performance and productivity, Brand health tracking, Customer segmentation strategy, Brilliance loyalty program	On target performance achieved for all objectives
<b>PEOPLE (10% weighting)</b>	
Culture and engagement, Talent and retention	On target performance achieved for all objectives

The CEO and CFO earned 100% of their on target STI. This STI was awarded due to the achievement in full of the KPIs related to the financial, strategy, customer and people performance measures.

An outperformance STI in the form of deferred share rights was awarded to both KMP due to the achievement of the EBIT outperformance measure. An overall payment of 100% of total maximum STI potential was achieved.

### Analysis Of Bonuses Included In Remuneration

	Incentive			Remuneration			Amount forfeited
	On target achieved	Out-performance achieved	Total potential available	Cash STI component	Deferred share rights component	Total STI included	
	%	%	\$	\$	\$	\$	\$
<b>KMP's short-term incentive cash bonuses</b>							
Daniel Bracken	100	100	1,071,088	535,544	535,544	1,071,088	-
Andrew Lowe	100	100	338,357	169,178	169,179	338,357	-



## LTI Scheme

The FY22 LTI program for KMP was structured as follows:

Performance period	3 years
Opportunity	CEO - 52.5% of fixed remuneration CFO - 32.5% of fixed remuneration
Instrument	Share rights
Performance metric	Total Shareholder Return (TSR) compound annual growth rate (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 FY24 results), and satisfaction of the TSR target metric, 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"><li>- No rights vest if TSR is equal to or less than 10% CAGR</li><li>- 10% of share rights vest for each 1% increase in CAGR performance between 10% CAGR to 20% CAGR</li><li>- 100% of share rights vest if TSR is equal to or above 20% CAGR</li></ul> 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 metric has been deemed by the PDRC to be a 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

## FY22 LTI Outcomes

Both executive KMP were eligible to participate in the FY22 LTI in accordance with the LTI program detailed in the preceding table. For the CEO, the grant of share rights under the FY22 LTI plan was approved by shareholders at the FY22 Annual General Meeting. Further details of the number of share rights granted to the CEO and CFO in relation to the FY22 LTI can be found later in this report under the heading 'Share Rights'.

Daniel Bracken, CEO, commenced with the Company in FY19 and participated in that year's LTI, which has three vesting dates over consecutive years, commencing in FY23. No share rights vested for the CEO in FY22.

Andrew Lowe, CFO, commenced with the Company in FY18 and participated in that year's LTI, which has three vesting dates over consecutive years. Andrew's first tranche of that scheme, 4,325 share rights vested and were exercised in August 2021. No other share rights vested for the CFO in FY22.

## 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 FY22 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 FY22 year were \$104,235 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	21,535
Audit and Risk	32,303

It is the Company's policy to consider CPI in determining any increase to directors' fees annually. In FY22, CPI was 3.8% and non-executive director fees increased by this percentage.

All non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of director. 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 FY22

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			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>NON-EXECUTIVE DIRECTORS</b>											
<b>Emma Jane Hill</b>											
2022	121,907	-	-	121,907	-	-	-	-	121,907	-	-
2021	194,736	-	-	194,736	-	-	-	-	194,736	-	-
<b>Sir Richard Michael Hill</b>											
2022	101,034	-	-	101,034	-	-	-	-	101,034	-	-
2021	97,368	-	-	97,368	-	-	-	-	97,368	-	-
<b>Gary Warwick Smith</b>											
2022	124,125	-	-	124,125	-	12,413	-	-	136,538	-	-
2021	120,127	-	-	120,127	-	11,412	-	-	131,539	-	-
<b>Robert Ian Fyfe</b>											
2022	202,068	-	-	202,068	-	-	-	-	202,068	-	-
2021	117,485	-	-	117,485	-	-	-	-	117,485	-	-
<b>Jacqueline Elizabeth Naylor</b>											
2022	94,759	-	-	94,759	-	9,476	-	-	104,235	-	-
2021	88,180	-	-	88,180	-	8,377	-	-	96,557	-	-
<b>Janine Suzanne Allis (retired 27 October 2020)</b>											
2022	-	-	-	-	-	-	-	-	-	-	-
2021	30,485	-	-	30,485	-	2,896	-	-	33,381	-	-
<b>TOTAL DIRECTOR REMUNERATION</b>											
2022	643,893	-	-	643,893	-	21,889	-	-	665,782	-	-
2021	648,381	-	-	648,381	-	22,685	-	-	671,066	-	-
<b>KMP</b>											
<b>Daniel Bracken, CEO</b>											
2022	1,050,052	535,544	535,543	2,121,139	35,231	27,500	-	156,176	2,340,046	45.77%	6.67%
2021	1,025,532	620,487	-	1,646,019	16,962	25,000	-	33,716	1,721,697	36.04%	1.96%
<b>Andrew Lowe, CFO</b>											
2022	502,689	169,179	169,179	841,047	15,673	27,500	-	47,161	931,381	36.33%	5.06%
2021	483,848	184,526	-	668,374	12,930	25,000	-	19,684	725,988	25.42%	2.71%
<b>Andrea Slingsby, COO (ceased 22 January 2021)</b>											
2022	-	-	-	-	-	-	-	-	-	-	-
2021	293,388	70,000	-	363,388	-	14,904	-	19,909	398,201	17.58%	5.00%
<b>Vanessa Brennan, CBSO (commenced 11 August 2020 and ceased 13 December 2020)</b>											
2022	-	-	-	-	-	-	-	-	-	-	-
2021	136,657	-	-	136,657	-	8,654	-	13,489	158,800	-	8.49%
<b>TOTAL KMP REMUNERATION</b>											
2022	1,552,741	704,723	704,722	2,962,186	50,904	55,000	-	203,337	3,271,427	43.08%	6.22%
2021	1,939,425	875,013	-	2,814,438	29,892	73,558	-	86,798	3,004,686	29.12%	2.89%
<b>TOTAL DIRECTOR AND KMP REMUNERATION</b>											
2022	2,196,634	704,723	704,722	3,606,079	50,904	76,889	-	203,337	3,937,209	35.80%	5.16%
2021	2,587,806	875,013	-	3,462,819	29,892	96,243	-	86,798	3,675,752	23.80%	2.36%

\*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 Australian 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').

## UNISSUED SHARES

As at the date of this report, there were 1,000,000 unissued ordinary shares under options. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

## ANALYSIS OF OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

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

## SHARE RIGHTS

The number of share rights issued to KMP and senior management during FY22 was 2,106,647 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 \$
<b>KMP</b>		
Daniel Bracken	634,081	0.29
Andrew Lowe	200,307	0.29

## 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:

KMP share rights movements	Balance at start of the year		Issued Number	Forfeited Number	Vested Number	Exercised Number	Balance at end of the year		Value of rights issued during the year \$
	Vested and Exercisable Number	Unvested Number					Vested and Exercisable Number	Unvested Number	
Daniel Bracken*	-	2,310,215	634,081	-	-	-	-	2,944,296	183,883
Andrew Lowe	-	679,575	200,307	-	-	(4,325)	-	875,557	58,089
<b>Total</b>	<b>-</b>	<b>2,989,790</b>	<b>834,388</b>	<b>-</b>	<b>-</b>	<b>(4,325)</b>	<b>-</b>	<b>3,819,853</b>	<b>241,973</b>

\*Share rights granted to Daniel Bracken during the reporting period were approved by shareholders at the Company's 2021 AGM as required by ASX Listing Rule 10.14.

Share rights relating to FY23 LTI plan are anticipated to be granted in late 2022. The number of share rights granted will depend on the Michael Hill International Limited's share price over the five days prior to the grant date.

## 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
<b>NON-EXECUTIVE DIRECTORS</b>				
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	2,693,640	-	(400,000)	2,293,640
Jacqueline Naylor	160,000	-	-	160,000
<b>KMP</b>				
Daniel Bracken	201,869	-	-	201,869
Andrew Lowe	-	4,325	-	4,325

\*Includes common shareholding due to a related party.

## VOTING OF SHAREHOLDERS AT LAST YEAR'S ANNUAL GENERAL MEETING

The Company received 99.3% of "For" votes on its remuneration report for FY21. 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.

## 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:

ERNST & YOUNG (AUSTRALIA)	2022	2021
	\$	\$
Advisory fees	3,682	3,682
<b>Total remuneration for non-audit services</b>	<b>3,682</b>	<b>3,682</b>

## 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 26 August 2022 in accordance with a resolution of directors as required by section 298 of the Corporations Act 2001.



R I Fyfe  
Chair

Brisbane  
26 August 2022



**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 26 June 2022, 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.

A handwritten signature in cursive script that reads "Ernst &amp; Young".

Ernst & Young

A handwritten signature in cursive script that reads "K McKenzie".

Kellie McKenzie  
Partner  
26 August 2022

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	2022 \$'000	2021 \$'000
<b>Profit or loss</b>			
Revenue from contracts with customers	A2	595,210	556,486
Other income	A3	8,913	17,969
Cost of goods sold		(210,384)	(207,570)
Employee benefits expense	D1	(155,332)	(149,653)
Occupancy costs		(9,446)	(15,135)
Marketing expenses		(41,174)	(28,325)
Selling expenses		(17,674)	(17,959)
Impairment of property, plant and equipment	F5	(521)	(1,883)
Impairment of other assets		(3,253)	(3,513)
Depreciation and amortisation expense	F1	(51,944)	(48,061)
Loss on disposal of property, plant and equipment		(231)	(448)
Other expenses		(40,912)	(35,232)
Finance expenses	F1	(7,549)	(7,595)
<b>Profit before income tax</b>		<b>65,703</b>	<b>59,081</b>
Income tax expense	F9	(18,991)	(18,066)
<b>Profit for the year</b>		<b>46,712</b>	<b>41,015</b>

	NOTES	2022 \$'000	2021 \$'000
<b>Other comprehensive income</b>			
Item that may be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges		-	34
Currency translation differences arising during the year		(977)	(177)
Other comprehensive income for the year, net of tax		(977)	(143)
<b>Total comprehensive income for the year</b>		<b>45,735</b>	<b>40,872</b>
<b>Total comprehensive income for the year is attributable to:</b>			
<b>Owners of Michael Hill International Limited</b>		<b>45,735</b>	<b>40,872</b>

	NOTES	2022 cents	2021 cents
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share	F2	12.03	10.57
Diluted earnings per share	F2	11.86	10.53

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

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	2022 \$'000	2021 \$'000 RESTATED <sup>1</sup>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	B1	95,844	72,361
Trade and other receivables	F3	7,541	8,352
Inventories	A4	181,539	171,246
Assets held for sale	F4	-	14,397
Current tax receivables		944	732
Contract assets	A2	845	406
Other current assets		5,419	3,576
<b>Total current assets</b>		<b>292,132</b>	<b>271,070</b>
<b>Non-current assets</b>			
Trade and other receivables	F3	227	-
Right-of-use assets	A5	107,385	105,882
Property, plant and equipment	F5	41,012	36,453
Intangible assets	F6	10,989	6,013
Deferred tax assets	F9	58,552	68,329
Contract assets	A2	488	739
Other non-current assets		394	537
<b>Total non-current assets</b>		<b>219,047</b>	<b>217,953</b>
<b>Total assets</b>		<b>511,179</b>	<b>489,023</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	F7	78,397	73,961
Lease liabilities	A5	38,183	34,304
Contract liabilities	A2	24,818	24,157
Provisions	F8	14,306	14,854
Liabilities directly associated with assets held for sale	F4	-	1,607
Current tax liabilities		2,093	1,886
Deferred revenue		799	753
<b>Total current liabilities</b>		<b>158,596</b>	<b>151,522</b>
<b>Non-current liabilities</b>			
Lease liabilities	A5	91,386	99,382
Contract liabilities	A2	58,605	56,393
Provisions	F8	7,497	7,413
<b>Total non-current liabilities</b>		<b>157,488</b>	<b>163,188</b>
<b>Total liabilities</b>		<b>316,084</b>	<b>314,710</b>
<b>Net assets</b>		<b>195,095</b>	<b>174,313</b>
<b>EQUITY</b>			
Contributed equity	F11	11,388	11,285
Reserves		3,369	4,216
Retained profits		180,338	158,812
<b>Total equity</b>		<b>195,095</b>	<b>174,313</b>

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

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	CASH FLOW HEDGE RESERVE	RETAINED PROFITS	TOTAL EQUITY
Attributable to owners of Michael Hill International Limited		\$'000	\$'000	\$'000	\$'000	\$'000	
<b>Balance at 29 June 2020</b>		<b>11,016</b>	<b>697</b>	<b>3,757</b>	<b>(34)</b>	<b>138,370</b>	<b>153,806</b>
Accounting policy change - SaaS implementation costs	I1(R)	-	-	(1)	-	(14,770)	(14,771)
<b>Restated total equity at the beginning of the financial year</b>		<b>11,016</b>	<b>697</b>	<b>3,756</b>	<b>(34)</b>	<b>123,600</b>	<b>139,035</b>
Profit for the year <sup>1</sup>		-	-	-	-	41,015	41,015
Currency translation differences		-	-	(177)	-	-	(177)
Derivative fair value changes		-	-	-	34	-	34
<b>Total comprehensive income for the year<sup>1</sup></b>		<b>-</b>	<b>-</b>	<b>(177)</b>	<b>34</b>	<b>41,015</b>	<b>40,872</b>
<b>Transactions with members in their capacity as owners:</b>							
Dividends paid	B2	-	-	-	-	(5,820)	(5,820)
Issue of share capital on exercise of share rights	F11	269	(269)	-	-	-	-
Transfer option reserve on forfeiture of vested options	D3	-	(17)	-	-	17	-
Share-based payments expense	D3	-	226	-	-	-	226
		<b>269</b>	<b>(60)</b>	<b>-</b>	<b>-</b>	<b>(5,803)</b>	<b>(5,594)</b>
<b>Balance at 27 June 2021<sup>1</sup></b>		<b>11,285</b>	<b>637</b>	<b>3,579</b>	<b>-</b>	<b>158,812</b>	<b>174,313</b>
Profit for the year		-	-	-	-	46,712	46,712
Currency translation differences		-	-	(977)	-	-	(977)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>(977)</b>	<b>-</b>	<b>46,712</b>	<b>45,735</b>
<b>Transactions with members in their capacity as owners:</b>							
Dividends paid	B2	-	-	-	-	(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
		<b>103</b>	<b>130</b>	<b>-</b>	<b>-</b>	<b>(25,186)</b>	<b>(24,953)</b>
<b>Balance at 26 June 2022</b>		<b>11,388</b>	<b>767</b>	<b>2,602</b>	<b>-</b>	<b>180,338</b>	<b>195,095</b>

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note I1(R) for details.

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



# CONSOLIDATED STATEMENT OF CASH FLOWS

	NOTES	2022 \$'000	2021 \$'000 RESTATED <sup>1</sup>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers (inclusive of GST and sales taxes)		686,575	657,320
Payments to suppliers and employees (inclusive of GST and sales taxes)		(541,509)	(492,976)
		<b>145,066</b>	<b>164,344</b>
Proceeds from sale of in-house Canadian customer finance debtors	F4	14,209	-
Interest received		16	4
Other revenue received		4,477	14,442
Interest paid		(795)	(1,036)
Leasing interest paid	A5	(6,682)	(6,653)
Income tax paid		(8,280)	(4,082)
Net GST and sales taxes paid		(36,437)	(32,522)
<b>Net cash inflow from operating activities</b>	<b>B1</b>	<b>111,574</b>	<b>134,497</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		36	73
Payments for property, plant and equipment	F5	(15,611)	(6,430)
Payments for intangible assets	F6	(6,860)	(3,642)
<b>Net cash (outflow) from investing activities</b>		<b>(22,435)</b>	<b>(9,999)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		-	2,000
Repayment of borrowings		-	(12,682)
Principal portion of lease payments	A5	(40,464)	(40,997)
Dividends paid to Company's shareholders		(25,239)	(11,636)
<b>Net cash (outflow) from financing activities</b>		<b>(65,703)</b>	<b>(63,315)</b>
<b>Net increase in cash and cash equivalents</b>		<b>23,435</b>	<b>61,183</b>
Cash and cash equivalents at the beginning of the financial year		72,361	11,204
Effects of exchange rate changes on cash and cash equivalents		48	(26)
<b>Cash and cash equivalents at the end of the financial year</b>	<b>B1</b>	<b>95,844</b>	<b>72,361</b>

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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# 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 26 June 2022 were authorised for issue in accordance with a resolution of the directors on 26 August 2022. 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

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## 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 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)
<b>Segment EBIT*</b>	<b>51,805</b>	<b>28,409</b>	<b>34,193</b>	<b>(48,674)</b>	<b>65,733</b>	<b>7,503</b>	<b>73,236</b>
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)
<b>Net profit before tax</b>	<b>51,755</b>	<b>28,407</b>	<b>34,193</b>	<b>(49,473)</b>	<b>64,882</b>	<b>821</b>	<b>65,703</b>
Income tax expense							(18,991)
<b>Net profit after tax</b>							<b>46,712</b>

	Australia \$'000	New Zealand \$'000	Canada \$'000	Corporate & other \$'000	Group pre- adjustments \$'000	Adjustments \$'000	Group \$'000
						RESTATED <sup>1</sup>	RESTATED <sup>1</sup>
<b>Year ended 27 June 2021</b>							
Operating revenue	312,264	118,663	123,930	1,629	556,486	-	556,486
Gross profit	194,148	73,554	76,017	5,197	348,916	-	348,916
Gross margin	62.2%	62.0%	61.3%		62.7%		62.7%
EBITDA*	69,250	35,117	20,935	(40,411)	84,891	29,842	114,733
Depreciation and amortisation	(6,361)	(1,996)	(5,100)	(3,233)	(16,690)	(31,371)	(48,061)
<b>Segment EBIT*</b>	<b>62,889</b>	<b>33,121</b>	<b>15,835</b>	<b>(43,644)</b>	<b>68,201</b>	<b>(1,529)</b>	<b>66,672</b>
EBIT as a % of revenue	20.1%	27.9%	12.8%		12.3%		12.0%
Interest income	-	-	-	4	4	-	4
Finance costs	(68)	(7)	-	(867)	(942)	(6,653)	(7,595)
<b>Net profit before tax</b>	<b>62,821</b>	<b>33,114</b>	<b>15,835</b>	<b>(44,507)</b>	<b>67,263</b>	<b>(8,182)</b>	<b>59,081</b>
Income tax expense							(18,066)
<b>Net profit after tax</b>							<b>41,015</b>

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

## A2 REVENUE

	2022 \$'000	2021 \$'000
Revenue from sale of goods and repair services	561,293	525,781
Revenue from Professional Care Plans (PCP)	30,742	27,310
Interest and other revenue from in-house customer finance program	2,437	2,792
Revenue from Lifetime Diamond Warranty (LTDW)	738	603
<b>Total revenue from contracts with customers</b>	<b>595,210</b>	<b>556,486</b>

### 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:

2022	Australia \$'000	New Zealand \$'000	Canada \$'000	Corporate & other \$'000	Total \$'000
<b>Timing of revenue recognition</b>					
At a point in time	286,687	111,885	162,665	56	561,293
Over time	16,722	5,708	11,365	122	33,917
	<b>303,409</b>	<b>117,593</b>	<b>174,030</b>	<b>178</b>	<b>595,210</b>

### 2021

#### Timing of revenue recognition

At a point in time	296,723	113,547	114,099	1,412	525,781
Over time	15,541	5,116	9,831	217	30,705
	<b>312,264</b>	<b>118,663</b>	<b>123,930</b>	<b>1,629</b>	<b>556,486</b>

### ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

	2022 \$'000	2021 \$'000
Right of return assets	577	58
Deferred PCP bonuses	756	1,087
<b>Total contract assets</b>	<b>1,333</b>	<b>1,145</b>
Deferred service revenue - PCP	77,148	76,581
Deferred service revenue - Lifetime Diamond Warranty	4,808	3,821
Rights of return liabilities	1,467	148
<b>Total contract liabilities</b>	<b>83,423</b>	<b>80,550</b>

## 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:

	2022 \$'000	2021 \$'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	24,896	22,243
Impact on revenue recognised relating to performance obligations satisfied in previous years	-	(1,305)

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 statement of 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

	2022 \$'000	2021 \$'000
Net foreign exchange gains	169	2,367
Government grants	2,864	14,593
Other items	5,880	1,009
	<b>8,913</b>	<b>17,969</b>

The Group received grants in relation to COVID-19 wage subsidies in all three markets. These grants were accounted for as income upon recognition of the corresponding employee benefit expense as satisfactory pre-requisites of the grant were met. Further information regarding wage subsidies is disclosed in note 12.

## A4 INVENTORIES

	2022 \$'000	2021 \$'000
Raw materials	13,033	12,435
Finished goods	162,138	156,199
Packaging and other consumables	6,368	2,612
	<b>181,539</b>	<b>171,246</b>

Finished goods are held at the lower of cost or net realisable value (NRV). During the year, finished goods incurred a write-down of \$2,565,000 (2021: \$2,327,000) to be carried at NRV. This is recognised in cost of goods sold.

## A5 LEASES

	2022	2021
	\$'000	\$'000
<b>RIGHT-OF-USE ASSETS</b>		
Right-of-use assets	221,894	179,524
Less: Accumulated depreciation	(113,863)	(72,925)
Less: Accumulated impairment	(646)	(717)
	<b>107,385</b>	<b>105,882</b>

	NOTES	2022	2021
		\$'000	\$'000
<b>RECONCILIATION OF RIGHT-OF-USE ASSETS</b>			
Opening carrying value		105,882	123,911
Additional right-of-use assets relating to leases entered into during the year		34,395	13,311
Lease modifications agreed during the year		6,514	7,581
Depreciation expense	F1	(39,257)	(35,357)
Reduction in right-of-use assets as a consequence of COVID-19 on rent concessions		(1,106)	(3,902)
Foreign currency translation		957	338
<b>Closing carrying value</b>		<b>107,385</b>	<b>105,882</b>

	2022	2021
	\$'000	\$'000
<b>LEASE LIABILITIES</b>		
Current	38,183	34,304
Non-current	91,386	99,382
	<b>129,569</b>	<b>133,686</b>

	NOTES	2022	2021
		\$'000	\$'000
<b>RECONCILIATION OF LEASE LIABILITIES</b>			
Opening carrying value		133,686	158,012
Additional lease liabilities entered into during the year		35,173	13,177
Lease modifications agreed during the year		1,108	7,517
Net reduction in future lease payments as a consequence of COVID-19 on rent concessions		(1,106)	(3,902)
Interest expense	F1	6,682	6,653
Lease repayments		(47,146)	(47,650)
Foreign currency translation		1,172	(121)
<b>Closing carrying value</b>		<b>129,569</b>	<b>133,686</b>

The incremental borrowing rate used in determining the lease liability ranged between 1.44% and 9.30% (2021: 1.47% and 7.12%).

Expenses relating to short-term leases during the period of \$1,478,000 (2021: \$6,444,000) were included in occupancy costs.

### 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.

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to AASB16 *Leases*. The amendments provide relief to lessees from applying AASB16 *Leases* guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under AASB16 *Leases*, if the change were not a lease modification. The Group has applied this practical expedient in the consolidated financial statements for all COVID-19 impacted leases. Where the practical expedient has been applied, the Group has remeasured its lease liabilities, using the remeasured consideration (e.g., reflecting the lease payment reduction or lease payment deferral provided by the lessor), with a corresponding adjustment to the right-of-use asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in note I1(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 I2).

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:

			2022			2021
	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	163	202	<b>365</b>	277	55	<b>332</b>

### 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 Dividends

### B1 CASH AND CASH EQUIVALENTS

	2022	2021
	\$'000	\$'000
Cash at bank and on hand	95,844	72,361

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

	NOTES	2022	2021
		\$'000	\$'000
			RESTATED <sup>1</sup>
Profit for the year		46,712	41,015
Adjustment for:			
Depreciation of property, plant and equipment	F5	10,954	11,746
Depreciation of right-of-use assets	A5	39,257	35,357
Amortisation of intangible assets	F6	1,733	958
Impairment of property, plant and equipment	F5	521	1,883
Impairment of other assets		3,253	3,513
Non-cash employee benefits expense - share-based payments	D3	286	226
Make good interest		109	(57)
Net loss on sale of non-current assets		231	448
Net exchange differences		335	2,999
Other non-cash movements		(5,338)	-
<b>Change in operating assets and liabilities</b>			
(Increase)/decrease in trade and other receivables		14,037	13,163
(Increase)/decrease in inventories		(10,812)	7,663
(Increase)/decrease in deferred tax assets		9,778	14,708
(Increase)/decrease in other non-current assets		393	451
(Increase)/decrease in other current assets		(904)	(1,192)
(Decrease)/increase in trade and other payables		187	6,637
(Decrease)/increase in current tax liabilities		(6)	2,896
(Decrease)/increase in provisions		855	(11,114)
(Decrease)/increase in contract liabilities		(7)	3,197
<b>Net cash inflow from operating activities</b>		<b>111,574</b>	<b>134,497</b>

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

### B2 DIVIDENDS

	2022	2021
	\$'000	\$'000
<b>Ordinary shares</b>		
Final dividend for the year ended 27 June 2021 of 3.0 cents per fully paid share paid on 24 September 2021 (2020: no final dividend)	11,649	-
Interim dividend for the year ended 26 June 2022 of 3.5 cents (2021: 1.5 cents) per fully paid share paid on 25 March 2022 (2021: 26 March 2021)	13,590	5,820
	<b>25,239</b>	<b>5,820</b>

	2022	2021
	\$'000	\$'000
<b>Dividends not recognised at the end of the reporting period</b>		
Since year-end, the Directors have recommended a 4.0 cents (2021: 3.0 cents) per fully paid share final dividend.	15,531	11,644

	2022	2021
	\$'000	\$'000
<b>Franking and imputation credits</b>		
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2021: 30.0%)	2,679	2,552
Imputation credits (NZ\$) available for subsequent reporting periods based on New Zealand tax rate of 28.0% (2021: 28.0%)	12,116	18,072

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 impact on the imputation credit account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, is estimated to be a reduction in the imputation credit account of NZ\$6,734,292 (2021: NZ\$4,736,175). The amount of imputation credits is dependent on the NZD exchange rate at the time of the dividend.

## 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. 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
<b>Market risk</b>			
- 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
<b>Credit risk</b>			
	Cash and cash equivalents and trade receivables	Ageing analysis	Diversification of bank deposits, credit limits and letters of credit
<b>Liquidity risk</b>			
	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. 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:

	26 June 2022				27 June 2021			
	USD \$'000	NZD \$'000	CAD \$'000	EUR \$'000	USD \$'000	NZD \$'000	CAD \$'000	EUR \$'000
Cash and cash equivalents	10,348	-	-	117	1,633	7	4	-
Trade receivables	318	3	9	15	839	-	8	-
Trade payables	(11,302)	(108)	(59)	(793)	(15,723)	(36)	(42)	-
Forward exchange contracts:								
Buy foreign currency	-	-	-	-	7,780	-	-	-
Sell foreign currency	-	-	-	-	-	(5,000)	(5,000)	-
<b>Net foreign currency exposure</b>	<b>(636)</b>	<b>(105)</b>	<b>(50)</b>	<b>(661)</b>	<b>(5,471)</b>	<b>(5,029)</b>	<b>(5,030)</b>	<b>-</b>

#### 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	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
AUD increases 10%	190	1,574	-	-
AUD decreases 10%	(232)	(1,924)	-	-

## Interest Rate Risk

The Group had no borrowings and a cash surplus at the end of the reporting period. The Group is exposed to interest rate risk on its cash holdings.

### Sensitivity

As the Group has a cash surplus with no borrowings, profit or loss is sensitive to higher/lower interest revenue from cash and cash equivalents as a result of changes in interest rates. All other non-derivative and non-lease financial liabilities have a contractual maturity of less than six months.

	Impact on pre-tax profit		Impact on other components of equity	
	2022	2021	2022	2021
	\$'000	\$'000	\$'000	\$'000
Interest rates - increase by 100 basis points	958	724	-	-
Interest rates - decrease by 100 basis points*	(958)	-	-	-

\*Deposit rates in prior period were close to nil. Negative interest rates were not modelled due to the low probability of this occurring within the geographical segments in which the Group trades.

## 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. 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 the following undrawn borrowing facilities at the end of the reporting year:

	2022	2021
	\$'000	\$'000
<b>Floating rate</b>		
- Expiring beyond one year (bank overdrafts)	1,909	1,932
- Expiring beyond one year (bank loans)	70,000	70,000
	<b>71,909</b>	<b>71,932</b>

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 29 February 2024.

### 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.

Contractual maturities of financial liabilities	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flow
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 26 June 2022</b>						
<b>Non-derivatives</b>						
Lease liabilities	21,730	19,806	32,499	51,798	20,146	145,979
Trade payables	78,397	-	-	-	-	78,397
<b>Total non-derivatives</b>	<b>100,127</b>	<b>19,806</b>	<b>32,499</b>	<b>51,798</b>	<b>20,146</b>	<b>224,376</b>
The Group did not hold any derivatives at financial year end.						
<b>At 27 June 2021</b>						
<b>Non-derivatives</b>						
Lease liabilities	19,831	18,300	30,378	51,179	34,661	154,349
Trade payables	73,961	-	-	-	-	73,961
<b>Total non-derivatives</b>	<b>93,792</b>	<b>18,300</b>	<b>30,378</b>	<b>51,179</b>	<b>34,661</b>	<b>228,310</b>
<b>Derivatives</b>						
Gross settled (FECs)	232	-	-	-	-	232

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

### ACCOUNTING POLICY

#### Initial recognition and subsequent measurement

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

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

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

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

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

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

#### Fair value hedge

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

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

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

#### Cash flow hedge

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

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

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

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

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

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

#### Classification of derivatives

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

### Derivatives not designated as hedging instruments

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

### Hedging reserves

In the current period the Group did not have any hedging in place that impacted the hedging reserves disclosed in the statement of changes in equity (2021: \$34,000 loss was reclassified from the cashflow hedge reserve to profit or loss).

### Amounts recognised in profit or loss

In addition to the amounts disclosed in the reconciliation of hedging reserves above, the following amounts were recognised in profit or loss in relation to derivatives:

	2022 \$'000	2021 \$'000
Net foreign exchange gain included in other income	-	232

### Hedge ineffectiveness

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

## 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

	2022	2021
	\$'000	\$'000
		RESTATED <sup>1</sup>
<b>EMPLOYEE BENEFITS</b>		
Employee wages	139,155	135,181
Employee wages on-costs and post-retirement benefits	15,891	14,246
Employee share-based payments expense	286	226
	<b>155,332</b>	<b>149,653</b>

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

### D2 KEY MANAGEMENT PERSONNEL

	2022	2021
	\$	\$
Short-term employee benefits	2,962,186	2,814,438
Long-term benefits	50,904	29,892
Post-employment benefits	55,000	73,558
Share-based payments	203,337	86,798
	<b>3,271,427</b>	<b>3,004,686</b>

### 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.

	2022		2021	
	Average exercise price per option	Number of options	Average exercise price per option	Number of options
<b>Set out below are summaries of options granted under the plan:</b>				
Opening balance NZD options	1.63	1,000,000	1.56	1,100,000
Expired during the year	-	-	0.88	(100,000)
Vested options forfeited during the year	1.46	(300,000)	-	-
<b>Closing balance NZD options</b>	<b>1.70</b>	<b>700,000</b>	<b>1.63</b>	<b>1,000,000</b>
Opening balance AUD options	1.56	300,000	1.56	300,000
<b>Closing balance AUD options</b>	<b>1.56</b>	<b>300,000</b>	<b>1.56</b>	<b>300,000</b>

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

Grant date	Expiry date	Exercise price	2022	2021
16 November 2011	30 September 2021	NZ\$1.16	-	100,000
19 September 2012	30 September 2022	NZ\$1.41	-	100,000
18 September 2013	30 September 2023	NZ\$1.82	-	100,000
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
			<b>1,000,000</b>	<b>1,300,000</b>

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.8 years (2021: 3.2 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.

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 2,106,647 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.

	2022		2021	
	Average fair value per share right	Number of share rights	Average fair value per share right	Number of share rights
Opening balance	0.20	4,577,518	0.81	788,798
Granted	0.29	2,106,647	0.15	4,189,622
Exercised	0.86	(143,225)	0.72	(373,044)
Forfeited	0.30	(428,608)	1.41	(27,858)
<b>Closing balance</b>	<b>0.21</b>	<b>6,112,332</b>	<b>0.20</b>	<b>4,577,518</b>

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:

	2022	2021
Number of rights*	2,106,647	3,878,533
Share price	\$0.85	\$0.39
Annualised volatility	40%	45%
Expected dividend yield	7.0%	10.0%
Risk free rate	0.18%	0.27%
Fair value of share right	\$0.29	\$0.13

\*Further to the share rights issued above, in 2021 there were an additional 311,089 share rights issued on 6 October 2020 with a fair value of \$0.35 per right.

	2022	2021
	\$'000	\$'000
Expenses arising from share-based payment transactions	286	226

## 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

	2022	2021
Related party transactions	\$	\$
Graphic design services rendered by a related party of board members	16,621	13,559

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	Assets held for sale and directly associated liabilities
F5	Property, plant and equipment
F6	Intangible assets
F7	Trade and other payables
F8	Provisions
F9	Tax
F10	Auditors' remuneration
F11	Contributed equity
F12	Reserves

## F1 EXPENSES

	NOTES	2022 \$'000	2021 \$'000
<b>DEPRECIATION AND AMORTISATION</b>			
			RESTATED <sup>1</sup>
Depreciation on property, plant and equipment	F5	10,954	11,746
Depreciation on right-of-use assets	A5	39,257	35,357
<b>Total depreciation</b>		<b>50,211</b>	<b>47,103</b>
Amortisation on software	F6	1,733	958
<b>Total amortisation</b>		<b>1,733</b>	<b>958</b>
<b>Total depreciation and amortisation</b>		<b>51,944</b>	<b>48,061</b>

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

	NOTES	2022 \$'000	2021 \$'000
<b>FINANCE COSTS</b>			
Interest on lease liabilities	A5	6,682	6,653
Bank and interest charges		758	999
Interest on make good provision		109	(57)
		<b>7,549</b>	<b>7,595</b>

## F2 EARNINGS PER SHARE

	2022 \$'000	2021 \$'000
<b>RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE</b>		
<b>Basic earnings per share</b>		
		RESTATED <sup>1</sup>
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	<b>46,712</b>	<b>41,015</b>
<b>Diluted earnings per share</b>		
Profit from continuing operations attributable to the ordinary equity holders of the Company	<b>46,712</b>	<b>41,015</b>

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

	2022 Number	2021 Number
<b>WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	388,268,845	387,924,289
Adjustments for calculation of diluted earnings per share:		
Share rights	5,668,197	1,771,137
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	<b>393,937,042</b>	<b>389,695,426</b>

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	2022 Total	Current	Non-current	2021 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade receivables	3,795	-	3,795	6,555	-	6,555
Provision for expected credit loss	(657)	-	(657)	(373)	-	(373)
	<b>3,138</b>	<b>-</b>	<b>3,138</b>	<b>6,182</b>	<b>-</b>	<b>6,182</b>
Canadian in-house customer finance	524	240	764	-	-	-
Provision for expected credit loss	(202)	(13)	(215)	-	-	-
	<b>322</b>	<b>227</b>	<b>549</b>	<b>-</b>	<b>-</b>	<b>-</b>
Sundry debtors	4,081	-	4,081	2,170	-	2,170
	<b>7,541</b>	<b>227</b>	<b>7,768</b>	<b>8,352</b>	<b>-</b>	<b>8,352</b>

#### 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. 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 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.

	2022	2021
	\$'000	\$'000
<b>Ageing of trade receivables</b>		
Current	2,829	5,961
< 30 days past due	254	298
30 - 60 days past due	84	-
60+ days past due	628	296
	<b>3,795</b>	<b>6,555</b>

	2022	2021
	\$'000	\$'000
<b>Movements in the provision for ECL of trade receivables are as follows:</b>		
Opening balance	373	340
Additional provisions recognised	614	16
Net amounts written back/(written off)	(329)	17
Exchange differences	(1)	-
<b>Closing balance</b>	<b>657</b>	<b>373</b>

	2022	2021
	\$'000	\$'000
<b>Ageing of Canadian in-house customer debtor finance</b>		
Current, aged 0 - 30 days	600	-
Past due, aged 31 - 90 days	40	-
Past due, aged more than 90 days	124	-
	<b>764</b>	<b>-</b>

	2022	2021
	\$'000	\$'000
Movements in the provision for ECL of Canadian in-house customer debtor finance are as follows:		
Opening balance	-	1,436
Additional provisions recognised	1,382	-
Net amounts written off	(1,149)	(1,488)
Exchange differences	(18)	52
<b>Closing balance</b>	<b>215</b>	<b>-</b>

#### F4 ASSETS HELD FOR SALE AND DIRECTLY ASSOCIATED LIABILITIES

	2022	2021
	\$'000	\$'000
Canadian in-house customer finance debtors	-	14,397
<b>Total assets held for sale</b>	<b>-</b>	<b>14,397</b>

	2022	2021
	\$'000	\$'000
Deferred interest revenue	-	1,607
<b>Total liabilities directly associated with assets held for sale</b>	<b>-</b>	<b>1,607</b>

During the year, the Group finalised the sale of the Canadian in-house customer finance debtors, alongside the associated liabilities. In the previous financial year these were classified as assets held for sale, and written down to management's best estimate of net proceeds of the sale and estimated costs of disposal. The sale finalisation resulted in cash inflows of \$14,209,000, derecognition of the sold assets and directly associated liabilities, and recognition of accruals for ongoing service fees. An overall expense of \$1,080,000 in the period (2021: \$2,986,000) was recognised as impairment of other assets. Residual unsold accounts and subsequent customer sales under the program are recorded under trade receivables, refer The loss recognised on this asset sale is included in the Canada segment in note A1.

#### F5 PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment	Fixtures and fittings	Motor vehicles	Leasehold improvements	Display materials	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 29 June 2020</b>						
Cost	32,831	34,431	47	78,164	15,197	160,670
Accumulated depreciation and impairment	(24,576)	(26,325)	(31)	(51,279)	(13,054)	(115,265)
<b>Net book amount</b>	<b>8,255</b>	<b>8,106</b>	<b>16</b>	<b>26,885</b>	<b>2,143</b>	<b>45,405</b>
<b>Year ended 27 June 2021</b>						
Opening net book amount	8,255	8,106	16	26,885	2,143	45,405
Exchange difference	(52)	9	(1)	47	43	46
Additions	2,109	792	-	3,279	250	6,430
Disposals	(413)	(38)	(12)	(1,092)	(244)	(1,799)
Depreciation charge	(2,938)	(2,604)	(3)	(5,329)	(872)	(11,746)
Impairment loss	(349)	(126)	-	(1,357)	(51)	(1,883)
<b>Closing net book amount</b>	<b>6,612</b>	<b>6,139</b>	<b>-</b>	<b>22,433</b>	<b>1,269</b>	<b>36,453</b>
<b>At 27 June 2021</b>						
Cost	33,906	34,291	-	78,996	2,184	149,377
Accumulated depreciation and impairment	(27,294)	(28,152)	-	(56,563)	(915)	(112,924)
<b>Net book amount</b>	<b>6,612</b>	<b>6,139</b>	<b>-</b>	<b>22,433</b>	<b>1,269</b>	<b>36,453</b>
<b>Year ended 26 June 2022</b>						
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)
<b>Closing net book amount</b>	<b>6,742</b>	<b>5,841</b>	<b>-</b>	<b>23,620</b>	<b>4,809</b>	<b>41,012</b>
<b>At 26 June 2022</b>						
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)
<b>Net book amount</b>	<b>6,742</b>	<b>5,841</b>	<b>-</b>	<b>23,620</b>	<b>4,809</b>	<b>41,012</b>

## IMPAIRMENT LOSS

As per the Group's accounting policies, the Group impairs assets where the recoverable amount is less than the carrying amount. This also includes assets held at stores facing closure. Any assets held at an impaired store that are able to be redeployed throughout the Group are not impaired.

A review of impairment indicators was performed due to the potential impact of COVID-19, which resulted in periodic temporary store closures and reduction in sales, as disclosed in note I2. 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 6 - 10 years

## F6 INTANGIBLE ASSETS

	Patents, trademarks and other rights \$'000	Computer software \$'000	Total \$'000
<b>At 29 June 2020</b>		RESTATED <sup>1</sup>	RESTATED <sup>1</sup>
Cost	79	15,320	15,399
Accumulated amortisation and impairment	-	(12,078)	(12,078)
<b>Net book amount</b>	<b>79</b>	<b>3,242</b>	<b>3,321</b>
<b>Year ended 27 June 2021</b>			
Opening net book amount	79	3,242	3,321
Additions	-	3,642	3,642
Disposals	-	8	8
Amortisation charge	-	(958)	(958)
<b>Closing net book amount</b>	<b>79</b>	<b>5,934</b>	<b>6,013</b>
<b>At 27 June 2021</b>			
Cost	79	18,928	19,007
Accumulated amortisation	-	(12,994)	(12,994)
<b>Net book amount</b>	<b>79</b>	<b>5,934</b>	<b>6,013</b>
<b>Year ended 26 June 2022</b>			
Opening net book amount	79	5,934	6,013
Exchange difference	-	(151)	(151)
Additions	-	6,860	6,860
Amortisation charge	-	(1,733)	(1,733)
<b>Closing net book amount</b>	<b>79</b>	<b>10,910</b>	<b>10,989</b>
<b>At 26 June 2022</b>			
Cost	79	25,715	25,794
Accumulated amortisation and impairment	-	(14,805)	(14,805)
<b>Net book amount</b>	<b>79</b>	<b>10,910</b>	<b>10,989</b>

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note I1(R) for details.

## IMPAIRMENT LOSS

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

## F7 TRADE AND OTHER PAYABLES

	2022 \$'000	2021 \$'000
Trade payables	44,558	44,499
Annual leave liability	10,211	9,390
Accrued expenses	4,620	3,453
Other payables	19,008	16,619
	<b>78,397</b>	<b>73,961</b>

## F8 PROVISIONS

	2022			2021		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Employee benefits	10,617	1,667	12,284	13,074	1,732	14,806
Assurance-type warranties	1,613	120	1,733	1,082	280	1,362
Make good provision	1,876	5,710	7,586	306	5,401	5,707
Restructuring costs	80	-	80	152	-	152
Diamond warranty	120	-	120	240	-	240
	<b>14,306</b>	<b>7,497</b>	<b>21,803</b>	<b>14,854</b>	<b>7,413</b>	<b>22,267</b>

	Employee benefits \$'000	Assurance-type warranties \$'000	Make good provision \$'000	Restructuring costs \$'000	Diamond warranty \$'000	Total \$'000
<b>MOVEMENTS IN PROVISIONS</b>						
Opening carrying amount	14,806	1,362	5,707	152	240	22,267
Changes in provisions recognised	2,678	1,845	2,065	80	-	6,668
Amounts incurred and charged	(5,169)	(1,474)	(124)	(152)	(120)	(7,039)
Exchange differences	(31)	-	(62)	-	-	(93)
<b>Closing carrying amount</b>	<b>12,284</b>	<b>1,733</b>	<b>7,586</b>	<b>80</b>	<b>120</b>	<b>21,803</b>

## 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.

## F9 TAX

	2022 \$'000	2021 \$'000
<b>INCOME TAX EXPENSE</b>		
<b>Current tax</b>		RESTATED <sup>1</sup>
Current tax on profits for the year	7,329	4,067
Adjustments for current tax of prior periods	1,618	40
<b>Total current tax expense</b>	<b>8,947</b>	<b>4,107</b>
<b>Deferred income tax</b>		
(Increase)/Decrease in deferred tax assets	11,833	14,003
Adjustments for deferred tax of prior periods	(1,789)	(44)
<b>Total deferred tax expense/(benefit)</b>	<b>10,044</b>	<b>13,959</b>
<b>Income tax expense</b>	<b>18,991</b>	<b>18,066</b>

	2022	2021
	\$'000	\$'000
		RESTATED <sup>1</sup>
<b>NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE</b>		
Profit before income tax expense	65,703	59,081
Tax at the Australian tax rate of 30.0% (2021: 30.0%)	19,711	17,724
Non-deductible expenditure	83	355
Sundry items	(11)	(13)
	<b>19,783</b>	<b>18,066</b>
Difference in overseas tax rates	(787)	31
Adjustments for current tax of prior periods	1,618	40
Adjustments for deferred tax of prior periods	(1,789)	(44)
Utilisation of tax losses not recognised	(1)	(27)
Change in tax rate on deferred tax balance	167	-
<b>Income tax expense</b>	<b>18,991</b>	<b>18,066</b>

	2022	2021
	\$'000	\$'000
<b>TAX LOSSES</b>		
Unused United States tax losses for which no deferred tax asset has been recognised	35,512	32,369
Potential tax benefit @ 25.0%	8,878	8,092
Unused New Zealand tax losses for which no deferred tax asset has been recognised	2,575	2,639
Potential tax benefit @ 28.0%	721	739

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.

	2022	2021
	\$'000	\$'000
		RESTATED <sup>1</sup>
<b>DEFERRED TAX BALANCES</b>		
The balance comprises temporary differences attributable to:		
Expected credit loss provision	246	377
Fixed assets and intangibles	10,558	16,280
Intangible assets from intellectual property transfer	23,468	19,705
Deferred expenditure	(213)	(310)
Prepayments	(12)	(7)
Deferred service revenue	1,002	1,379
Right-of-use assets	(30,485)	(31,798)
Lease liabilities	37,349	40,064
Provisions	16,486	20,190
Unrealised foreign exchange losses	43	885
Sundry items	47	(780)
Inventories	63	2,344
<b>Net deferred tax assets</b>	<b>58,552</b>	<b>68,329</b>
Expected settlement:		
Deferred tax assets expected to be recovered within 12 months	21,082	26,612
Deferred tax assets expected to be recovered after more than 12 months	37,470	41,717
	<b>58,552</b>	<b>68,329</b>
Movements:		
Opening balance at 28 June 2021	68,329	82,212
Credited/(charged) to the income statement	(11,833)	(14,003)
Prior year adjustment	1,790	44
Foreign exchange differences	266	76
<b>Closing balance at 26 June 2022</b>	<b>58,552</b>	<b>68,329</b>

## F10 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:

	2022	2021
	\$	\$
<b>ERNST &amp; YOUNG (AUSTRALIA)</b>		
Fees for auditing the statutory financial report of the Company and its subsidiaries	502,903	554,541
Fees for other services		
Advisory fees	3,682	3,682
	<b>506,585</b>	<b>554,541</b>

## F11 CONTRIBUTED EQUITY

	2022	2021	2022	2021
	Shares	Shares	\$'000	\$'000
<b>SHARE CAPITAL</b>				
Ordinary shares - fully paid	388,285,374	388,142,149	11,388	11,285
<b>Total share capital</b>	<b>388,285,374</b>	<b>388,142,149</b>	<b>11,388</b>	<b>11,285</b>

	Number of shares	Total
		\$'000
<b>MOVEMENTS IN ORDINARY SHARES</b>		
Opening balance at 29 June 2020	387,769,105	11,016
Rights converted	373,044	269
<b>Balance at 27 June 2021</b>	<b>388,142,149</b>	<b>11,285</b>
Rights converted	143,225	103
<b>Balance at 26 June 2022</b>	<b>388,285,374</b>	<b>11,388</b>

### 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.

### 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.

## F12 RESERVES

### NATURE AND PURPOSES OF OTHER RESERVES

#### Cash flow hedges

The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income, as described in note I1(I). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

#### Share-based payments

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remunerations. Refer to note 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 I1(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 GROUP STRUCTURE

G1	Interests in other entities
G2	Deed of cross guarantee
G3	Parent entity financial information

## G1 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 :

	Country of incorporation	Ownership interest held by the group	
		2022 %	2021 %
Michael Hill Jeweller (Australia) Pty Limited	Australia	100	100
Michael Hill Wholesale Pty Limited	Australia	100	100
Michael Hill Manufacturing Pty Limited	Australia	100	100
Michael Hill Franchise Pty Limited	Australia	100	100
Michael Hill Franchise Services Pty Limited	Australia	100	100
Michael Hill Finance (Limited Partnership)	Australia	100	100
Michael Hill Group Services Pty Limited	Australia	100	100
Michael Hill Charms Pty Limited	Australia	100	100
Michael Hill Online Pty Limited	Australia	100	100
Emma & Roe Pty Limited	Australia	100	100
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

## G2 DEED OF CROSS GUARANTEE

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

The subsidiaries subject to the deed are: Durante Holdings Pty Ltd, Michael Hill Group Services Pty Ltd, Michael Hill Jeweller (Australia) Pty Ltd, Michael Hill Manufacturing Pty Ltd, Michael Hill Wholesale Pty Ltd, Michael Hill Franchise Services Pty Ltd, Michael Hill Franchise Pty Ltd, Michael Hill New Zealand Ltd, Michael Hill Jeweller Ltd, Michael Hill Franchise Holdings Ltd, Michael Hill Finance (NZ) Ltd, Michael Hill Online Pty Ltd, Michael Hill Charms Pty Ltd, Emma & Roe Pty Ltd, 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 26 June 2022 of the closed group consisting of Michael Hill International Limited and the entities noted above.

	2022 \$'000	2021 \$'000
<b>Consolidated statement of profit or loss</b>		<b>RESTATED<sup>1</sup></b>
Revenue from sales of goods and services	421,019	431,904
Sales to Group companies not in Closed Group	39,354	47,254
Other income	6,063	15,212
Cost of goods sold	(186,589)	(206,747)
Employee benefits expense	(117,851)	(125,329)
Occupancy costs	(6,711)	(10,758)
Marketing expenses	(29,329)	(20,569)
Selling expenses	(11,971)	(14,480)
Depreciation and amortisation expense	(38,850)	(35,008)
Loss in disposal of property, plant and equipment	(231)	(384)
Other expenses	(15,211)	(14,285)
Finance costs	(5,371)	(5,363)
<b>Profit before income tax</b>	<b>54,322</b>	<b>61,447</b>
Income tax expense	(15,019)	(13,521)
<b>Profit for the year</b>	<b>39,303</b>	<b>47,926</b>

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

	2022 \$'000	2021 \$'000
<b>OTHER COMPREHENSIVE INCOME</b>		<b>RESTATED<sup>1</sup></b>
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	4,977	104
<b>Other comprehensive income for the period, net of tax</b>	<b>4,977</b>	<b>104</b>
<b>Total comprehensive income for the year</b>	<b>44,281</b>	<b>48,030</b>

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

	2022 \$'000	2021 \$'000
<b>STATEMENT OF CHANGES IN EQUITY</b>		<b>RESTATED<sup>1</sup></b>
Equity at the beginning of the financial year	453,554	426,106
Change in accounting policy - SaaS implementation costs	-	(14,771)
Total comprehensive income/(loss)	44,281	48,030
Share rights through share-based payments reserve	286	9
Issue of share capital on exercise of share rights	103	-
Dividends paid	(25,239)	(5,820)
<b>Total equity at the end of the financial year</b>	<b>472,985</b>	<b>453,554</b>

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Set out below is a consolidated statement of financial position as at 26 June 2022 of the Closed Group consisting of Michael Hill International Limited and the entities noted above.

	2022 \$'000	2021 \$'000 RESTATED <sup>1</sup>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	55,499	17,190
Trade receivables	7,010	7,822
Inventories	137,374	133,096
Current tax receivables	-	580
Loans to related parties	251,706	279,769
Other current assets	5,102	3,455
<b>Total current assets</b>	<b>456,691</b>	<b>441,912</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	27,032	21,219
Right-of-use assets	73,601	71,900
Investments in subsidiaries	87,834	87,834
Other non-current assets	767	1,117
Intangible assets	10,989	8,605
Deferred tax assets	48,971	60,552
<b>Total non-current assets</b>	<b>249,194</b>	<b>251,227</b>
<b>Total assets</b>	<b>705,885</b>	<b>693,139</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	58,671	64,922
Lease liabilities	28,351	23,921
Current tax liabilities	2,093	-
Deferred revenue	18,812	18,925
Provisions	14,219	15,172
<b>Total current liabilities</b>	<b>122,146</b>	<b>122,940</b>
<b>NON-CURRENT LIABILITIES</b>		
Lease liabilities	58,295	65,176
Deferred revenue	45,081	44,336
Provisions	7,378	7,133
<b>Total non-current liabilities</b>	<b>110,754</b>	<b>116,645</b>
<b>Total liabilities</b>	<b>232,900</b>	<b>239,585</b>
<b>Net assets</b>	<b>472,985</b>	<b>453,554</b>
<b>EQUITY</b>		
Contributed equity	310,378	310,275
Reserves	(19,525)	(24,789)
Retained profits	182,132	168,068
<b>Total equity</b>	<b>472,985</b>	<b>453,554</b>

<sup>1</sup> Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements. Refer to note 11(R) for details.

## G3 PARENT ENTITY FINANCIAL INFORMATION

### SUMMARY FINANCIAL INFORMATION

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

	2022	2021
	\$'000	\$'000
<b>STATEMENT OF FINANCIAL POSITION</b>		
Current assets	198	344
Non-current assets	425,363	452,206
<b>Total assets</b>	<b>425,561</b>	<b>452,550</b>
Current liabilities	1,398	522
<b>Total liabilities</b>	<b>1,398</b>	<b>522</b>
<b>Net assets</b>	<b>424,163</b>	<b>452,028</b>
Issued capital	291,531	291,445
Reserves	41,617	41,544
Retained earnings	91,015	119,039
<b>Total equity</b>	<b>424,163</b>	<b>452,028</b>
<b>STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b>		
Profit or loss for the year	(28,024)	(8,268)
<b>Total comprehensive income</b>	<b>(28,024)</b>	<b>(8,268)</b>

### 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.

## H UNRECOGNISED ITEMS

H1 Contingencies and commitments

H2 Events occurring after the end of the reporting period

### H1 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 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 26 June 2022.

	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	2,838	12,186	34,342	49,366

### H2 EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

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.

## I SUMMARY OF ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES AND JUDGEMENTS

I1 Summary of significant accounting policies

I2 Significant estimates and judgements

### I1 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 52 week reporting period ended on 26 June 2022.

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 F5).

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 I1(F)).

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

## **(K) INTANGIBLE ASSETS**

### **Software**

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

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

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- 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).



## (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) 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.

## (O) 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.

## (P) 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).

## (Q) ROUNDING OF AMOUNTS

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

## (R) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

### IFRIC agenda decision - Net Realisable Values of Inventory

In June 2021, the IFRS Interpretations Committee (IFRIC) published an agenda decision in relation to the accounting treatment when determining net realisable value (NRV) of inventories, in particular what costs are necessary to sell inventories under AASB 102 Inventories.

During the year, the Group finalised the analysis of the impact of this agenda decision. The impact was not material and has been incorporated into the Group's net realisable value accounting policy.

### IFRIC agenda decision - Configuration or Customisation Costs in a Cloud Computing Arrangement

In April 2021, IFRIC published an agenda decision for configuration and customisation costs incurred related to implementing Software as a Service (SaaS) arrangements. The Group has changed its accounting policy in relation to configuration and customisation costs incurred in implementing SaaS arrangements. The nature and effect of the changes as a result of changing this policy is described below.

#### Accounting Policy - Software-as-a Service (SaaS) arrangements

SaaS arrangements are arrangements in which the Group does not currently control the underlying software used in the arrangement. Where costs incurred to configure or customise SaaS arrangements result in the creation of a resource which is identifiable, and where the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits, such costs are recognised as a separate intangible software asset and amortised over the useful life of the software on a straight-line basis. The amortisation is reviewed at least at the end of each reporting period and any changes are treated as changes in accounting estimates.

Where costs incurred to configure or customise SaaS arrangements do not result in the recognition of an intangible software asset, then those costs that provide the Group with a distinct service (in addition to the SaaS access) are now recognised as expenses when the supplier provides the services. When such costs incurred do not provide a distinct service, the costs are now recognised as expenses over the duration of the SaaS contract. Previously some costs had been capitalised and amortised over its useful life.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the amounts provided.

	27 June 2021 As originally presented \$'000	Impact of accounting policy \$'000	27 June 2021 Restated \$'000
<b>Consolidated statement of financial position</b>			
<b>ASSETS</b>			
Intangible assets	32,845	(26,832)	6,013
Deferred tax assets	60,585	7,744	68,329
<b>Total assets</b>	<b>508,111</b>	<b>(19,088)</b>	<b>489,023</b>
<b>EQUITY</b>			
Reserves	4,221	(5)	4,216
Retained profits	177,895	(19,083)	158,812
<b>Total equity</b>	<b>193,401</b>	<b>(19,088)</b>	<b>174,313</b>

	27 June 2021 As originally presented \$'000	Impact of accounting policy \$'000	27 June 2021 Restated \$'000
<b>Consolidated statement of profit or loss and other comprehensive income</b>			
Other expenses	(28,308)	(6,924)	(35,232)
Employee benefits expense	(147,619)	(2,034)	(149,653)
Depreciation and amortisation expense	(51,293)	3,232	(48,061)
<b>Profit before income tax</b>	<b>64,807</b>	<b>(5,726)</b>	<b>59,081</b>
Income tax expense	(19,479)	1,413	(18,066)
<b>Profit for the year</b>	<b>45,328</b>	<b>(4,313)</b>	<b>41,015</b>

#### Total comprehensive income for the year attributable to:

Owners of Michael Hill International Limited	45,189	(4,317)	40,872
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	27 June 2021 As originally presented \$'000	Impact of accounting policy \$'000	27 June 2021 Restated \$'000
<b>Consolidated statement of cash flows</b>			
Payments to suppliers and employees	(484,021)	(8,955)	(492,976)
<b>Net cash inflow from operating activities</b>	<b>143,452</b>	<b>(8,955)</b>	<b>134,497</b>
Payments for intangible assets	(12,597)	8,955	(3,642)
<b>Net cash outflow from investing activities</b>	<b>(18,954)</b>	<b>8,955</b>	<b>(9,999)</b>

	27 June 2021 As originally presented cents	Impact of accounting policy cents	27 June 2021 Restated cents
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share	11.68	(1.11)	10.57
Diluted earnings per share	11.63	(1.10)	10.53

	27 June 2021 \$'000 Restated	28 June 2020 \$'000 Restated
<b>Opening retained profits as originally presented</b>	177,895	138,370
Impact on:		
Intangible assets	(26,828)	(21,100)
Deferred tax assets	7,745	6,330
<b>Opening retained profits - restated</b>	<b>158,812</b>	<b>123,600</b>

### Critical accounting estimates, assumptions and judgements

In the process of applying the above policy, management has made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:

- Determining whether cloud computing arrangements contain a software licence intangible asset

The Group evaluates a cloud computing arrangement to determine if it provides a resource that the Group can control. The Group determines that a software licence intangible asset exists in a cloud computing arrangement when both of the following are met at the inception of the arrangement:

  - The Group has the contractual right to take possession of the software during the hosting period without significant penalty.
  - It is feasible for the Group to run the software on its own hardware or contract with another party unrelated to the supplier to host the software.
- Determining whether configuration and customisation costs provide a distinct service to access to the SaaS

The Group applies judgement in determining whether costs incurred provide a distinct service, aside from access to the SaaS. Where it is determined that no distinct service is identifiable, the related costs are recognised as expenses over the duration of the service contract.

Several other amendments and interpretations apply for the first time in 2022, 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.

## 12 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 accounting for COVID-19 related lease concessions (note A5) and the significant accounting estimates were in relation to the consideration received for assets held for sale (note F4), the pattern of PCP revenue recognition (note A2), and employee remediation (note F8).

### Impact of COVID-19

The uncertainty surrounding the trading environment for the Group has impacted management's approach to forecasting, modelling cash flows and other accounting estimates.

The Group continues to monitor the situation throughout the geographies in which it operates. Uncertainty remains as to the future impact of COVID-19 and the ability to operate bricks-and-mortar stores during this period. The Group continues to adhere to local and national government guidance in relation to any future impacts which would temporarily close stores.

During the period, the Group received financial support and assistance from its suppliers, landlords, and local governments. A number of landlords and suppliers provided extended payment terms. These agreements have concluded with no material amounts outstanding. Additionally, landlords have provided support in the form of rental abatements. These amounts have been disclosed in note A5. Government grants were received during the period and further information can be found in note A3.

# 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 26 June 2022, 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 26 June 2022 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 G1 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 G2.

Note 11(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  
26 August 2022



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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 26 June 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a. Giving a true and fair view of the consolidated financial position of the Group as at 26 June 2022 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>The existence of inventories is a key audit matter due to the size of the recorded asset being \$181,539,000 or 34% of the Group's total assets at 26 June 2022, the nature of the inventory and the geographic spread of locations where items are held.</p> <p>Inventories are primarily kept in the Group's 280 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>As a result, evidencing the existence of the Group's inventory at 26 June 2022 is a key audit matter.</p> <p>The Group accounts for inventories in accordance with the policy disclosed in Note 11(H) and further disclosure is included in Note A4 of the financial report.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>▶ Testing the 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.</li> <li>▶ In performing our testing, we attended 12 year end stocktakes conducted at retail stores across Australia, New Zealand and Canada.</li> <li>▶ In addition to the retail stores, we attended the stocktakes completed at each of the distribution and manufacturing centres in June 2022.</li> <li>▶ 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.</li> <li>▶ For each of these 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.</li> <li>▶ Where stocktakes were completed prior to the balance sheet 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 balance was outside our set expectations.</li> <li>▶ 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.</li> </ul>

## Professional Care Plan (PCP) revenue recognition

Why significant	How our audit addressed the key audit matter
<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 balance of the deferred PCP revenue liability at 26 June 2022 was \$77,148,000 (2021: \$76,581,000), and PCP revenue recognised in the income statement for the year ended 26 June 2022 was \$30,742,000 (2021: \$27,310,000).</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 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>The accounting policy for PCP revenue and description of the estimation uncertainty is disclosed in Note A2 of the financial report.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>▶ Considered the Group's PCP revenue recognition accounting policies and assessed compliance with the requirements of Australian Accounting Standards.</li> <li>▶ Tested the operating effectiveness of controls related to PCP customer transactions to ensure these sales are captured accurately, and the related cash receipts are deferred on receipt.</li> <li>▶ 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"> <li>▶ Obtained details of the sales of PCP products to customers during the year and tested the cash receipts were appropriately deferred.</li> <li>▶ Obtained details of the actual cleaning, repairs and resizing services in the year and tested a sample of transaction to understand if repairs are accurately tagged to the associated PCP plan date.</li> <li>▶ 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, and the weighting of recent trends compared to older data.</li> </ul> </li> <li>▶ 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.</li> <li>▶ Performed sensitivity analysis over the assumptions using reasonable alternative scenarios to determine whether there would be a material impact on revenue recognised in the year.</li> <li>▶ Evaluated the adequacy of disclosures in financial statements of PCP revenue recorded and deferred at year-end and the associated estimation uncertainty.</li> </ul>

## **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 2022 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 26 June 2022.

In our opinion, the Remuneration Report of Michael Hill International Limited for the year ended 26 June 2022, 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.

A handwritten signature in cursive script that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Kellie McKenzie'.

Kellie McKenzie  
Partner  
Brisbane  
26 August 2022