



Michael Hill International Limited

Scheme Booklet (including Notice of Meeting)

8 June 2016

Proposed change in the shareholding of Hill HoldCo and proposed swap of shares on a one-for-one basis for new shares in a new Australian parent company for the Michael Hill Group

Important information

This document is important. You should carefully read this document in its entirety before making a decision as to how to vote on the Resolutions to be considered at the Special Meeting. If you are in doubt as to any aspect of the Scheme or Hill HoldCo Transaction you should consult your financial or legal adviser.

If you have sold all your shares in the Company, you should immediately hand this Scheme Booklet and the accompanying Proxy / Corporate Representative form to the purchaser or the agent (eg the broker) through whom the sale was made, to be passed to the purchaser.

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Notice of Special Meeting of shareholders

Notice is hereby given that a Special Meeting of shareholders of Michael Hill International Limited ('Company') will be held at **Guineas 3 Room, Ellerslie Event Centre, 80 Ascot Avenue, Remuera, Auckland** on 23 June 2016, commencing at **9:00am**.

All defined terms in this Notice of Special Meeting and Scheme Booklet are set out at the back of the Scheme Booklet.

Business

The business of the Special Meeting will be to consider, and if thought fit pass, the following separate resolutions. Each resolution will be voted on in accordance with the voting thresholds detailed below. These resolutions will effect a change in shareholding of Hill HoldCo by the interposition of MHI Australia and a restructure of the Michael Hill Group such that the parent company will be an Australian incorporated company listed on the ASX. It will also be listed on NZX as a Dual Listed Issuer (as that term is defined in the NZX Listing Rules).

Resolution 1

For the purposes of Rule 7(c) of the Takeovers Code, the Shareholders (other than the Hill HoldCo Shareholders and their Associates) approve the acquisition by MHI Australia from the Hill HoldCo Shareholders of all their shares in Hill HoldCo in exchange for one MHI Australia Share for each Share in the Company held by Hill HoldCo ('Hill HoldCo Transaction' and 'Resolution 1').

Resolution 2

For the purposes of Part 15 of the Companies Act, the Shareholders (including Hill HoldCo and its Associates) approve the Scheme whereby:

- a MHI Australia acquires from each Shareholder other than Hill HoldCo all their Shares in the Company in consideration for the issue by MHI Australia of MHI Australia Shares to each such Shareholder on a one-for-one basis subject to and on the terms set out in the Scheme Booklet of which this Notice of Special Meeting forms part;
- b The Company changes its name to 'Michael Hill New Zealand Limited';
- c MHI Australia will change its name to 'Michael Hill International Limited' when, and provided that, it is available under Australian law; and
- d All Employee Options are novated from the Company to MHI Australia on substantially the same terms except that the options will relate to MHI Australia Shares in the place of Shares in the Company,

(('Scheme' and 'Resolution 2')).

The Hill HoldCo Transaction will only proceed if Resolution 1 is passed. The Scheme will only proceed if Resolutions 1 and 2 are passed and the Hill HoldCo Transaction becomes unconditional.

The Hill HoldCo Transaction and the Scheme are both disclosed in detail in the Scheme Booklet.

Voting eligibility

The following persons are eligible to vote on the Resolutions:

- **Resolution 1:** All persons who are registered as Shareholders at 5:00pm on 21 June 2016, other than the Hill HoldCo Shareholders and their Associates, including Hill HoldCo.
- **Resolution 2:** All persons who are registered as Shareholders at 5:00pm on 21 June 2016, but subject to the interest class definition explained below.

Voting thresholds

The voting thresholds under the Takeovers Code and the Companies Act 1993 for the Resolutions are as follows:

- **Resolution 1 (to approve the Hill HoldCo Transaction):** Approval by a simple majority of the votes entitled to be cast, and cast, by those Shareholders who are eligible to and who vote on Resolution 1.

The Hill HoldCo Shareholders and their Associates (which includes Hill HoldCo) are not eligible to vote on this resolution.

- **Resolution 2 (to approve the Scheme):** Approval by 75% or more of the votes entitled to be cast, and cast, on Resolution 2 by each Interest Class of Shareholders; and
- **Resolution 2:** Approval by a simple majority of all votes entitled to be cast on the Resolution (regardless of whether they are cast).

Each of the above requirements must be met for Resolution 2 to be approved. In particular, these thresholds mean that while Resolution 2 will be voted on as a single resolution, the votes cast on it will be counted separately according to the Interest Class into which each Shareholder is classified. For this purpose, the Company has identified the following Interest Classes:

- Class 1 comprises Hill HoldCo
- Class 2 comprises all other Shareholders.

Having regard to the requirements of the Takeovers Code and Companies Act, Heffalump Holdings Limited ('**Heffalump**'), an Associate of Hill HoldCo, will not vote as a member of Class 2.

Further information in respect of the Interest Classes is set out in section 4 of this Scheme Booklet.

Quorum

The Company's constitution provides that the quorum for a shareholders' meeting is five (5) shareholders (present in person or by proxy or representative).

Voting by poll

The voting in respect of each resolution will be conducted by a poll. On a poll, each Shareholder is entitled to one (1) vote per Share in the Company. The counting of votes for each resolution will occur separately, and the result of the polls will be announced to NZX as soon as the outcome is known following the conclusion of the meeting.

Relationship of each resolution to the other

Note, if following the counting of votes cast by poll in respect of Resolution 1, Resolution 1 is not passed, Resolution 2 will not be given effect to (even if the votes cast by poll on that Resolution would otherwise have been sufficient for it to have passed). However, if Resolution 1 is passed but Resolution 2 is not passed by the required majorities, the Hill HoldCo Transaction approved by Resolution 1 will nevertheless proceed.

How to submit your vote

All Shareholders entitled to attend and vote at the Special Meeting can do so in person by attending the meeting or by appointing a proxy to attend and vote in their place. A proxy need not be a Shareholder of the Company. Individuals who are disqualified from voting on any Resolution are unable to vote a discretionary proxy.

Enclosed with this Notice of Special Meeting is a Proxy/Corporate Representative Form. For the appointment of a proxy to be valid, the form must be deposited at the offices of the Company's share registrar, Computershare Investor Services Limited, at either Private Bag 92119, Auckland 1142 or at Level 2, 159 Hurstmere Road, Takapuna, Auckland, or faxed to +64 9 488 8787 so as to be received no later than 48 hours before the start of the Special Meeting (being no later than 9:00am on 21 June 2016).

Shareholders can elect to lodge their proxy appointment online on the website of the Company's share registry, Computershare: visit www.investorvote.co.nz.

All of the directors other than Emma Jane Hill, Sir Richard Michael Hill, and Lady Ann Christine Hill offer themselves as proxy to Shareholders and, subject to the restriction that they cannot vote a discretionary proxy on a resolution if they themselves are disqualified from voting, will vote in favour of each of the Resolutions put to the Special Meeting unless otherwise directed.

For those Shareholders appointing proxies, you are encouraged to appoint a proxy using Computershare's online proxy system. See the online Proxy form and instructions enclosed.

Postal voting is not permitted.

Corporate representatives

A corporation which is a Shareholder may appoint a person to attend the Special Meeting on its behalf in the same manner as that in which it could appoint a proxy. The Proxy/Corporate Representative Form must be signed on behalf of the company by a person acting under the company's express or implied authority.

NZX approval

This Notice of Special Meeting has been approved by NZX Limited. NZX Limited takes no responsibility for any statement contained in this Scheme Booklet.

By order of the Board of Directors



W. K. Butler
Company Secretary
8 June 2016

Letter from the Chair

Dear shareholders

The proposal that we formally move Michael Hill International from New Zealand to Australia and list on ASX is not a decision your Board has taken lightly, but we are certain that this is the right decision and one which will underpin the future growth of the Company.

As you know, our business started life with a single store in Whangarei in 1979. Over the past 37 years we have become a global jewellery business with more than 70% of our business activity located outside of New Zealand throughout Australia, Canada, the United States and a growing on-line offering.

Our international growth will continue, and we have reached the point where we need to recognise that while our roots and heritage remain in New Zealand, our Group structure needs to align with that international reality.

With Australia presently generating 60% of Group revenue and 64% of Group profits, Australia dominates our business and has become, and for the foreseeable future will remain, our natural base.

Since the 1990's our entire senior management team and administrative support functions have been located in Brisbane. We have no executive management function or corporate office in New Zealand. All our supply chain and logistics and manufacturing operations are located in Brisbane. Our banking and insurance relationships are all managed from Brisbane with Australian based banks, insurers and brokers. Our extensive portfolio of intellectual property is located in, and overseen from, Brisbane. We now report in Australian currency as required by financial reporting standards (which implicitly recognise the fundamental importance of our Australian operations to the Group's business).

Having an Australian parent company will align with all these factors and considerably reduce administrative complexity and allow management to focus on creating shareholder value.

Over time, the listing on ASX will also bring to the Company a much wider group of investors, and this in turn will benefit all shareholders. No new capital is being raised; there will be no change to the existing levels of the Group's funding facilities; and the operations of the Group will continue without any change.

We have also been mindful of the interests of our shareholders. To this end, the new parent company will be listed on NZX as a 'dual listed issuer'. Shareholders should experience very little change in the way in which we report to you and your ability to trade in your shares. Shareholders who wish to continue to receive dividends in New Zealand dollars will be able to do so.

We have also obtained tax advice from the Company's tax advisers on both sides of the Tasman which advises that there should not be adverse tax consequences for the Group or for Australasian shareholders generally. All shareholders should take their own independent tax advice in light of their own circumstances as they see fit. Full details are set out in sections 13 and 14 of this Scheme Booklet, which I urge you to read.

Some existing shareholders outside Australasia may be ineligible to participate in the proposed 'share swap' because of regulatory constraints in their countries. We have arranged a share sale facility for such shareholders (likely to be less than 1% of all shares). Section 5 of the Scheme Booklet explains how we will identify ineligible shareholders and how the share sale will work. I recommend non-Australasian shareholders read this section carefully.

The proposal has the unanimous support of the Board and the Hill family. On behalf of the whole Board, I commend it for your favourable consideration.

Kind regards



Emma Hill
Chair

Overview of the Hill HoldCo Transaction and the Scheme

Profile of the Company

The Company owns the brands “Michael Hill” and “Emma & Roe” and operates a retail jewellery chain of 295 Michael Hill stores and 15 Emma & Roe stores (as at 5 May 2016) in Australia, New Zealand, Canada and the United States.

The Company story began in 1979 when Michael and his wife Christine opened their first store in the New Zealand town of Whangarei, some 160 kilometres north of Auckland. Since then, our growth has been guided by our unique retail jewellery formula. Through dramatically different store designs, a product range devoted exclusively to jewellery and development of high impact advertising, the Company rose to national prominence. In 1987 the Company was listed on the New Zealand Stock Exchange, the same year the Group expanded into Australia.

In 2002, the Group expanded into North America, opening its first stores in Vancouver, Canada. The Canadian presence now includes stores in British Columbia, Alberta, Manitoba, Saskatchewan and Ontario.

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

2014 saw the opening of the first Emma & Roe store, following a successful trial during the preceding 18 months. These stores carry unique jewellery collections consisting of bracelets and charms along with matching jewellery. The two brands are viewed as being complementary within the jewellery sector with the Michael Hill continuing to focus on diamonds, bridal and fine jewellery. The name Emma & Roe takes its inspiration from the Hill family; “Emma”, Sir Michael’s daughter, and “Roe”, Christine Lady Hill’s maiden name.

Around the world, the Group employs around 2,450 permanent employees across retail sales, manufacturing and administration roles.

A description of the Group’s business is contained in its most recent annual report (for the year ended 30 June 2015). The annual report, the Company’s constitution, and other information about the Company and the Hill HoldCo Transaction and the Scheme (including the Information Memorandum) can be found in the Investor Centre section of the Company’s website www.michaelhill.com.

In addition to the information contained in the annual report, the Company has released its half-year report for the period ending 31 December 2015 and the Company, in compliance with its continuous disclosure obligations, has made various announcements about its trading results, the most recent being for the period ending 31 March 2016. These announcements are all available at either the Company’s website or <https://www.nzx.com/companies/MHI/announcements>.

Key features of the Hill HoldCo Transaction and the Scheme

Under the Hill HoldCo Transaction, a newly incorporated Australian company, currently named A.C.N. 610 937 598 Ltd, ACN 610 937 598 (**‘MHI Australia’**) proposes to acquire Hill HoldCo. The Company is then separately proposing a corporate restructure and re-domicile of the Group to Australia. This will involve MHI Australia becoming the new parent company of the Group and listing on the ASX and also being listed on the NZX Main Board as a Dual Listed Issuer. This transaction, along with the other components of the re-domicile referred to on page 3, is the **‘Scheme’**.

Under the Scheme, each Shareholder will 'swap' their shares for new shares in MHI Australia on a one-for-one basis. Shareholders will receive precisely the same number of MHI Australia Shares as they presently have in the Company. By way of an example, if you presently hold 15,000 Shares in the Company, provided you are not an Ineligible Shareholder, after the Scheme you will hold 15,000 new shares in MHI Australia.

No new capital is being raised; there will be no change to the existing levels of the Group's funding facilities; and the operations of the Group will continue without any change.

The key changes for Scheme Participants are (if the Scheme is approved and implemented):

- the change to the Group's listing structure (as the Group's parent company will be listed on the ASX and as a Dual Listed Issuer on NZX) and regulatory oversight (as it will be regulated by NZX, ASX, and relevant New Zealand and Australian regulators);
- changes to the listed parent company's Board (see section 11); and
- changes to legal rights as a result of holding shares in a new Australian parent which is subject to Australian law and the ASX Listing Rules (see section 12).

This Scheme Booklet explains the process by which the Hill HoldCo Transaction and the Scheme will occur, your rights as Shareholders to vote on the required Resolutions, and all of the other matters which will be relevant to the way in which you choose to exercise those voting rights. The Hill HoldCo Transaction and the Scheme are the subject of a separate, independent, report prepared by KordaMentha which accompanies this document. You should read both this Scheme Booklet and the independent report carefully.

MHI Australia is an Australian public company registered under and regulated by the Corporations Act 2001 (Cth) ('**Corporations Act**') and relevant Australian laws. It has been incorporated specifically for the purposes of the Hill HoldCo Transaction and subject to the Scheme being Implemented becoming the Australian holding company of the Company and the wider Group. It was incorporated as a public company on 24 February 2016, and has issued one redeemable preference share which will be redeemed for no consideration on the issue of the MHI Australia Shares on completion of the Hill HoldCo Transaction (see below). This will ensure that there is absolutely no change in the relative percentage holdings of each Shareholder who becomes a shareholder in MHI Australia. Since incorporation it has undertaken no business activities.

Two separate transactions are being proposed:

- a Under the first transaction (the Hill HoldCo Transaction), MHI Australia will acquire all of the shares in Durante Holdings Pty Limited ('**Hill HoldCo**') from its shareholders ('**Hill HoldCo Shareholders**') in exchange for one MHI Australia Share for each Share in the Company held by Hill HoldCo. Hill HoldCo holds 52.89% of the Company and is controlled by interests associated with the Hill family. The Hill HoldCo Transaction needs to be approved under Rule 7(c) of the Takeovers Code. More information is set out in section 3.
- b Under the second transaction (the Scheme):
 - i all Shareholders in the Company (other than Hill HoldCo) will exchange their Shares in the Company for MHI Australia Shares on a one-for-one basis. The Scheme needs to be approved in accordance with section 236A of the Companies Act. See section 4 for more information;

- ii the obligations of the Company under the Employee Options will be novated to MHI Australia so that all employees who currently hold options to buy Shares in the Company will in the future have the option to buy shares in MHI Australia (rather than the Company) if the options are exercised. Some minor incidental changes are required to accommodate Australian law and the requirements of ASX, but otherwise the terms of the Employee Options will remain the same; and
- iii the Company will change its name to 'Michael Hill New Zealand Limited' and MHI Australia will take the name of 'Michael Hill International Limited' when, and provided that, it is available under Australian law.

If both the Hill HoldCo Transaction and the Scheme are approved and implemented, application will be made by:

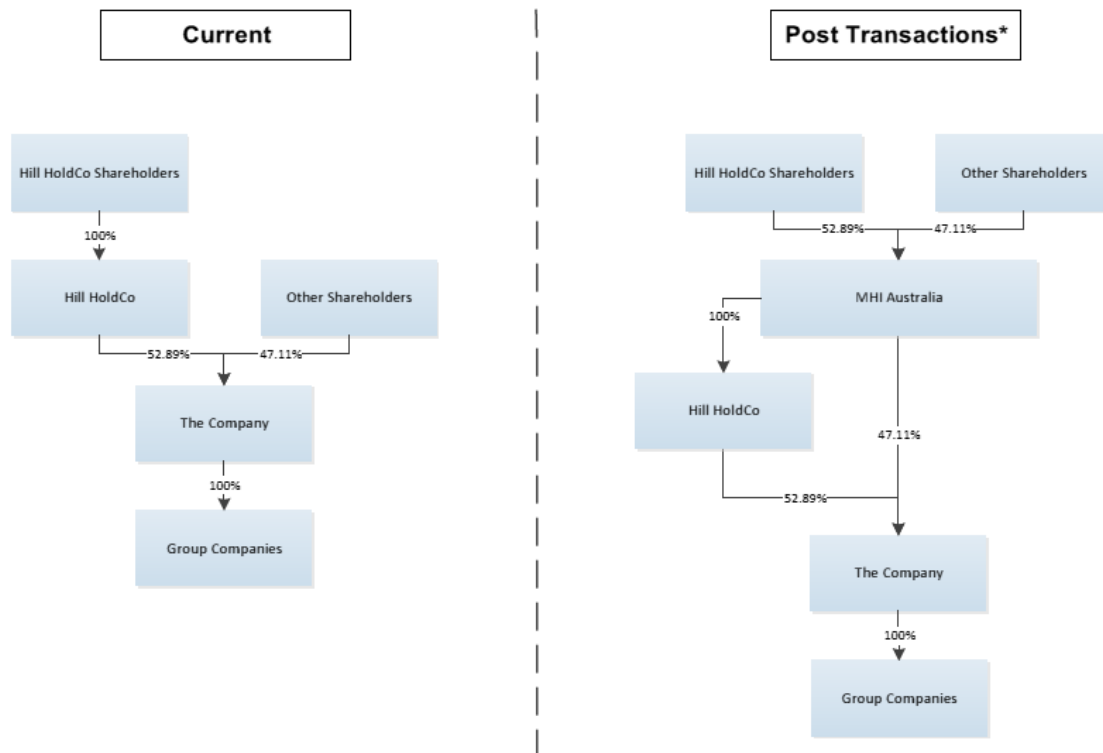
- a the Company to be de-listed from the NZX Main Board once MHI Australia is listed and all Shareholders have been issued their respective share entitlements
- b MHI Australia to be listed on the official list of ASX and on the NZX Main Board. In the case of the latter the listing will be as a Dual Listed Issuer.

See section 16 for more information.

If the Scheme is approved and MHI Australia becomes the parent company of the Group, it will change its name to 'Michael Hill International Limited'. If MHI Australia's applications are successful, MHI Australia will be listed on ASX and will, in effect, replace the Company as the listed entity on the NZX Main Board. All ASX Listing Rules will apply to MHI Australia and as a Dual Listed Issuer on NZX it will also be required to comply with certain NZX Listing Rules, on the basis that the analogous ASX Listing Rules will prevail (as set out in Appendix 17 to the NZX Listing Rules and subject to any waivers granted by NZX or ASX – see sections 12 and 16).

The Group's structure, both before and after the Hill HoldCo Transaction and the Scheme, is summarised in the following diagram. As noted above, the Scheme does not involve any change to the underlying operations of the Group's business.

Summary of Group structure



* Assumes both Hill HoldCo Transaction and the Scheme are approved and implemented.

The Hill HoldCo Transaction must be approved for the Scheme to proceed and the Scheme must be approved for it to be implemented. This will require the Resolutions to be passed by the requisite majorities (explained below), and for the High Court to grant final orders on the Second Court Date.

Board recommendation and Independent Adviser's report

The Company's Board has approved the contents of this Scheme Booklet and unanimously recommends that Shareholders vote in favour of the Hill HoldCo Transaction and the Scheme at the Special Meeting, for the reasons set out in the Letter from the Chair on page 6. Each director who is eligible to do so intends to vote in favour of the Hill HoldCo Transaction and the Scheme.

An Independent Adviser's Report is also enclosed reporting on the merits of the Hill HoldCo Transaction and the Scheme. KordaMentha's views of the merits of the Hill HoldCo Transaction and the Scheme are summarised in section 5.4 of that report, where they say:

Voting for or against Resolutions 1 and 2 is a matter for individual shareholders based on their own views as to the merits and their own particular circumstances (including tax). However, from the Company's perspective, in our opinion, the potential advantages of the Hill HoldCo Transaction and Scheme outweigh the potential disadvantages of each (we comment below on issues specific to each shareholder group entitled to vote on the resolutions).

You should read the entire Independent Adviser's Report for KordaMentha's full analysis, including their specific views as to the merits of:

- the Hill HoldCo Transaction, having regard to the interests of those persons who may vote to approve the acquisition; and
- the Scheme, for each Interest Class of Shareholders who will be asked to vote on the Scheme.

Shareholder approval required

The Hill HoldCo Transaction will proceed if Resolution 1 (to approve the Hill HoldCo Transaction) is approved by a simple majority of the votes entitled to be cast, and cast, by those Shareholders who are eligible to and who vote on Resolution 1.

The Scheme will only proceed if:

- a Resolution 1 (to approve the Hill HoldCo Transaction) is approved by a simple majority of the votes entitled to be cast, and cast, by those Shareholders who are eligible to and who vote on Resolution 1 (at which time the Hill HoldCo Transaction becomes unconditional).
- b Resolution 2 (to approve the Scheme) is approved by 75% or more of the votes entitled to be cast, and cast, on the resolution by each Interest Class of Shareholders; and
- c Resolution 2 is approved by a simple majority of all votes entitled to be cast on the resolution (regardless of whether they are cast).

It is therefore important that you cast your votes if you are in favour of the Hill HoldCo Transaction and the Scheme. See section 4 for a description of each Interest Class. Note, as explained above in the Notice of Meeting, if Resolution 1 is passed but Resolution 2 is not passed by the required majorities, the Hill HoldCo Transaction approved by Resolution 1 will nevertheless proceed.

No minority buy out rights

The Hill HoldCo Transaction and the Scheme will not be major transactions for the Company under section 129 of the Companies Act. Accordingly, shareholders who vote against the Resolutions will not have the right to require the Company to purchase their Shares in accordance with sections 110 to 115 of the Companies Act.

However, as outlined in paragraph 4.29, shareholders have the right to object to the Scheme by applying to the High Court.

Final Court approval required

If the Shareholders vote in favour of the Resolutions in accordance with the required majorities, the High Court will determine whether to approve the Scheme and make orders to implement it.

Key documents

The key documents relating to the Hill HoldCo Transaction and the Scheme are:

- a This Scheme Booklet.
- b The Hill HoldCo Agreement; and
- c The Scheme Implementation Agreement.

See section 15 for more information on the Hill HoldCo Agreement and Scheme Implementation Agreement.

Indicative timetable

A summary of the key dates in relation to the Hill HoldCo Transaction and the Scheme are set out on the next page. All dates listed as following the date of the Special Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and other regulatory authorities. The actual timetable will depend on many factors outside the control of the Company,

including the Court approval process and satisfaction of other conditions precedent. The Company also reserves the right to vary the times and dates set out at its discretion. Any changes to the timetable will be announced through NZX.

Important dates

Between now and the Special Meeting

Event	Due date
Announcement of the Scheme	Released 13 April 2016
Date of this Scheme Booklet and Notice of Meeting	8 June 2016
Date and time for determining eligibility to attend and vote at Special Meeting	5:00pm on 21 June 2016
Latest time and date for receipt of proxies for Special Meeting	9:00am on 21 June 2016
Special Meeting	9:00am on 23 June 2016
If both the Hill HoldCo Transaction and the Scheme are approved by Shareholders and the other conditions precedent to the Scheme Implementation Agreement are satisfied, the expected timetable is set out below. If the Hill HoldCo Transaction is approved, but the Scheme is not, the Hill HoldCo Transaction will nevertheless proceed.	

After the Special Meeting

Event	Due date
The Hill HoldCo Transaction proceeds, and MHI Australia acquires all of the shares in Hill HoldCo in exchange for MHI Australia Shares	As soon as reasonably practicable following the Special Meeting and prior to the second Court hearing on the Second Court Date
Last day of trading of Company Shares on NZX	24 June 2016
Second Court Date – to approve the Scheme	By 27 June 2016 (but currently expected to be 23 June 2016)
Effective Date – the Scheme Order is made and the Scheme becomes binding	Currently expected to be 23 June 2016
Record Date for determining entitlements to Scheme Consideration	28 June 2016 (at 5:00pm)
Implementation Date – date of issue and allotment of Scheme Consideration	30 June 2016 (at 6:00pm Brisbane time)
Delisting of the Company from NZX Main Board following Implementation	6 July 2016
Listing of MHI Australia on ASX and NZX Main Board	7 July 2016

- All dates following the date of the Special Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and other regulatory authorities. The actual timetable will depend on many factors outside the control of the Company, including the Court approval process and satisfaction of other conditions precedent.
- The Company reserves the right to vary the times and dates set out above at its discretion. Any changes to the above timetable will be announced through NZX.

Important information

This document is important. You should carefully read this document in its entirety before making a decision as to how to vote on the Resolutions to be considered at the Special Meeting. If you are in doubt as to any aspect of the Hill HoldCo Transaction and the Scheme, you should consult your financial or legal adviser.

If you have sold all your shares in the Company, you should immediately hand this Scheme Booklet and the accompanying Proxy / Corporate Representative form to the purchaser or the agent (eg the broker) through whom the sale was made, to be passed to the purchaser.

Purpose of this Scheme Booklet

This Scheme Booklet explains the proposed Hill HoldCo Transaction and the Scheme. Specifically, it explains the effect of the Scheme between the Company and its Shareholders and provides such other information in relation to the Scheme as is required by the Companies Act, Takeovers Code, relevant guidance issued by the Takeovers Panel, and other information which may be relevant to the decision of Shareholders whether to approve the Hill HoldCo Transaction and the Scheme.

Shareholders should read the entire Scheme Booklet before making any decisions about whether to vote in favour of the Hill HoldCo Transaction and / or the Scheme.

Status of Scheme Booklet

A copy of this Scheme Booklet will be provided to ASX together with an information memorandum required under condition 3 of ASX Listing Rule 1.1, in connection with the proposed admission of MHI Australia to the official list of, and corresponding quotation of MHI Australia Shares on, ASX (**'Information Memorandum'**). ASX does not take any responsibility for the contents of this Scheme Booklet. The fact that ASX may admit MHI Australia to its official list is not in any way to be taken as an indication of the merits of MHI Australia.

Application will also be made to NZX for permission to admit MHI Australia to the NZX Main Board and quote the MHI Australia Shares with the status of a Dual Listed Issuer. This Scheme Booklet, in combination with the Information Memorandum, will be the Profile document for the listing of MHI Australia on NZX. All the requirements of the NZX Main Board relating to MHI Australia that can be complied with on or before the date of this Scheme Booklet have been duly complied with. However, NZX accepts no responsibility for any statement in this Scheme Booklet. The NZX Main Board is a licensed market operated by NZX, which is a licensed market operator, regulated under the Financial Markets Conduct Act.

Responsibility for contents

Information concerning the Company and the Group contained in this Scheme Booklet, including financial information and information regarding the intentions of the Board, has been provided by the Company and is the responsibility of the Company.

Information concerning MHI Australia contained in this Scheme Booklet, including information regarding the intentions of the MHI Australia Board, has been provided by MHI Australia and is the responsibility of MHI Australia.

Information concerning MHI Australia following Implementation, contained in this Scheme Booklet has been prepared by MHI Australia, based on the information provided by MHI Australia and the Company, and is the responsibility of MHI Australia, except to the extent that the information has been provided by the Company.

Forward-looking statements

This Scheme Booklet contains forward-looking statements regarding future events and the future financial performance of the Company and the Group and the environment in which each operates. These statements are based on the beliefs of and assumptions made by the Board and management, but are subject to uncertainties, risks, and contingencies (many of which are outside of the Company's control). The Company's actual results or performance may differ materially from these statements. Except as required by law or the listing rules of the NZX, the Company is not obliged to update any forward-looking statements.

Any statements relating to past performance should not be regarded as a reliable indicator of future performance. Although the Company believes any information obtained from third parties and included in this presentation to be reliable, no representations or warranties are made as to the accuracy or completeness of that information. The statements contained in this Scheme Booklet are made and intended to reflect views held on the date of this Scheme Booklet.

No financial advice

This Scheme Booklet is intended for all Shareholders collectively and does not take into account the individual circumstances or investment objectives of any Shareholder. Information contained in this Scheme Booklet should not be relied upon as the sole basis for any decision in relation to the proposed Scheme. Shareholders are encouraged to seek their own independent financial, taxation and legal advice before making any decision regarding their Shares.

Privacy

Personal information will be collected and held by the Company and MHI Australia in the process of implementing the Scheme. This information may include the name, contact details and shareholdings of Shareholders and the names of individuals appointed to act as proxy or corporate representative by Shareholders at the Special Meeting. The purpose for collecting this personal information is to assist the Company and MHI Australia to conduct the Special Meeting and implement the Scheme (if approved).

Any personal information collected may be disclosed to the Company, MHI Australia, and their respective share registries, advisers, print and mail service providers and related companies, to the extent necessary to effect the Scheme.

Shareholders are entitled to inspect, obtain copies of and correct personal information collected. Shareholders should contact the Registry in the first instance, if they wish to access or correct their personal information. Shareholders should inform their personal representative, proxy or attorney of these matters.

Overseas shareholders

Neither this Scheme Booklet nor the Scheme constitutes, or is intended to constitute, an offer of securities in any place in which, or to any person to whom, the making of such an offer would not be lawful under the laws of any jurisdiction outside Australia and New Zealand.

This Scheme Booklet is issued in accordance with the Financial Markets Conduct (Michael Hill Group) Exemption Notice 2016. It is not a prospectus, product disclosure statement, or any other form of disclosure document under the Financial Markets Conduct Act or the Corporations Act or any similar laws of any other jurisdiction.

This Scheme Booklet complies with the disclosure requirements applicable in Australia and New Zealand. Other countries may have different legislative and regulatory requirements in relation to the offer of securities under the Scheme.

MHI Australia has determined that it would be unduly onerous and costly to investigate and comply with the securities law restrictions in every country in which MHI Shareholders are registered. Accordingly, if MHI Australia is not satisfied that the laws of a Shareholder's residence (as shown in the Register) permit the issue and allotment of the MHI Australia Shares to the Shareholder, either unconditionally or after compliance with conditions which MHI Australia in its sole discretion regards as acceptable and not unduly onerous, that Shareholder (being an '**Ineligible Shareholder**') will not receive the MHI Australia Shares under the terms of the Scheme. Instead, the MHI Australia Shares the Ineligible Shareholder would otherwise have received will be sold on-market, with the proceeds remitted to the relevant Ineligible Shareholder.

Refer to section 5 of this Scheme Booklet for further information as to the detailed procedure for determining Ineligible Shareholders and the process which will apply to any affected Shares.

Disclosure for Australian Shareholders

The MHI Australia Shares offered to Scheme Participants, as a consequence of the Scheme, are being offered in Australia under the *ASIC Corporations (Compromises or Arrangements) Instrument 2015/358* which provides disclosure relief for the offer and on-sale of the MHI Australia Shares offered pursuant to the Scheme. This Scheme Booklet is not a prospectus or a disclosure document under the Corporations Act 2001 (Cth) ('**Corporations Act**') and may not contain all information required to be included within a prospectus or other disclosure document under the Corporations Act or Australian law. The Company is listed on NZX Main Board and is subject to periodic and continuous disclosure requirements under the NZX Listing Rules.

References to time

All references to time in this Scheme Booklet are references to New Zealand Time, unless otherwise specified.

Advisers

None of Kensington Swan, PricewaterhouseCoopers, or Hopgood Ganim assume any responsibility for the accuracy or completeness of any of the information contained in this Scheme Booklet.

Glossary

Capitalised terms are defined in the Glossary at the back of this Scheme Booklet. Some terms are also defined throughout this Scheme Booklet. The Independent Adviser Report in Appendix B to this Scheme Booklet has its own defined terms, which may differ from those in the Glossary.

Date of Scheme Booklet

This Scheme Booklet is dated 8 June 2016.

1 Questions you may have

<p>Why have I received this Scheme Booklet?</p>	<p>You have received this Scheme Booklet because you are a Shareholder in the Company. The purpose of this Scheme Booklet is to explain the terms of the Hill HoldCo Transaction and the Scheme, and the manner in which the Scheme will be considered and implemented, to help you make a decision on whether to approve the Hill HoldCo Transaction and the Scheme at the Special Meeting.</p>
<p>What is being proposed?</p>	<p>The Company is proposing a corporate restructure and re-domicile of the Group to Australia, by way of MHI Australia becoming the new parent company of the Group and listing on the ASX. It will also be listed on the NZX Main Board as a Dual Listed Issuer. The Hill HoldCo Transaction (see section 3) must be approved for the Scheme to proceed.</p>
<p>Why is the Group restructuring?</p>	<p>The directors believe that moving the Company's domicile and obtaining an ASX listing will align all of its reporting and management systems, reduce the complexity of operating the business in its current structure, and provide the best base for the Group's future growth.</p> <p>More information is set out in the Letter from the Chair on page 6.</p>
<p>Who is MHI Australia?</p>	<p>MHI Australia is a company incorporated in Australia, in accordance with Australian law, for the specific purpose of becoming the Australian holding company of the Company and the wider Group.</p> <p>MHI Australia will be listed on ASX and will also be listed on the NZX Main Board as a Dual Listed Issuer.</p>
<p>What will I receive if the Scheme is approved?</p>	<p>If you are a Scheme Participant, and the Hill HoldCo Transaction is also approved, you will receive either one (1) new MHI Australia Share for each Share you hold at 5:00pm on 28 June 2016 ('Scheme Consideration' and 'Record Date'), or, if you are an Ineligible Shareholder, the net proceeds of the sale of the Scheme Consideration you would have otherwise received.</p> <p>A comparison of the rights of Shareholders in the Company as against those of MHI Australia Shareholders (assuming the Scheme proceeds) is set out in section 12.</p>
<p>Is anyone buying my, or any other Scheme Participant's, Shares for cash?</p>	<p>No. Each Scheme Participant simply receives the same number of shares in MHI Australia that they presently have in the Company, or the net proceeds of the sale of the MHI Australia Shares they would have otherwise received (in the case of an Ineligible Shareholder).</p>
<p>Do I need to pay any cash?</p>	<p>No. See answer above.</p>
<p>Is any change of voting control involved?</p>	<p>No. After the transaction the Hill family will continue to hold and control the same number of shares they currently hold and no-one else increases or decreases their holding in or control of the Company (other than Ineligible Shareholders).</p>
<p>Is the Company seeking any new capital as part of the Hill HoldCo Transaction or the Scheme?</p>	<p>No.</p>
<p>What is the Hill HoldCo Transaction?</p>	<p>The Hill HoldCo Transaction is a transaction whereby MHI Australia will acquire all of the shares in Hill HoldCo from Hill HoldCo's shareholders (effectively the Hill family), in exchange for one MHI Australia Share for each Share in the Company held by Hill HoldCo. Hill HoldCo currently holds 52.89% of the Shares in the Company.</p> <p>More information is set out in section 3 of this Scheme Booklet and the key terms of the Hill HoldCo Agreement are set out in section 15.</p>
<p>Does the Hill HoldCo Transaction adversely affect me?</p>	<p>No. Because the Hill HoldCo Shareholders will simply swap their shares in Hill HoldCo for the number of MHI Australia Shares that will maintain their proportionate control of the Group, they will not increase their holding or control of the Company or of MHI Australia after the Scheme is implemented.</p>

What is the Scheme?	<p>The Scheme is a scheme of arrangement between the Company, MHI Australia, and Scheme Participants, under which all of the Shares not held by Hill HoldCo will be transferred to MHI Australia, in exchange for one MHI Australia Share for each Share transferred (the Scheme Consideration).</p> <p>More information is set out in section 4 of this Scheme Booklet.</p>
Who is entitled to the Scheme Consideration?	<p>Scheme Participants, other than Ineligible Shareholders, are entitled to receive the Scheme Consideration in respect of each Share they hold on the Record Date. Ineligible Shareholders will receive the net proceeds of sale of the Scheme Consideration they would otherwise have been entitled to.</p>
What will be the effect of the Scheme?	<p>If the Scheme is approved, your Shares will be automatically transferred to MHI Australia, without any further action required by you. In exchange for the transfer of your Shares, you will receive the Scheme Consideration (either as MHI Australia Shares, or if you are an Ineligible Shareholder, in cash after the MHI Australia Shares are sold on-market).</p> <p>The Company will become a wholly-owned subsidiary of MHI Australia and will (subject to successful applications) be delisted from the NZX Main Board.</p> <p>MHI Australia will (subject to successful applications) be listed on the ASX and will also be listed on the NZX Main Board as a Dual Listed Issuer.</p>
What if I am an Ineligible Shareholder?	<p>A Shareholder will be an Ineligible Shareholder unless MHI Australia is satisfied that the laws of the Shareholder's country of residence (as shown in the Register) permit the issue and allotment of the MHI Australia Shares to the Shareholder, either unconditionally or after compliance with conditions which MHI Australia in its sole discretion regards as acceptable and not unduly onerous. MHI Australia has satisfied itself that MHI Australia Shares can be issued to Shareholders with registered addresses in Australia and New Zealand, and will take the steps outlined in section 5 of this Scheme Booklet in respect of other jurisdictions.</p> <p>The Scheme Consideration to which an Ineligible Shareholder will become entitled will be allotted to a nominee approved by MHI Australia. That nominee will sell those MHI Australia Shares (at the Ineligible Shareholder's risk and subject to willing buyers on market) and pay the proceeds received, after deducting any applicable duty or other taxes, to that Ineligible Shareholder. The Company will meet the nominee's costs of implementing these arrangements. MHI Australia will indemnify each Ineligible Shareholder for any loss suffered by reason of the nominee's failure to perform its obligations to sell the MHI Australia Shares which the relevant Ineligible Shareholder would otherwise have been entitled to receive.</p> <p>Refer to section 5 of this Scheme Booklet for further details.</p>
If the Scheme is implemented, when will I receive the Scheme Consideration?	<p>If the Scheme is approved by Shareholders and the Court, the Scheme Consideration will be issued and allotted to Scheme Participants on the Implementation Date, which is currently anticipated to be 30 June 2016 (at 6:00pm (Brisbane time)).</p> <p>Shareholders should be aware that, if the Special Meeting is adjourned and the Implementation Date is delayed, satisfaction of the Scheme Consideration will also be delayed (although you will retain ownership of your Shares until the Scheme is implemented).</p>
How can I trade my MHI Australia Shares post-Implementation of the Scheme?	<p>See section 10 for an outline of how to change share registers and trade your MHI Australia Shares on the ASX.</p>
What are the reasons to vote in favour of the Scheme?	<p>The Board believes that Australia is now the natural place for the Group's parent company to be incorporated. The Group's Australian operations contribute the dominant proportion of its revenue and profits, and all of the Group's administrative, logistical, and financial functions are operated from Australia. A full list of the reasons to vote in favour of the Scheme is set out in section 4 of this Scheme Booklet.</p>

<p>Are there any potential material disadvantages of the Scheme?</p>	<p>The Company's Board has not identified any matter which would have a material adverse effect on either the Group or Shareholders considered as a whole. They recommend that you vote in favour of the Scheme, but in doing so Shareholders should consider the following in the context of their particular circumstances:</p> <ul style="list-style-type: none"> • The one-off transaction costs of the Scheme (the majority of which have already been incurred in investigating and presenting the Scheme to Shareholders) and ongoing costs of maintaining a listing on both ASX and the NZX Main Board. • The change in jurisdiction of the entity in which investors hold shares from New Zealand to Australia may mean that some Shareholders are not able to exercise their rights as shareholders as easily. • A small number of Shareholders outside of Australasia (Ineligible Shareholders) will not be able to receive MHI Australia Shares by reason of the securities laws of their jurisdiction. • Some Shareholders may have particular circumstances which will give rise to potential tax implications. <p>These potential disadvantages of the Scheme are set out in section 4 of this Scheme Booklet.</p>
<p>What is happening to Employee Options issued by the Company?</p>	<p>The Company has entered into Employee Option agreements with members of its executive management team, under which the Company has agreed to issue options to issue Shares to those executives.</p> <p>The Company and MHI Australia have entered into arrangements with those members of the executive management team to ensure that equivalent options are issued by MHI Australia (subject to any changes required by (or to reflect) Australian law or the ASX Listing Rules, or changes which, in the opinion of the Company's and MHI Australia's Boards, are not likely to have a material adverse effect on the holders of MHI Australia Shares or Employee Option holders).</p> <p>A schedule of Employee Options is set out in Appendix A.</p>
<p>What is the Independent Adviser's role?</p>	<p>The Board engaged KordaMentha as Independent Adviser to report on the Hill HoldCo Transaction and the Scheme and provide an Independent Adviser's Report on the merits of the Hill HoldCo Transaction and the Scheme.</p> <p>The Independent Adviser's conclusion is set out in section 5 of the Independent Adviser's Report, which is included in Appendix B of this Scheme Booklet.</p>
<p>When and where will the Special Meeting be held?</p>	<p>The Special Meeting will be held at 9:00am on 23 June 2016 at Guineas 3 Room, Ellerslie Event Centre, 80 Ascot Avenue, Remuera, Auckland.</p>
<p>Am I entitled to vote?</p>	<p>If you are registered as a Shareholder at 9:00am on 21 June 2016, you will be entitled to vote at the Special Meeting.</p> <p>You may vote in person, or by proxy or representative.</p> <p>The Hill HoldCo Shareholders and their Associates, including Hill HoldCo, cannot vote on Resolution 1. They can vote on Resolution 2, but Hill HoldCo is its own separate Interest Class (Class 1).</p>
<p>Who is excluded from voting at the Special Meeting?</p>	<p>The following persons are eligible to vote on the Resolutions:</p> <ul style="list-style-type: none"> - Resolution 1: All persons who are registered as Shareholders at 5:00pm on 21 June 2016, other than MHI Australia, Hill HoldCo, and their Associates. - Resolution 2: All persons who are registered as Shareholders at 5:00pm on 21 June 2016. <p>MHI Australia will not vote at the Special Meeting, as it will not own any Shares at that stage.</p>

What vote is required to approve the Hill HoldCo Transaction?	For the Hill HoldCo Transaction to proceed, it must be approved by a simple majority of the votes entitled to be cast, and cast, by those Shareholders who are eligible to and who vote on Resolution 1.
What vote is required to approve the Scheme?	<p>The Scheme will only proceed if the following approvals are obtained:</p> <p>(a) Resolution 1 (approval of the Hill HoldCo Transaction): A simple majority of the votes entitled to be cast, and cast, by those Shareholders who are eligible to and who vote on Resolution 1.</p> <p>(b) Resolution 2 (approval of the Scheme): 75% or more of the votes entitled to be cast, and cast, on the resolution by each Interest Class of Shareholders; and</p> <p>(c) Resolution 2 (approval of the Scheme): A simple majority of all votes entitled to be cast on the resolution (regardless of whether they are cast).</p> <p>The restructure (and therefore the Scheme) cannot proceed unless it receives the above Shareholder approvals. Approval of the High Court is also required.</p>
What factors does the High Court take into account?	The High Court takes into account a range of factors, including that Shareholders will not be adversely affected by the use of the Scheme rather than the Takeovers Code to effect the transactions contemplated by the Scheme. See paragraphs 4.25 to 4.28 for more information.
What does the Board recommend?	The Board unanimously recommends that Shareholders vote in favour of the Scheme at the Special Meeting.
How will the directors of the Company be voting?	Each director of the Company who is entitled to vote, intends to vote in favour of the Resolutions.
What happens if I do not vote, or I vote against the Scheme?	<p>If the Resolutions are passed by the requisite majorities, you will be bound by the Scheme even if you did not vote, or voted against the Scheme.</p> <p>If you are a Shareholder on the Record Date and the Hill HoldCo Transaction is approved and the Scheme is approved, your Shares will be automatically transferred to MHI Australia, without any further action required by you under the Scheme and you will receive the Scheme Consideration for your Shares on the Implementation Date (other than Ineligible Shareholders – see section 5).</p> <p>There are no minority buy-out rights. However, if you object to the Scheme you have the right to be heard at the hearing for the final orders to implement the Scheme (see paragraphs 4.29 to 4.31).</p>
Is voting compulsory?	<p>No, voting is not compulsory. However, your vote is important. If you cannot attend the Special Meeting, you are encouraged to complete and return the proxy form enclosed with this Scheme Booklet.</p> <p>For further details regarding voting and submitting your proxy form for the Special Meeting, see the Notice of Meeting on page 3 of this Scheme Booklet.</p>
Are any other approvals required?	<p>The Scheme must be approved by the Court in addition to being approved by Shareholders. If the Scheme is approved at the Special Meeting, the Company will apply to the Court for final orders approving the Scheme, as soon as practicable.</p> <p>The Second Court Date for approval of the Scheme is expected to be the afternoon of 23 June 2016 (although this may change).</p> <p>Further details of the approval process are set out in section 4 of this Scheme Booklet.</p>
Is the Scheme subject to any conditions?	Yes – see sections 6 and 15.
What happens if the Shareholder approvals are not obtained?	If either or both of the Hill HoldCo Transaction or the Scheme are not approved, the Restructure will not proceed; you will remain a Shareholder; and will not receive the Scheme Consideration. If the Hill HoldCo Transaction is approved, but the Scheme is not, the Hill HoldCo Transaction will nevertheless proceed.

How do I find out the results of the Special Meeting?	The results of the Special Meeting will be available on the NZX shortly after the conclusion of the Special Meeting.
Will I have to pay any brokerage fees or stamp duty?	No. You will not have to pay any brokerage or stamp duty in connection with the Scheme or the Scheme Consideration.
What are the tax consequences of the Scheme for me?	<p>Section 13 of this Scheme Booklet provides a summary outline of the New Zealand and Australian income tax consequences of exchanging your Shares for MHI Australia Shares under the Scheme, and of a subsequent disposal of your MHI Australia Shares.</p> <p>This summary is of a general nature. You should consult your own tax adviser regarding the consequences of acquiring, holding, or disposing of Shares in light of current tax laws as they apply to you and your particular investment circumstances.</p>
In what currency will dividends, if declared or determined by the MHI Australia Board, be paid on MHI Australia Shares?	The MHI Australia Constitution provides the MHI Australia Board with the discretion to allow shareholders in MHI Australia to elect that they receive payment of dividends in one of a range of board approved currencies.
Where can I get further information?	<p>This Scheme Booklet provides detailed information in relation to the Scheme that all Shareholders should read.</p> <p>If you have any questions about the Scheme, please contact:</p> <ul style="list-style-type: none"> • Mr Phil Taylor (Chief Financial Officer) on +61 7 3114 3500; or • online@michaelhill.com.au <p>Alternatively, please discuss your questions with your legal, financial or other professional adviser.</p> <p>For additional copies of this Scheme Booklet, and other documents relating to the proposed Hill HoldCo Transaction and the Scheme, please visit the Company's website: www.michaelhill.com.</p>

2 Why the Scheme is being proposed

Background

- 2.1 The Company is the promoter of the Scheme.
- 2.2 In early January 2016, the Board of the Company announced that it was considering listing the Company on the ASX. Following the Board's examination of the various options for such a listing and their implications, the Board has decided to bring to shareholders a proposal to change the Group's parent company from a New Zealand incorporated company (the Company) to a new Australian incorporated company (MHI Australia). At the same time, it is proposed that the Group's primary listing will shift to ASX, but a secondary listing on NZX (as a Dual Listed Issuer) will be maintained. An announcement to this effect was released to the market on 13 April 2016.
- 2.3 The Board's key reasons for proposing the Scheme are set out in the Chair's letter to shareholders and in paragraphs 2.14 to 2.36 below. The directors believe that moving the Company's domicile and primary stock exchange listing will align all of its reporting and management systems, reduce the complexity of operating the business in its current structure, and provide the best base for the Group's future growth.
- 2.4 Neither the Hill HoldCo Transaction nor the Scheme are intended to result in any change in the ultimate shareholder ownership percentages, any change in the Group's current activities, any capital raising or any debt raising. New Zealand shareholders should experience little change as a result of the Scheme, as they will still be the owners of the business, they will still receive New Zealand dollar dividends if they wish, and will be able to buy and sell MHI Australia Shares either through the ASX or the NZX.
- 2.5 A ruling from the New Zealand Inland Revenue Department has been obtained confirming that to the extent that the Company has New Zealand imputation credits available to it, those imputation credits will be able to be applied to the dividends paid to New Zealand resident shareholders in accordance with the usual rules of trans-Tasman groups. The Board has also received expert tax advice that there are no material adverse tax consequences from an Australian tax perspective. Further information on the tax implications of the Scheme for Shareholders and the Group is set out in sections 13 and 14.
- 2.6 In connection with the Scheme, the Group intends to undertake an active investor relations programme in New Zealand and Australia. A key aspect of the programme will be to establish relationships with Australian broking analysts and institutional investors, with the intention of building a strong profile with investors in Australia and other key investment markets. If the Scheme is approved, future Annual Meetings will be held in Australia and will be webcast live. A shareholder briefing will be held in New Zealand shortly after each Annual Meeting.

Why the restructure involves both the Hill HoldCo Transaction and the Scheme

- 2.7 The Board has determined to divide the restructure into the separate Hill HoldCo Transaction and the Scheme to ensure that all shareholders are treated consistently and are not adversely affected by the restructure.
- 2.8 In particular, the acquisition of Hill HoldCo by MHI Australia is required in order to ensure that the Hill family are not adversely affected compared to the current position and the Hill family can deal with the shares held in MHI Australia separately in the future. Whilst the Hill family are fully supportive of the commercial and strategic objectives and benefits for the Group

which will be achieved from the Restructure, they wish to hold their investment in MHI Australia directly from New Zealand.

- 2.9 In this respect they do not wish to hold their investment in MHI Australia through Hill HoldCo as this would not be consistent with their current commercial objectives and bring their investment within the Australian capital gains tax net. Holding their investment in MHI Australia through Hill HoldCo would cause them to suffer possible future disadvantages compared to the situation under the current structure.
- 2.10 Accordingly, to ensure that the Hill family is not otherwise placed in a more detrimental position by virtue of the Restructure and compared to other Shareholders it is proposed that MHI Australia will acquire Hill HoldCo from the Hill HoldCo Shareholders.
- 2.11 The only asset held by Hill HoldCo is its shareholding in the Company. The Hill HoldCo Shares will be acquired free from any security interests and without any liabilities. Hill HoldCo's only purpose has been to hold its investment in the Company and it has not undertaken any other transactions.
- 2.12 The consideration for the acquisition of the Hill HoldCo shares will be one MHI Australia Share for each Share in the Company held by Hill HoldCo. This is consistent with Hill HoldCo being a holding company for the Hill family's shareholding in the Group and having no other assets and / or liabilities.
- 2.13 Having regard to the above, it is considered that there is no disadvantage to either the Group or the shareholders from MHI Australia acquiring the shares in Hill HoldCo and this is considered the preferred course in order to ensure that the Hill family do not otherwise suffer a disadvantage compared to other Shareholders.

Material advantages of the Hill HoldCo Transaction and the Scheme

- 2.14 The Board believes that the Hill HoldCo Transaction and the Scheme are in the best interests of Shareholders, and unanimously recommends that Shareholders separately vote in favour of the Hill HoldCo Transaction and the Scheme, for the reasons set out in the Letter from the Chair on page 6. Each director who holds Shares, or on whose behalf Shares are held, and who is eligible to vote, intends to vote those Shares in favour of the Hill HoldCo Transaction and the Scheme.

The Independent Adviser has provided a report on the Hill HoldCo Transaction and the Scheme

- 2.15 The Board commissioned the Independent Adviser to prepare an Independent Adviser's Report on the merits of the Scheme and the Hill HoldCo Transaction. The Independent Adviser's views are summarised in section 5.4 of that report, where they say:

Voting for or against Resolutions 1 and 2 is a matter for individual shareholders based on their own views as to the merits and their own particular circumstances (including tax). However, from the Company's perspective, in our opinion, the potential advantages of the Hill HoldCo Transaction and Scheme outweigh the potential disadvantages of each (we comment below on issues specific to each shareholder group entitled to vote on the resolutions).

- 2.16 Appendix B of this Scheme Booklet contains the full Independent Adviser's Report. You should read the entire Independent Adviser's Report for KordaMentha's full analysis, including their specific views as to the merits of:
- a the Hill HoldCo Transaction, having regard to the interests of those persons who may vote to approve the acquisition; and
 - b the Scheme, for each Interest Class of Shareholders who will be asked to vote on the Scheme.

Implementation will result in a corporate structure that is more aligned to the current and future needs of the Group

- 2.17 The Company has evolved from its early beginnings in Whangarei when the first shop opened in 1979, to emerge initially as a New Zealand wide company; subsequently an Australasian business; and more recently a truly international Group, with operations in Canada, the United States, and an on-line channel for both its 'Michael Hill' and 'Emma & Roe' brands.
- 2.18 Over time the importance of Australia to the Company's business has increased and since 1998, the Australian operations have delivered greater profitability than the New Zealand operations and the Australian operations have continued to grow at a faster rate. Since that time a progressive process of shifting the Group's operations and people across the Tasman has occurred.
- 2.19 The first stage involved relocation of the senior group executive team to Brisbane. The shifting of the Group's manufacturing capability, along with its supply chain and logistical operations then followed. In due course the primary banking relationship with ANZ became (and remains) Australian based and is managed from Australia with the bulk of facilities denominated in Australian dollars.
- 2.20 In December 2008 the Group's intellectual property was transferred to Australia, and in 2014 the Group changed its functional currency to Australian dollars in order to comply with financial reporting requirements.
- 2.21 The Company's Australian operations now dominate the Group's business with:
- 174 of the total 296 stores located in Australia
 - 60% of the Group revenue generated from Australia, and
 - 64% of the total retail segment profit generated in Australia
- (all assessed by reference to the 30 June 2015 year). Since 30 June 2015, a net additional 15 stores have been opened. 7 have been 'Michael Hill' stores and 8 have been 'Emma & Roe' branded stores, with 8 having been opened in Australia.
- 2.22 This pattern is unlikely to change and New Zealand (while being the Group's original and highly valued market) will likely become a relatively smaller portion of the Group's business as other markets grow.
- 2.23 The Board has been increasingly conscious that retention of a New Zealand incorporated parent company listed on the NZX is inconsistent with the above changes, and that a logical step to consider is what jurisdiction is the most appropriate holding and listing structure for the Group going forward.

- 2.24 The Board considers that the proposed Restructure provides for the most logical long term positioning for the Group consistent with the growth opportunities and key markets.

Australia's more flexible takeovers regime for "creep" acquisitions

- 2.25 As outlined in section 12, the operation of the "creep" provisions in the Australian takeovers regime is more flexible compared to the equivalent provisions in the New Zealand regime.
- 2.26 In Australia, a person holding (broadly) between a 20% and 90% interest in a company has an ability to acquire additional shares (up to 3% in a 6 month period) without making a formal takeover bid. However, the equivalent provision in New Zealand allows a "creep acquisition" (up to 5% in a 12 month period) only where a person holds more than 50% of the voting rights in a code company. A person who holds between a 20% and 50% interest in a New Zealand code company can only increase that interest by making a formal takeover bid for all or part of the shares they do not own, or increasing their holdings with shareholder approval.
- 2.27 The more flexible Australian regime that will apply if the Restructure proceeds would allow the major shareholder to manage their investment with greater flexibility around shareholding percentage, as they will not be restricted to maintaining a greater than 50% shareholding to ensure access to the ownership creep provisions. This may assist with improving the liquidity of the Group's shares by removing a potential disincentive to the major shareholder diluting their shareholding below 50% should they wish to do so. While this does not represent any commitment by the major shareholder as to the level of their shareholding in the Group, it does provide some flexibility (for example, if a capital raising were undertaken by MHI Australia in the future).

A simple, single currency structure

- 2.28 If the Scheme proceeds, the functional currency for the Group will mirror an Australian dollar share price of the Group's primary listing on the ASX.
- 2.29 It is considered preferable to have an Australian dollar denominated company with an Australian dollar denominated share price to remove the current anomalies associated with an Australian dollar reporting company being quoted and traded in New Zealand dollars.
- 2.30 An Australian dollar share price that would align with the Group's functional currency would potentially mitigate non-operational foreign exchange risk and reduce the complexity of the group's reporting (such as foreign exchange movements in respect of dividend payments).

It is intended that MHI Australia will be listed on both ASX and NZX Main Board

- 2.31 The shares in MHI Australia will have their primary listing on the ASX. The shares will also be listed on NZX Main Board as a 'Dual Listed Issuer'. In time the NZX listing will be reviewed but the Board has no fixed view on when that review might occur, with the Board's focus on being to best balance the needs of its New Zealand shareholders with the long term transition to ASX and the development of MHI Australia's standing amongst Australian retail and institutional investors. As at 31 May 2016, 94.9% of Shareholders (by number) have registered addresses in the Register in New Zealand.

Comparable shareholder protection

- 2.32 MHI Australia will be regulated by Australian law and the rules and policies of the NZX Main Board and ASX. As the regulatory environment in Australia is comparable to that in New Zealand, shareholders in MHI Australia will have similar regulatory protection to that currently available under the Companies Act for the Company.

- 2.33 Section 12 of this Scheme Booklet contains a comparative description of the material rights and protections of Shareholders under New Zealand company law and the NZX Listing Rules, and any material changes to those rights and protections as a result of holding MHI Australia Shares.

Greater access to investors

- 2.34 An ASX listing will provide the Group with direct access to a wider group of investors than we currently enjoy and in the longer term the Board believes this will be to the benefit of all shareholders. Although the Board has no immediate plans to raise capital, it has growth aspirations for the Group. Accordingly, capital raisings may become a possibility in the future.

Enhancement of governance disclosure and practices

- 2.35 MHI Australia will be subject to the ASX Corporate Governance Principles and Recommendations. A copy of this document, and Corporate Governance Charter adopted by MHI Australia, can be found on the Investor Centre section of the Michael Hill website at www.michaelhill.com.

Reduced administrative costs and burden

- 2.36 The Scheme should reduce the complexity of operating the business under its current structure across two jurisdictions when the management team is based only in one:
- The Group executive team are based in Australia.
 - Global headquarters, manufacturing and supply chain operations are based in Australia.
 - The Group's intellectual property is held, and continues to be developed, in Australia.
 - As noted above, the current mismatch between functional currency (Australian dollars) and quoted share price and dividends (New Zealand dollars) should be alleviated if the Scheme is implemented.

Material costs / disadvantages of the Hill HoldCo Transaction and the Scheme

- 2.37 The Company's Board has not identified any matter which would have a material adverse effect on either the Group or Shareholders considered as a whole. They recommend that you vote in favour of the Scheme, but in doing so Shareholders should consider the following in the context of their particular circumstances:

One-off transaction costs of the Scheme and Hill HoldCo Transaction

- 2.38 The one-off costs of the Scheme and Hill HoldCo Transaction are approximately A\$1,750,000 prior to the Special Meeting, and approximately A\$250,000 after the Special Meeting (if the Hill HoldCo Transaction and the Scheme are approved), which can be broken down as follows:

Name	Description	Estimated costs (\$AU) (excluding GST)
PricewaterhouseCoopers	Australian tax advisers	\$630,000
PricewaterhouseCoopers	New Zealand tax advisers	\$255,000
Kensington Swan	New Zealand legal advisers	\$400,000

Name	Description	Estimated costs (\$AU) (excluding GST)
Hopgood Ganim	Australian legal advisers	\$315,000
ASX initial listing fees	Initial listing fees paid to ASX	A\$281,500
Other regulatory costs (FMA, NZX, IRD, Takeovers Panel)	Various fees paid to regulators	\$57,000
Computershare Investor Services Limited	Printing and despatch of Scheme Booklet and Special Meeting logistics	\$13,500
KordaMentha	Independent Adviser's Report	\$22,500

The majority of these costs have already been incurred in investigating and presenting the Scheme to Shareholders.

Costs of maintaining a listing on the NZX Main Board

- 2.39 The costs of continuing to maintain a listing on the NZX Main Board should be approximately NZ\$45,000 per annum (based on an estimated market capitalisation of approximately NZ\$400m). This is considered to be an acceptable cost which enables the Company to meet the needs of its New Zealand shareholders while the Company actively develops its standing amongst Australian retail and institutional investors. The additional costs of maintaining an ASX listing are expected to be approximately A\$53,000 per annum, in addition to:
- a additional compliance costs due to increased disclosure requirements in Australia (e.g. remuneration policy) of approximately A\$50,000 per annum; and
 - b the costs of additional shareholder meetings (both in Australia and New Zealand) at an incremental cost of approximately A\$50,000 per annum.

Change in jurisdiction of the entity in which investors hold shares

- 2.40 If the Scheme is implemented, Shareholders will become shareholders of MHI Australia, and their rights will be governed by Australian law, the NZX Listing Rules, ASX Listing Rules, and MHI Australia's constitution. As an Australian company, MHI Australia will not be subject to many of the provisions of the Companies Act that the Company is currently subject to, and with which Shareholders are familiar.
- 2.41 This means that shareholders wishing to take action to enforce the provisions of the MHI Australia Constitution, or Australian corporations or securities law as they relate to MHI Australia, will need to take action in the Australian courts, applying Australian law. Currently, shareholders wishing to take action in relation to the Company need to bring that action before the New Zealand courts and under New Zealand law.
- 2.42 MHI Australia will make applications to list on ASX and the NZX Main Board. If successful, this will cause a substantial change in the compliance requirements imposed on MHI Australia (under both the ASX and NZX Listing Rules) following the Implementation of the Scheme. These will be different to the requirements currently imposed on the Company.

- 2.43 For guidance on the rights attaching to MHI Australia Shares and a comparison of the applicable Australian and New Zealand rules, please refer to section 12 of this Scheme Booklet.

Ineligible Shareholders will not be able to receive MHI Australia Shares

- 2.44 MHI Australia Shares will only be issued to Shareholders if MHI Australia, in its sole discretion, is satisfied that the offer and issue of MHI Australia Shares in the jurisdiction of the Shareholder's registered address (as it appears in the Register) under the Scheme would be neither prohibited by law nor unduly onerous. In the case of any Shareholder where the Company is not so satisfied, such Shareholders will be considered to be Ineligible Shareholders.
- 2.45 The MHI Australia Shares to which an Ineligible Shareholder would be entitled under the Scheme will be issued to a nominee appointed by MHI Australia, who will sell those MHI Australia Shares (at the risk of the Ineligible Shareholder and subject to willing buyers on market) and provide the proceeds of that sale to the Ineligible Shareholder, after deducting any applicable duty or other taxes. The Company will meet the nominee's costs of implementing these arrangements. MHI Australia will indemnify each Ineligible Shareholder for any loss suffered by reason of the nominee's failure to perform its obligations to sell the MHI Australia Shares which the relevant Ineligible Shareholder would otherwise have been entitled to receive.
- 2.46 See section 5 of this Scheme Booklet for further details.

Tax implications for Shareholders

- 2.47 The Scheme may have taxation implications for individual Shareholders, depending on their particular circumstances. Accordingly, you should refer to the outline of the New Zealand and Australian income tax consequences of exchanging your Shares for MHI Australia Shares under the Scheme, and of a subsequent disposal of your MHI Australia Shares in section 13 of this Scheme Booklet. The summary is expressed in general terms based on the taxation laws as they currently stand and individual Shareholders should seek independent professional advice regarding the tax consequences applicable to their individual circumstances.

Risks associated with holding MHI Australia Shares

- 2.48 The risks associated with holding MHI Australia Shares are substantially the same as those associated with a Shareholder's present investment in the Company. Those risks are set out in the following paragraphs. You should consider these risks, together with the information contained elsewhere in this Scheme Booklet.
- 2.49 These risks are not intended to be a complete list of the risk factors to which the Company and MHI Australia are exposed. This section identifies the areas the Board regard as the major risks associated with an investment in the Company and MHI Australia. You should read this entire Scheme Booklet in order to fully appreciate those matters and the manner in which the Company and MHI Australia intend to operate post-Implementation.
- 2.50 There are numerous widespread risks associated with investing in any form of business and with investing in the share markets generally. There are also a range of specific risks associated with Implementation of the Scheme and the Company's business.
- 2.51 Shareholders should be aware that there are risks associated with any share investment. For example, the trading price of MHI Australia Shares is likely to be volatile and could be subject

to wide fluctuations in response to factors, such as additions or departures of key personnel, litigation, press, newspaper and other media reports, actual or anticipated variations in MHI Australia's operating results and results of the Group's retail sales.

- 2.52 The MHI Australia Shares to be allotted under the Scheme are not guaranteed in respect of profitability, dividends, return of capital, or the price at which they are traded on ASX and the NZX Main Board.
- 2.53 Due to the nature of the Scheme, where a reference is made in this section to a risk to the Company, Shareholders or Shares, that risk, if Implementation occurs, is also a reference to a risk to MHI Australia, MHI Australia Shareholders and MHI Australia Shares.
- 2.54 These are summarised as follows (broadly separated into risks associated with Implementation and risks associated with the Group's business):

Court delays

- 2.55 If the Court were to delay the granting of its final approvals, this delay might result in an extended period of time during which Shareholders may be unable to trade their shares.

Issue of MHI Australia Shares

- 2.56 The Shares are listed on the NZX Main Board. It is important to recognise that the value of shares in a listed company is subject to fluctuations in the share market, which can be affected by a variety of factors.
- 2.57 If Implementation occurs, the consideration that Scheme Participants (other than Ineligible Shareholders) will receive under the Scheme is fixed at one (1) MHI Australia Share for every Share held on the Record Date.
- 2.58 Some Scheme Participants may wish to sell the MHI Australia Shares that they receive as part of their Scheme Consideration rather than continue to hold those shares. This may have an adverse effect on the price of MHI Australia Shares, particularly if any such sales are substantial, as the supply of MHI Australia Shares into the market may exceed demand, causing downward pressure on the MHI Australia Share price. The market for MHI Australia Shares may be volatile following Implementation, at least in the period shortly after the MHI Australia Shares (assuming successful applications) commence trading on ASX and the NZX Main Board.

Liquidity

- 2.59 As over 50% of the Company's Shares (and therefore, post-Implementation, MHI Australia's shares) are and will be held by interests associated with the Hill family, the volumes of trading have historically been, and are likely to be in the future, lower than for some other more widely-held companies. This affects liquidity, and it is unlikely that the MHI Australia Shares will be included in any ASX or NZX index in the near future. While the Company and MHI Australia are in discussions with Australian brokerages and research houses in relation to coverage of the MHI Australia post-Implementation, no firm commitment has been obtained. In addition, the fact that MHI Australia Shares can be traded on either NZX or ASX may result in lower volumes of trading on each exchange considered individually.

Share market conditions

- 2.60 The prices at which shares trade on ASX and the NZX Main Board may rise or fall in response to a number of factors affecting the market for equities in general, which are

unpredictable and unrelated or disproportionate to the operating performance or the underlying performance of the Company and MHI Australia as a listed entity (assuming successful applications are made). Such factors include changes in the general economic outlook, interest and inflation rates, currency exchange rates, investor sentiment and the demand and supply of capital.

- 2.61 Given the volatile nature of the economy, there will always be the potential for uncertainty in relation to the valuation of the Company and MHI Australia. Continued volatility may result in uncertainties and risks regarding the likelihood and timing of MHI Australia delivering future cash flows to MHI Australia Shareholders, which could also have an adverse impact on the Company's share price if Implementation does not occur.
- 2.62 The Company's Board is not able to offer any assurance about the future prospects of the Company's Share price or the MHI Australia Share price.

Future issue of shares

- 2.63 While the Group has no present intention to do so, MHI Australia may in future issue further MHI Australia Shares or other securities in subsequent fundraisings, in order to finance future activities. MHI Australia cannot predict the size of future issues or the effect, if any, that future issues of securities will have on the market price of the MHI Australia Shares. Issues of substantial numbers of MHI Australia Shares, or the perception that such sales could occur, may adversely affect prevailing market prices of those shares. With any additional sale or issue of shares, investors will suffer dilution to their voting power and MHI Australia may experience dilution in its earnings per share.

Risk of suspension

- 2.64 Like all listed / reporting issuers, the Company (and MHI Australia) may be subject to potential suspension from listing due to a failure to comply with local regulations. To mitigate these risks, the Company monitors local regulations governing companies through its local counsel experienced in corporate law to ensure that it continues to comply with those regulations.

Other Implementation risks

- 2.65 In addition:
- a there may be additional risks associated with the change in jurisdiction from New Zealand to Australia (see section 12)
 - b there may also be New Zealand and Australian tax implications for Shareholders (see section 13)
 - c there is no assurance that following Implementation and listing (subject to successful applications) of MHI Australia on ASX and the NZX Main Board, MHI Australia will fully realise the advantages set out above
 - d while it is believed that the Scheme will enhance shareholder value for the reasons set out above, in section 2, and in the Letter from the Chair, there is no assurance that the market price of MHI Australia Shares at Implementation will be equal to, or greater than, the market price of the Company's Shares prior to Implementation, or that the market price of MHI Australia Shares will increase after Implementation. The price of MHI Australia Shares may be influenced by a number of factors which are beyond the control of MHI Australia.

Business risks

- 2.66 As the Scheme will not involve any change to the Group's operations, it is expected that the current risks associated with the Company's business will continue to apply.

Production and other operational risks

- 2.67 The Company's future operations will be subject to a number of factors which are outside its control and that can cause material delays or changes in operating costs for varying lengths of time. For example, the Company's financial performance may be adversely affected by long lead times, delays and price escalations in respect of required equipment, inventory, consumables and services (such as logistics). Industrial disruptions may also result in lower than planned production or delays in delivery of products.
- 2.68 Many of these risks are outside the ability of management to control and may have a materially adverse effect on the Company's operations and financial results.

Risk of fines and penalties

- 2.69 The Company may be subject to potential fines and penalties in jurisdictions where it operates, whether resulting from changes in policy or otherwise. To mitigate these risks, the Company monitors compliance with local regulations governing companies through its local legal counsel experienced in corporate and consumer law.

General economic factors and investment risks

- 2.70 General economic conditions may affect inflation and interest rates, which in turn may impact upon the Company's operating costs and financing. Other factors that may adversely affect the Company's activities in Australia, New Zealand, or overseas include changes in government policies, natural disasters, industrial disputes, and social unrest or war on a local or global scale.

Commodity price volatility

- 2.71 Commodity prices fluctuate and are affected by numerous factors beyond the control of the Company, such as demand for the Company's products. In addition, commodity prices are affected by macroeconomic factors such as expectations regarding inflation, interest rates and global and regional demand for, and supply of, the commodity as well as general global economic conditions. These factors may have an adverse effect on the Company's activities (including the prices at which it is able to manufacture and sell its products), as well as on its ability to fund those activities and the price of the Company's listed securities.

Foreign exchange risk

- 2.72 The Group operates internationally and is exposed to foreign exchange risk arising from the various currency exposures, primarily with respect to the US dollar. Foreign exchange rates fluctuate and are affected by numerous factors beyond the control of the Company. These factors may have an adverse effect on the Company's operations.

3 Details of the Hill HoldCo Transaction

- 3.1 MHI Australia will acquire all of the issued shares in Hill HoldCo from its shareholders ('**Hill HoldCo Transaction**'). Hill HoldCo currently holds 52.89% of the Company's shares, and is controlled by interests associated with the Hill family.
- 3.2 The Hill HoldCo Shareholders will receive one MHI Australia Share for each Share in the Company held by Hill HoldCo. After the issue of MHI Australia Shares under the Hill HoldCo Transaction (and the cancellation of the redeemable share issued by MHI Australia on its incorporation), this will ensure that the Hill HoldCo Shareholders hold or control the same number of shares and voting rights in MHI Australia as they do in the Company on the date the Hill HoldCo Transaction is completed (essentially maintaining the Hill HoldCo Shareholders' proportional holding of the Group). The Hill HoldCo Shareholders are not receiving any additional consideration over other Shareholders, and if the Scheme proceeds, will hold their MHI Australia Shares on the same basis as all other MHI Australia Shareholders.
- 3.3 Following completion of the Hill HoldCo Transaction, Hill HoldCo will become a wholly owned subsidiary of MHI Australia and MHI Australia will therefore control 52.89% of the Company (through Hill HoldCo's ownership of that percentage of the Company's Shares).
- 3.4 If the required Shareholder approval is obtained, the Hill HoldCo Transaction will be completed as soon as practicable following the Special Meeting and prior to the second court hearing on the Second Court Date. If the Hill HoldCo Transaction is approved, but the Scheme is not, the Hill HoldCo Transaction will nevertheless proceed.

Due diligence and the Hill HoldCo Agreement

- 3.5 To give effect to the Hill HoldCo Transaction, MHI Australia, Hill HoldCo, and the Hill HoldCo Shareholders have entered into the Hill HoldCo Agreement. The key terms and conditions of the Hill HoldCo Agreement are set out in section 15. Prior to MHI Australia entering into the Hill HoldCo Agreement, the Company and MHI Australia carried out due diligence on Hill HoldCo. Following that due diligence, the boards of the Company and MHI Australia are each satisfied that Hill HoldCo is and has been a single-purpose vehicle (that purpose being to hold the Hill family's interest in the Company) and that in acquiring Hill HoldCo, MHI Australia is not acquiring any asset other than 202,644,452 Shares in the Company and is not assuming any liabilities. In the event that any liabilities do exist, the Company and MHI Australia are satisfied that the terms of the Hill HoldCo Agreement will provide MHI Australia with an effective remedy.

Approval required by Shareholders

- 3.6 The Company is a 'code company', which means it is subject to the Takeovers Code. Rule 6 of the Takeovers Code provides that a person who holds or controls:
- a none, or less than 20%, of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in that code company unless, after the relevant event, that person and that person's associates hold or control in total not more than 20% of the voting rights in the code company; or
 - b 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company.
- 3.7 This is known as the 'fundamental rule'. It is subject to a number of exceptions, including the exception set out in Rule 7(c). Rule 7(c) permits an acquisition by a person of voting securities

in a code company or any other body corporate which will give the person acquiring the voting securities the right to control more than 20% of the voting rights in a code company if it is approved by an ordinary resolution of the company's shareholders.

- 3.8 The Hill HoldCo Transaction involves MHI Australia acquiring shares in Hill HoldCo which will give it the right to control more than 20% of the voting rights in the Company. Accordingly, Hill HoldCo is seeking approval by the Company's Shareholders in accordance with Rule 7(c) of the Takeovers Code. If the Hill HoldCo Transaction is approved, it will be permitted under rule 7(c) of the Takeovers Code as an exception to rule 6 of the Takeovers Code.

Who can vote and approval thresholds

- 3.9 Hill HoldCo and its associates (being, for present purposes, any interests associated with the Hill family), and MHI Australia, cannot vote on the Hill HoldCo Transaction. MHI Australia does not currently hold or control any Shares in the Company. All other persons who are registered as Shareholders at 5:00pm on 21 June 2016 can vote.
- 3.10 The Hill HoldCo Transaction will need to be approved by an ordinary resolution (meaning a simple majority of the votes entitled to be cast, and cast, by those shareholders who are eligible to and who vote on the resolution). This threshold is set out in the Takeovers Code and cannot be amended.

Independent Adviser's Report

- 3.11 In addition to providing its own opinion on the Hill HoldCo Transaction and the Scheme, the Board has appointed KordaMentha as an independent adviser to assess and report on the merits of each. A copy is set out in Appendix B.

Other information required under Rule 7(c) of the Takeovers Code

- 3.12 The other information required by the Takeovers Code in respect of an acquisition under Rule 7(c) is set out in section 16.

4 Details of the Scheme

- 4.1 Under the Scheme, subject to approval of the Hill HoldCo Transaction:
- a all of the remaining Shares (all Shares other than those held by Hill HoldCo), will be transferred by the remaining Shareholders on the Implementation Date to MHI Australia;
 - b all of the Employee Options will be novated to MHI Australia; and
 - c MHI Australia will then formally adopt the name of 'Michael Hill International Limited' and the Company will change its name to 'Michael Hill New Zealand Limited'.
- 4.2 In exchange, those remaining Shareholders, other than Ineligible Shareholders (see section 5), will receive one (1) MHI Australia Share for each Company Share they hold on the Record Date. MHI Australia will arrange for the issue and allotment of MHI Australia Shares in respect of which an Ineligible Shareholder would otherwise be entitled to under the Scheme to an appointed nominee for the purposes of selling those MHI Australia Shares and remitting the proceeds of that sale to each Ineligible Shareholder. See section 5 for further details of Ineligible Shareholders and the nominee arrangements.
- 4.3 If the required Shareholder approvals and orders of the High Court are obtained, Implementation of the Scheme will occur on 30 June 2016 (at 6:00pm (Brisbane time)) or such other date set by the Court or agreed between the parties in writing in accordance with

an order of the High Court. It is a term of the Scheme that the Shares in the Company transferred to MHI Australia under the Scheme will, except to the extent prohibited by law, be transferred free from all mortgages, charges, liens, encumbrances, or demands of any nature and interests of third parties of any kind, whether legal or otherwise. Scheme Participants will be deemed on Implementation to have tendered all of their Shares to MHI Australia on that basis.

Effect of the Scheme

- 4.4 The Scheme operates as a statutory mechanism that, if approved, compels each Scheme Participant, other than Ineligible Shareholders, holding Shares on the Record Date (including those who do not vote on the Scheme or who vote against it) to:
- a cease to be a holder of, and to have any direct interest in, their Shares in return for the Scheme Consideration;
 - b accept the issue to them of the MHI Australia Shares as Scheme Consideration; and
 - c become a registered MHI Australia shareholder and to be bound by the MHI Australia Constitution and subject to the corporation laws of Australia.
- 4.5 Ineligible Shareholders will cease to be a holder of, and to have any direct interest in, their Shares in return for the net proceeds of sale of the MHI Australia Shares to which they would have otherwise been entitled (see section 5).
- 4.6 Completion of the Hill HoldCo Transaction and the Scheme will result in:
- a each Scheme Participant, other than the Ineligible Shareholders, receiving the Scheme Consideration;
 - b the transfer of all Shares to MHI Australia;
 - c the Company becoming wholly controlled by MHI Australia (through its holding in Hill HoldCo and direct holding in the Company); and
 - d subject to successful applications, the Company being removed from the NZX Main Board and MHI Australia being listed on ASX and also being listed on the NZX Main Board as a Dual Listed Issuer.
- 4.7 Upon the Scheme being implemented, each Scheme Participant (other than Ineligible Shareholders) will hold the same proportional investment in MHI Australia as that Scheme Participant had in the Company immediately before the Scheme. The Scheme will apply to all Shareholders holding Shares on the Record Date, regardless of whether they voted on, or voted against, the Scheme or the Hill HoldCo Transaction.
- 4.8 On Implementation, MHI Australia Shares will be held on the New Zealand or Australian share register, and can be transferred, as set out in section 10.

How the Company's Employee Options will be affected by the Scheme

- 4.9 As at the date of this Scheme Booklet, the Company has 13,750,000 Employee Options on issue to nine members of its executive management, and has agreed to issue further options to those individuals. The material terms of the Employee Options are set out in the Information Memorandum.

- 4.10 The Employee Options enable relevant employees to subscribe for Shares in the Company. If the Scheme is approved, those employees clearly do not want to acquire shares in a non-listed subsidiary of MHI Australia, but will want to have the option to subscribe for shares in MHI Australia as the listed parent of the Group. The Company and MHI Australia have therefore entered into arrangements with the Employee Option holders whose Employee Options are not due to expire before the Scheme becomes effective.
- 4.11 Under these arrangements, MHI Australia will assume the obligations of the Company and will issue to each Employee Option holder one option in MHI Australia for each Employee Option granted or to be granted by the Company, on substantially similar terms to the Employee Options so novated (subject to any changes required by (or to reflect) Australian law or the ASX Listing Rules, or changes which, in the opinion of the Company's and MHI Australia's Boards, are not likely to have a material adverse effect on the holders of MHI Australia Shares or Employee Option holders).

Scheme Implementation Agreement

- 4.12 The Company and MHI Australia entered into the Scheme Implementation Agreement, which governs how the Scheme will proceed. The key terms of the Scheme Implementation Agreement are set out in section 15.

Approval required by Shareholders and Interest Classes

- 4.13 Under the Companies Act, a scheme of arrangement affecting voting rights in a code company must be approved by:
- a 75% or more of the votes entitled to be cast, and cast, on the resolution by each Interest Class of shareholders; and
 - b a simple majority of all votes entitled to be cast on the resolution (regardless of whether they are cast). That is, shareholders holding more than 50% of the company's shares must approve the scheme.
- 4.14 These thresholds are set out in the Companies Act and cannot be amended.
- 4.15 'Interest Classes' are determined in accordance with principles set out in the Companies Act, having regard to decisions of the Courts in similar circumstances, and policies and guidance issued from time to time by the Takeovers Panel. The primary issue is whether there is sufficient similarity of rights amongst shareholders such that they can consult with each other on a matter of common interest, or whether there is there a differentiation that is sufficient to prevent that ability to come together as a single group and debate the question of what is good or bad for the constituency as a whole. If the rights of different shareholders will be different under a proposed arrangement, then those shareholders will generally be in different Interest Classes.
- 4.16 Applying these principles, relevant court decisions and Takeovers Panel guidance, the Company has determined that there will be two Interest Classes of Shareholders for the purposes of Resolution 2, as follows:

a *Class 1: Hill HoldCo*

Hill HoldCo will not be issued MHI Australia Shares under the Scheme (as the Hill HoldCo Shareholders will instead receive those MHI Australia Shares under the Hill HoldCo Agreement in exchange for the shares they hold in Hill HoldCo). The Company

has therefore determined that, because Hill HoldCo has no rights as against the Company in respect of the Scheme, it should be treated as a separate Interest Class.

b *Class 2: All other Shareholders*

The identification of Hill HoldCo as a separate Interest Class necessarily creates a second separate Interest Class comprising the remaining shareholders. Subject to the following paragraph, the Company has determined that all Shareholders other than Hill HoldCo have a sufficient similarity of interest such that they can reasonably consult together concerning the proposed Scheme and debate whether the Scheme is good or bad for the constituency as a whole.

While Heffalump will be issued MHI Australia Shares under the Scheme, and therefore does not form part of Interest Class 1, the Company notes that Heffalump is an Associate of Hill HoldCo by virtue of it being owned by the family interests of Emma Jane Hill. As an Associate of Hill HoldCo (and therefore also an Associate of the Company for the purposes of the Takeovers Code), it has been determined by the Company, and Heffalump has agreed, that Heffalump should not, and will not, vote as a member of Interest Class 2. This is further referred to in paragraph 4.24.

Independent Adviser's Report

- 4.17 The Company has appointed KordaMentha to assess and report on the merits of the Scheme. A copy is set out in Appendix B.

Takeovers Panel no-objection statement

- 4.18 As the Company is a 'code company' under the Takeovers Code, the Takeovers Code regulates changes in the holding or control of its voting rights (that is, the rights to vote conferred by the Shares).
- 4.19 Under section 236A of the Companies Act, the Company is able to request a 'no-objection statement' from the Takeovers Panel. This statement is presented to the High Court when seeking orders in respect of a scheme of arrangement under the Companies Act.
- 4.20 The Takeovers Panel's role is to assist the High Court by:
- a reviewing scheme documents to ensure that appropriate information is placed before shareholders and that associates and interest classes of shareholders have been adequately identified; and
 - b helping to ensure that matters that are relevant to the High Court's decision are properly brought to the High Court's attention.
- 4.21 The Takeovers Panel, in giving a no-objection statement, does not comment on the merits of the Scheme. Rather, the primary purpose of the Takeovers Panel's review is to consider whether Shareholders will be adversely affected by the transaction the subject of the Scheme being conducted under a scheme of arrangement as opposed to under the Takeovers Code.
- 4.22 Even if the Takeovers Panel grants the no-objection statement, the High Court still has discretion not to implement the Scheme.
- 4.23 The Company has been granted a preliminary no-objection statement (called a 'letter of intention') by the Takeovers Panel in respect of the Scheme. The letter was presented to the High Court prior to the First Court Date.

4.24 The Takeovers Panel has indicated that on the basis of the documents and information provided to it, it proposes to grant a final no-objection statement on or before the Second Court Date. One of the Takeovers Panel's preconditions to providing a no-objection statement is that an enforceable statement of the voting intentions of the 'promoter' of the scheme and its Associates is given by way of deed poll. The Company has not provided a deed poll as it cannot vote at the Special Meeting. Hill HoldCo and Heffalump fall within the definition of the Company's 'Associates' for the purposes of the Scheme. Those companies have given a deed poll in favour of the Takeovers Panel and all parties affected by the Scheme, pursuant to which Hill HoldCo agrees to vote in favour of the Scheme and Heffalump has agreed not to vote on Resolution 2. The deed poll can be varied or revoked by agreement between Hill HoldCo, Heffalump, and the Takeovers Panel, without the approval of any other person on whom it confers a benefit.

What is the role of the High Court?

- 4.25 Under section 236A of the Companies Act, the Company must obtain the High Court's approval for the Scheme to be implemented.
- 4.26 High Court approval involves a two stage process (which is why there are two separate Court dates, as referred to throughout this Scheme Booklet).
- 4.27 At the First Court Date the High Court scrutinises the documents relating to the Scheme and, if satisfied, gives orders for the process that must be followed for final approval to be obtained at the Second Court Date.
- 4.28 Assuming all other conditions to the Scheme are satisfied or waived, before the High Court gives orders implementing the Scheme it must be satisfied that:
- a there has been compliance with the relevant procedural rules (for example, the rules applying to how the Special Meeting is held, passing resolutions by each class of Shareholders, and the making of court applications, and similar issues);
 - b the Scheme has been fairly put to each class of Shareholders and that this Scheme Booklet puts all the information reasonably necessary to enable each class of Shareholders to judge and vote on the Scheme;
 - c Shareholders in each class are fairly represented by those Shareholders who vote on the Scheme and that the statutory majority are acting bona fide and are not coercing the minority in order to promote interests adverse to those of the class they purport to represent;
 - d the Scheme is such that a Shareholder acting as an intelligent and honest person of business in respect of his or her own interest, may reasonably approve the Scheme; and
 - e Shareholders will not be adversely affected by the use of the Scheme rather than the Takeovers Code to effect the transactions contemplated by the Scheme.

Rights of Shareholders to object

- 4.29 If Resolution 2 is passed, but you still object to the Scheme being implemented, you will have the right to be heard at the hearing for the final court order.
- 4.30 You can request a hard or electronic copy of the High Court originating application by contacting the Company at online@michaelhill.com.au. The application will be sent to you free of charge within 5 Business Days of the Company's receipt of your request.

- 4.31 You can also submit a written complaint directly to the Takeovers Panel (whether or not a no-objection statement is granted) by email: takeovers.panel@takeovers.govt.nz.

5 Ineligible Shareholders

- 5.1 MHI Australia Shares will only be issued to Shareholders if MHI Australia is satisfied that the laws of a Shareholder's registered address (as shown in the Register) permit the issue and allotment of the MHI Australia Shares to the Shareholder, either unconditionally or after compliance with conditions which MHI Australia in its sole discretion regards as acceptable and not unduly onerous. For example, MHI Australia would likely consider a requirement to register a prospectus or equivalent offering document in any jurisdiction to be an unduly onerous condition.
- 5.2 MHI Australia is satisfied that MHI Australia Shares can be issued in New Zealand and Australia. MHI Australia will rely on the Financial Markets Conduct (Michael Hill Group) Exemption Notice 2016 and the *ASIC Corporations (Compromises or Arrangements) Instrument 2015/358* when issuing the MHI Australia Shares in New Zealand and Australia, respectively. These instruments exempt MHI Australia from the disclosure requirements of the Financial Markets Conduct Act and the Corporations Act in respect of the MHI Australia Shares issued pursuant to the Scheme. See section 16 for more information.
- 5.3 MHI Australia has determined that it would be unduly onerous and costly to investigate and comply with the securities laws restrictions in every other country in which Shareholders are registered prior to the Special Meeting. However, if the Shareholders approve the Hill HoldCo Transaction and the Scheme, MHI Australia will seek advice after the Special Meeting and before Implementation in respect of any Shareholder with more than 100,000 Shares, and in any jurisdiction with more than 100,000 Shares in aggregate. The outcome of that advice will be announced to the market via NZX. Based on the Register as at 31 May 2016, it is expected that advice would be sought in five jurisdictions – Canada, the Philippines, the Netherlands, the United Kingdom and Singapore.
- 5.4 Any Shareholder outside of Australasia may also individually establish to MHI Australia's satisfaction that the Scheme Consideration can be issued in compliance with the law of the place where the Shareholder has their registered address. MHI Australia is not bound to accept or act on any such advice, but may do so in its discretion. Any shareholders to whom this paragraph might apply is invited to contact the Company or MHI Australia prior to 30 June 2016 via its New Zealand solicitors, Kensington Swan, by email at mhiforeignshareholders@kensingtonswan.com.
- 5.5 Shareholders who do not satisfy the requirements of paragraph 5.1 above will be considered to be 'Ineligible Shareholders'. MHI Australia will issue and allot the MHI Australia Shares an Ineligible Shareholder would otherwise be entitled to under the Scheme to an appointed nominee. The nominee will be a registered financial service provider and NZX Trading and Advising Firm which is not under investigation by the Financial Markets Authority or NZX, but MHI Australia may also appoint an equivalent entity to carry out this function in Australia and through ASX.
- 5.6 The nominee will be directed to sell those MHI Australia Shares in an orderly manner over the month following the date of MHI Australia listing and its shares being quoted on the ASX (at the risk of the Ineligible Shareholder and subject to willing buyers on market) and remit the proceeds received, after deducting any duty or other taxes, to that Ineligible Shareholder, in full satisfaction of that Ineligible Shareholder's rights under the Scheme to the Scheme Consideration. For the purposes of effecting the sale, the MHI Australia Shares that all

Ineligible Shareholders would otherwise be entitled to under the Scheme will be pooled so that Ineligible Shareholders will share pro-rata in the aggregate sale proceeds, so that all Ineligible Shareholders are treated in the same manner. The Company will meet the nominee's costs of implementing these arrangements. MHI Australia will also indemnify each Ineligible Shareholder for any loss suffered by reason of the nominee's failure to perform its obligations to sell and remit the proceeds of the MHI Australia Shares which the relevant Ineligible Shareholder would otherwise have been entitled to receive.

- 5.7 Except as provided above, MHI Australia is not under any obligation to take any steps to satisfy itself of the eligibility of a foreign Scheme Participant to receive Scheme Consideration under the Scheme, or to act in accordance with any advice provided by a Shareholder.

6 The key conditions for the Scheme to proceed

6.1 The key conditions for the Scheme to proceed are:

- a Shareholders approve both Resolution 1 and Resolution 2 at the Special Meeting by the required majorities;
- b the High Court approves the Scheme and orders the Implementation of the Scheme;
- c the Hill HoldCo Agreement becomes unconditional;
- d there not having occurred prior to the Second Court Date, any Material Adverse Change or Prescribed Occurrence; and
- e neither the Hill HoldCo Agreement or the Scheme Implementation Agreement is terminated prior to the Second Court Date.

6.2 These terms are reflected in the Hill HoldCo Agreement and the Scheme Implementation Agreement, which between them set out the key terms of the Hill HoldCo Transaction and the Scheme. Descriptions of the key terms of each document, including these and other conditions precedent to the Hill HoldCo Transaction and the Scheme, are set out in section 15.

6.3 All conditions must be satisfied or, if applicable, waived on or before the End Date, being 31 December 2016.

6.4 As at the date of this Scheme Booklet, the Board is not aware of any circumstances which would cause a condition of the Hill HoldCo Transaction and the Scheme not to be satisfied. The Board will advise Shareholders of the status of the conditions at the Special Meeting. The Company will also announce to the NZX any relevant matter which affects the likelihood of a condition being satisfied or not being satisfied.

7 Can the terms of the Hill HoldCo Transaction and the Scheme be amended?

7.1 The Company, MHI Australia, and the Hill HoldCo Shareholders (as relevant) may amend the Scheme Implementation Agreement or the Hill HoldCo Agreement. Any amendment must be contained in a written document, and if it relates to the Scheme, must be filed with the High Court. If made following the Special Meeting to consider the Hill HoldCo Transaction and the Scheme, the amendment must be approved by the High Court and, if required by the High Court, communicated to Shareholders in the manner required by the High Court. Any changes would also be subject to review by the Takeovers Panel, which, if not satisfied, may withhold granting a final no-objection statement in respect of the Scheme.

- 7.2 Any other amendment by the parties communicated at any time prior to or at the Special Meeting, with or without any other prior notice or communication, which is accepted by the Shareholders voting at the Special Meeting, will become part of the Scheme.

8 When will the Scheme be implemented?

- 8.1 The Scheme will be implemented on 30 June 2016 at 6:00pm (Brisbane time), or such other date set by the High Court or agreed between the Company and MHI Australia in accordance with an order of the High Court. Any additional date must be at least two Business Days after all the conditions set out in the Scheme Implementation Agreement and outlined in section 15 are satisfied (unless the High Court determines otherwise). The last date by which all the conditions can be satisfied is 31 December 2016.
- 8.2 In practice, the Company will apply for final High Court orders to effect the Scheme when all conditions except High Court approval are satisfied. The Company hopes to be granted final High Court orders on or about 23 June 2016 (although this is only an indicative date). The Company will make a market announcement when final Court orders are granted, which will confirm what the Implementation Date will be.
- 8.3 See the indicative timetable on page 13 for more information in relation to timing.

9 What happens if the High Court does not approve the Scheme or if the Scheme does not otherwise proceed?

- 9.1 If either the Scheme or the Hill HoldCo Transaction does not proceed (whether due to non-approval by the High Court or otherwise), the Scheme will likewise not proceed and no MHI Australia Shares will be issued. If the Hill HoldCo Transaction is approved, but the Scheme is not, the Hill HoldCo Transaction will nevertheless proceed. In that event:
- a the Company will remain the Group's parent company and will continue to operate its business as it currently does;
 - b if the Hill HoldCo Transaction has completed, MHI Australia will hold the shares in Hill HoldCo;
 - c Shareholders will continue to hold Shares in the Company, which will remain listed on the NZX Main Board;
 - d the Group's parent company will remain a New Zealand entity and, as a result, the potential benefits of the Hill HoldCo Transaction and the Scheme set out in paragraphs 2.14 to 2.36 will not be able to be realised; and
 - e the Board will reassess the Company's options for future growth.
- 9.2 If the Hill HoldCo Transaction proceeds but the Scheme does not become effective prior to the End Date, and no agreement as to an alternative course of action is reached under clause 3.4(a) of the Scheme Implementation Agreement, then the Hill HoldCo Shareholders will hold all the shares in MHI Australia, and MHI Australia will hold all the shares in Hill HoldCo.

10 Dealing in MHI Australia Shares post-Implementation

- 10.1 If Implementation occurs, MHI Australia Shares will either be included on the New Zealand share register or Australian share register. Shareholders have been given an election form

with this Scheme Booklet which allows Shareholders to determine which share register their MHI Australia Shares will be included on once issued (other than an Ineligible Shareholder).

10.2 Any Shareholder who does not elect, or whose election is not received by the Record Date, will have their MHI Australia Shares included on the Australian issuer sponsored share register (see below).

10.3 The share register your MHI Australia Shares are on will dictate how those MHI Australia Shares can be sold. MHI Australia Shares on the Australian share register can only be sold through the ASX, and MHI Australia Shares on the New Zealand share register can only be sold through the NZX. However, MHI Australia Shareholders can elect to change the register their MHI Australia Shares are on. The process for trading and switching registers, if Implementation occurs, is set out below. If Implementation does not occur, Shares will continue to be tradeable on the NZX only.

Outline of Australian share register structure

10.4 MHI Australia has applied to participate in the ASX's Clearing House Electronic Subregister System (CHES) and will comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHES is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in an electronic form.

10.5 When the MHI Australia Shares become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be able to be registered in one of two subregisters, an electronic CHES subregister or an issuer sponsored subregister. On Implementation, all MHI Australia Shares will be registered on the issuer sponsored subregister.

10.6 Following Implementation, Shareholders will be sent a holding statement that sets out the number of MHI Australia Shares that have been issued to them. This statement will also provide details of a MHI Australia Shareholder's Shareholder Reference Number (SRN).

10.7 MHI Australia Shareholders will subsequently receive statements showing any changes to their shareholding. Share certificates will not be issued. MHI Australia Shareholders will be sent subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the ASX Listing Rules and the Corporations Act.

10.8 Additional statements may be requested at any other time through the MHI Australia share registry. MHI Australia and the share registry may charge a fee for these additional issuer sponsored statements.

10.9 If you subsequently transfer your shares to the electronic CHES subregister, you will be given a Holder Identification Number (HIN). You will also receive statements showing any changes to your shareholding, additional copies of which can be requested through MHI Australia Shareholder's sponsoring broker.

How to buy or sell MHI Australia Shares

10.10 MHI Australia shares are listed on the Australian ASX and NZX Main Board.

10.11 To buy or sell your MHI Australia Shares you need to engage the services of a stock broker. You will need to know:

a for CHES holders, your HIN;

b for issuer sponsored holders, your Security Holder Reference Number (SRN);

- c for holders on the New Zealand register, your Common Shareholder Number (CSN) and Faster Identification Number (FIN).

If you do not know your numbers, please contact the relevant share registry on:

- d Australia: 1300 850 505 (within Australia) or + 61 3 9415 4000 (outside Australia)
- e New Zealand: +64 9 488 8777.

- 10.12 You can find details of stockbrokers on the ASX website asx.com.au or the NZX website at nzx.com. You will need to engage your chosen broker directly, and any transaction will occur in accordance with the broker's terms and conditions. MHI Australia is not affiliated in any way with the brokers nor has MHI Australia entered into any exclusive arrangements with them.

Disclaimer

- 10.13 Before selling or acquiring MHI Australia shares, MHI Australia recommends you seek your own independent financial and tax advice.
- 10.14 The contact details of the above brokers are provided for the information of MHI Australia Shareholders only and the provision of these details does not constitute a recommendation by MHI Australia. MHI Australia does not make any representations or warranties in relation to services which may be provided by the brokers to MHI Australia Shareholders, and will not be liable for any costs or losses incurred by you as a result of any activities of a broker or your dealings with them.

How do I transfer my shares between share registers?

- 10.15 Subject to acceptance of applications, post-Implementation MHI Australia Shares will be tradable on the ASX and the NZX. If you wish to transfer your MHI Australia Shares from the issuer sponsored subregister to the New Zealand register and your MHI Australia Security Reference Number starts with the letter "I", or you wish to transfer your MHI Australia Shares from the New Zealand branch register to the issuer sponsored subregister, you will need to complete a register removal request and return it to the MHI Australia Australian share registry via the contact details below. Your register removal request will be processed within five business days of the form being received.

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne Victoria 3001
Australia

- 10.16 Please note: If you are a broker sponsored holder in CHESSE, do not send this completed form to Computershare. You must contact your sponsoring broker to lodge a register removal request on your behalf. To convert shares to the CHESSE subregister, you will need to enter into a sponsorship agreement with your chosen sponsoring broker and to instruct your sponsoring broker to move your holdings. You will be allocated a HIN.

11 Proposed governance of MHI Australia

- 11.1 The Board of the Company is currently comprised of Emma Jane Hill (Chair), Sir Richard Michael Hill, Rob Fyfe, Gary Smith, Lady Ann Christine Hill, and Gary Gwynne. The board of MHI Australia is currently comprised of Gary Smith, Michael Parsell, and Phillip Taylor.

- 11.2 If the Scheme is approved, the Board of MHI Australia will change and be made up of:
- a Emma Jane Hill (Chair)
 - b Sir Richard Michael Hill
 - c Rob Fyfe
 - d Gary Smith
 - e Janine Allis.
- 11.3 In that situation, the present Board of the Company will also change to reflect it becoming a subsidiary of MHI Australia, and its new board of directors will be consistent with the board of the Group's other subsidiaries and include some of the members of the Board of MHI Australia as well as senior group executives.
- 11.4 No payments will be made to the retiring directors of the Company in respect of their retirement. Post-Implementation, each of the directors of MHI Australia will receive remuneration for performing their duties as directors, as follows.
- 11.5 The current sole shareholder of MHI Australia has approved the sum of A\$840,000 as the total pool of director remuneration available to the non-executive directors of the new board of MHI Australia. This is an increase of A\$190,000 over the current total pool authorised by Shareholders in respect of the Company. The increase occurs because previously Sir Michael Hill was an executive director and accordingly his remuneration as Chair was not taken into account for the purposes of determining the total pool available to non-executives. The present Chair, Emma Hill, is a non-executive director and will be paid as such from the pool available to directors for their remuneration. The increased level also provides some flexibility for the possibility of an additional director. It is not proposed that any current individual director will receive any increase in remuneration in the year ending 30 June 2017 compared to the 30 June 2016 year.
- 11.6 Profiles of the proposed directors of MHI Australia are set out below. The proposed directors can be contacted at the address of the Company (see paragraph 16.2).



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

Chair (Non-independent)
Queenstown, New Zealand

Emma has been a Director of the Company since February 2007. She was appointed Deputy Chair in 2011 and was appointed by the Board as Executive Chair in December 2015.

Skills and experience

Emma has over 30 years' experience with 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.

Board Committee membership

Member of the Audit, Nominations and People Development and Remuneration sub-committees.



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

Founder President/Non-independent Director
Queenstown, New Zealand

Sir Michael was appointed Founder President of the Company in 2015 in recognition of his special connection with Michael Hill for over 35 years. As Founder President Sir Michael is elected as a director every 5 years. He led the company as Executive Chairman from 1987 until December 2015.

Skills and experience

Sir Michael had 23 years of jewellery retailing experience before establishing Michael Hill in 1979 which then listed on the NZ Stock Exchange in 1987. Sir Michael's visionary leadership has been the foundation for the company's successful international expansion. In 2008 he was recognized as Ernst Young "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.



Rob Fyfe

Independent, non-executive
Auckland, New Zealand

Rob was appointed to the Board of the Company in January 2014.

Skills and experience

Rob served as CEO of Air New Zealand between 2005 and 2012, a period that saw a resurgence in Air New Zealand to become one of the most recognised and awarded airlines in the world and one of the best performers in a tough industry. Prior to Air New Zealand, Rob had gained extensive general management experience in various retail businesses operating in New Zealand, Australia and Great Britain.

Other directorships and offices (current and recent)

CEO and Director of Icebreaker
Director of Antarctica New Zealand
CEO of Air New Zealand between 2005 and 2012
Strategic advisor to Craggy Range
Trustee Asia New Zealand Foundation.

Board Committee membership

Chair of Nominations sub-committee
Chair of People Development/ Remuneration sub-committee
Member of Audit sub-committee



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

Independent, non-executive
Brisbane, Queensland, Australia

Gary was appointed to the Board of the Company in November 2012.

Skills and experience

Gary has had extensive Director experience. He is Chairman of Flight Centre, 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.

Other directorships and offices (current and recent)

Chairman of Flight Centre Limited.
Director Tourism Events Queensland and Chair of Audit and Risk committee.

Board Committee membership

Chairman of the Audit sub-committee, member of the People Development/Remuneration sub-committee.



Janine Allis

Independent, non-executive

Skills and experience

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

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

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

12 Rights attaching to Scheme Consideration / terms of MHI Australia Shares

- 12.1 A summary of the principal rights that will attach to MHI Australia Shares is set out below.
- 12.2 This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of shareholders of MHI Australia, which can involve complex questions of law arising from the interaction of the MHI Australia Constitution, ASX Listing Rules, Corporations Act and NZX Listing Rules (as they apply to Dual Listed Issuers on the NZX Main Board).
- 12.3 A summary of the more significant rights is set out below. The full terms of the MHI Australia Shares are contained in MHI Australia's constituent documents, consisting of its certificate of incorporation and the MHI Australia Constitution. A copy of these documents may be viewed at MHI Australia's registered office during business hours in Australia at Metroplex on Gateway, 7 Smallwood Place, Murarrie QLD 4172 or the Company's registered office at the offices of Kensington Swan, Ground Floor, 18 Viaduct Harbour Ave, Auckland, New Zealand, during business hours in New Zealand (8:00 am to 5:00 pm).

General

- 12.4 All MHI Australia Shares (including the Scheme Consideration) will rank equally with all other issued MHI Australia Shares.

Reports and notices

- 12.5 A holder of an MHI Australia Share is entitled to receive all notices, reports, financial statements and accounts and other documents required to be furnished to shareholders under the MHI Australia Constitution, Corporations Act, ASX Listing Rules and applicable New Zealand law and NZX Listing Rules.

General meetings

- 12.6 A holder of a MHI Australia Share is entitled to be present in person, by proxy or by corporate representative, and to speak and vote at meetings of MHI Australia Members.

Voting

- 12.7 Subject to rights or restrictions attached to a class or classes of MHI Australia Shares at a General Meeting of MHI Australia, every registered holder of shares present in person, by an attorney, representative or proxy has one vote on a show of hands, and on a poll, one vote for every fully paid share held.

Dividends

- 12.8 The MHI Australia Constitution provides that the MHI Australia Directors may from time to time declare and pay to the MHI Australia Members such dividends as appear to the MHI Australia Directors to be justified by the Equity of the Company, subject to the MHI Australia Constitution, Corporations Act, ASX Listing Rules, and NZX Listing Rules.
- 12.9 The MHI Australia Directors may determine that a dividend is payable to MHI Australia Members to the extent that MHI Australia's assets exceed its liabilities immediately before the dividend is declared. The MHI Australia Directors must first be satisfied that the payment of the dividend is fair and reasonable to MHI Australia Members as a whole and the payment of the dividend does not materially prejudice MHI Australia's ability to pay its creditors. The payment of a dividend is otherwise subject to and must be in accordance with the MHI

Australia Constitution, the Corporations Act and the ASX Listing Rules, and the rights of any persons entitled to shares with special rights to a dividend.

Liquidation

- 12.10 Subject to the rights of holders of shares with special rights in a winding-up, on a winding up of MHI Australia all assets which may be legally distributed among the Members will be distributed:
- a first, in repayment of paid-up capital in accordance with the respective rights of the Members; and
 - b second, in proportion to the capital paid up or which ought to have been paid up at the commencement of the winding up on the Shares held by them respectively other than amounts paid in advance of calls.
- 12.11 If MHI Australia is liquidated, the liquidator may, with the approval of holders of MHI Australia Shares, and any other sanction required by the Corporations Act, divide among the holders of MHI Australia Shares in kind the whole or any part of the assets of MHI Australia (whether they consist of property of the same kind or not) and may for that purpose fix such value as the liquidator deems fair in respect of any property to be so divided.

Transfer of shares

- 12.12 Generally, MHI Australia Shares are freely transferable subject to restrictions and formal requirements under the MHI Australia Constitution, Corporations Act, ASX Listing Rules, ASX Settlement Rules and the NZX Listing Rules.

Future increases in capital

The allotment and issue of any new shares is under the control of the MHI Australia Directors. Subject to the ASX Listing Rules, MHI Australia's Constitution, the Corporations Act and NZX Listing Rules the MHI Australia Directors may issue new shares on such terms and conditions as they see fit.

Variation of rights attaching to shares

- 12.13 The rights attaching to a class of shares can only be altered if a special resolution is passed at a separate meeting of the holders of that class of shares, or consent in writing is obtained from at least 75% of the holders of the class of shares.

Directors

- 12.14 As a public company, the Corporations Act requires MHI Australia have at least three (3) directors (not counting alternative directors), two of whom must ordinarily reside in Australia. The MHI Australia Constitution specifies that MHI Australia must have a minimum of three and no more than nine directors.

Comparison of New Zealand and Australian company rules

- 12.15 The Company is a limited liability company incorporated in New Zealand under the Companies Act and governed by New Zealand law. MHI Australia is a public company registered in Queensland, Australia, under the Corporations Act and governed by Australian law. If the Scheme is implemented, the rights of Members who receive MHI Australia Shares will be governed principally by Australian law and the MHI Australia Constitution.

- 12.16 The comparison below broadly summarises the most significant rights presently attaching to Shares and the rights that will attach to MHI Australia Shares, if the Scheme is implemented. The summary is not an exhaustive statement of all relevant laws, rules and regulations and does not constitute a definitive statement of the rights and liabilities attaching to Shares or MHI Australia Shares. It is intended as a general guide only. Shareholders should consult with their own legal advisors if they require further information.
- 12.17 The left-hand column of this table sets out the current position for the Company. The right-hand column sets out the position for MHI Australia, as it will be if the Scheme is implemented. Following the Scheme being implemented, the Company will be delisted from the NZX Main Board and will no longer be subject to any of the NZX Listing Rules discussed below. MHI Australia will, if its application to list on ASX is successful, have a primary listing on the ASX and be subject to all of the ASX Listing Rules. MHI Australia will, if its application to list on the NZX Main Board is successful, be listed on NZX Main Board as a Dual Listed Issuer, meaning that the NZX Listing Rules are not fully applicable to it. Dual Listed Issuers are not required to comply with certain NZX Listing Rules, on the basis that the analogous ASX Listing Rules will prevail (as set out in Appendix 17 to the NZX Listing Rules).
- 12.18 References to 'New Zealand law' where they appear in this section are references to the Companies Act, the Takeovers Code, the Financial Markets Conduct Act and the NZX Listing Rules dated 7 March 2016 (in relation to the Company, as they apply to an issuer with a primary listing on NZX Main Board and in relation to MHI Australia, as they apply to a Dual Listed Issuer) and New Zealand common law (as applicable). References to 'Australian law' where they appear in this section are references to the Corporations Act, ASX Listing Rules, ASX Settlement Operating Rules and Australian common law (as applicable).
- 12.19 Other terms used in this section in relation to MHI Australia or MHI Australia Shares are also defined immediately after the table in section 12.23.

	<i>The Company</i>	<i>MHI Australia</i>
<i>General</i>		
<i>Relationship of rules</i>	Under the Company's Constitution, the Company must comply with NZX Listing Rules for as long as it is listed on NZX Main Board, subject to the requirements of the Companies Act, any other applicable legislation, and any ruling made by NZX in relation to the Company (as that term is defined in the NZX Listing Rules). Any provision of the Company's Constitution which is inconsistent with NZX Listing Rules is deemed to be amended or deleted to the extent necessary to make that provision consistent with NZX Listing Rules.	Under the MHI Australia Constitution, MHI Australia must comply with the ASX Listing Rules and the NZX Listing Rules for as long as it is listed on the ASX or the NZX (as applicable). The MHI Australia Constitution is deemed to incorporate all provisions of ASX Listing Rules. Any provision which is inconsistent with the ASX Listing Rules or the NZX Listing Rules is deemed to be amended or deleted to the extent necessary to make the provision consistent with the ASX Listing Rules or the NZX Listing Rules (as applicable). However, as a Dual Listed Issuer, MHI Australia is not subject to all NZX Listing Rules. Although, NZX

may at any time declare that any NZX Listing Rule shall apply, whether or not ASX Listing Rules or Corporations Act contain a similar or analogous provision and whether or not MHI Australia is then complying with any of those rules.

Rights attaching to shares

Purchase of own shares

The Company may buy back Shares, provided the Company follows the procedures set out in the Companies Act and NZX Listing Rules.

The need for shareholder approval, and the notice period and disclosure requirements to be given to Shareholders, will depend on the type of buy-back. Offers made to all shareholders to acquire a proportion of Shares, made to acquire minimum holdings, made on market through NZX or another recognised stock exchange, or made to selected shareholders (to a limit of 15% of any class of equity securities in a 12 month period), may be undertaken without shareholder approval (provided there is not a significant likelihood that the ability of any person or group of associated persons (holding not less than 1% of the voting securities of the company) to effectively control the company will materially increase, and subject to the "related parties" provisions of NZX Listing Rules discussed below).

If Shares are bought back they are either immediately cancelled or held as treasury stock.

Under the Corporations Act, MHI Australia may buy back its own shares where:

- a) the buy-back does not materially prejudice MHI Australia's ability to pay its creditors; and
- b) MHI Australia follows the procedures stipulated in the Corporations Act and ASX Listing Rules.

If shares are bought back, they are immediately cancelled.

The Corporations Act provides for different types of buy back schemes which can be categorised as minimum holding, equal access, selective, on-market or relating to employee shares schemes. If the buy-back is for shares with more than 10% of the votes attaching to the smallest number of MHI Australia shares on issue in the previous 12 months, an ordinary resolution of MHI Australia Members will be required to approve the buy-back. A selective buy-back will require MHI Australia Member approval by special resolution.

MHI Australia may otherwise reduce share capital in a manner not specifically provided for in the Corporations Act, provided that it complies with the Corporations Act which will, among other things, require Member approval.

Transfer of shares Under the Companies Act, the board of the Company may refuse or delay the registration of a transfer of Shares where the holder of the shares has failed to pay to the company an amount due in respect of those shares.

Under the Company's constitution and the NZX Listing Rules, there is a mechanism for the Company to sell the Shares of any Shareholder with less than the minimum holding for the Company determined in accordance with the NZX Listing Rules. Certain conditions and requirements must be complied with. Those conditions include the Company giving three months' notice to affected Shareholders, with the power of sale only being exercisable at the end of that period if the Shareholder still holds less than the minimum holding.

Generally, ordinary shares in MHI Australia are freely transferable subject to restrictions and formal requirements under the MHI Australia's Constitution, Corporations Act, ASX Listing Rules, ASX Settlement Rules and the NZX Listing Rules. Generally the Company must not refuse to register or fail to register or give effect to any transfer of Shares in registrable form lodged with the Company.

Under the MHI Australia Constitution and in accordance with the ASX Listing Rules, there is a mechanism for MHI Australia to sell the shares of holders with less than a Marketable Parcel provided that certain conditions and requirements are complied with. Those conditions include that MHI Australia must provide the holder with at least 6 weeks' notice and upon receipt of the notice holder may elect that their shares are not sold in which case the holder will retain the shares.

Source and payment of dividends

Under the Companies Act, the Company's Directors may authorise a dividend to be paid. The directors must resolve (and certify) that the Company will, immediately after the dividend, be able to pay its debts as they become due, and that the value of the company's assets will be greater than the company's liabilities.

The MHI Australia Constitution provides that the Directors may from time to time declare and pay to the Members such dividends as appear to the MHI Australia Directors to be justified by the Equity of the Company, subject to the MHI Australia Constitution and the Corporations Act.

The MHI Australia Directors may determine that a dividend is payable to MHI Australia Members to the extent that MHI Australia's assets exceed its liabilities immediately before the Dividend is declared. The MHI Australia Directors must first be satisfied that the payment of the dividend is fair and reasonable to MHI Australia Members as a whole and the payment of the dividend does not materially prejudice MHI Australia's ability to pay its creditors. The payment of a dividend is otherwise

subject to and must be in accordance with the MHI Australia Constitution, the Corporations Act, the ASX Listing Rules, and the NZX Listing Rules, and the rights of any persons entitled to shares with special rights to a dividend.

Variation of class rights

Under the Companies Act (and NZX Listing Rules), rights attaching to a class of shares may only be affected by an action of the company if that action has been approved by special resolution of each "interest group" (being those shareholders whose rights are affected in the same way).

In accordance with the Corporations Act and the MHI Australia Constitution, the rights attaching to a class of shares can only be altered if a special resolution is passed at a separate meeting of the holders of that class of shares, or consent in writing is obtained from at least 75% of the holders of the class of shares.

Capital raising

Issue of new shares

NZX Listing Rule 7.3.1 restricts the Company from issuing Shares without shareholder approval, subject to specified exceptions. These exceptions include but are not limited to renounceable rights issues, share purchase plans (subject to specified size limitations), issues of up to the number calculated under the prescribed equation (set out in NZX Listing Rule 7.3.5, which is summarised below), issues to employees (of up to 3% of a class of shares in a 12-month period) and issues pursuant to dividend reinvestment plans. Shareholder approval may still be required for those exceptions if a "related party" of the Company is a party to an issue, or if there is a significant likelihood of a group of associated persons (holding not less than 1% of the voting securities of the company) materially increasing their ability to effectively control the company.

Under the MHI Australia Constitution, the MHI Australia Directors may issue MHI Australia Shares on the terms, and at times, they think fit. This power is subject to the Corporations Act, ASX Listing Rules, any applicable New Zealand law, and any special rights previously given to the holders of existing MHI Australia Shares or class of shares in MHI Australia.

Under the Company's Constitution, subject to NZX Listing Rules and the Companies Act, the Company's Directors may issue Shares to any person and in any number it thinks fit.

**ASX Listing Rules
& NZX Listing
Rules**

Under NZX Listing Rules, the Company may issue equity securities (including shares) if the total issued, and all others issued under NZX Listing Rule 7.3.5 in the past 12 months (or since the date of listing if that is a shorter period) will not exceed the total of:

- (a) 20% of the number of that class of equity securities on issue at the commencement of that period;
- (b) 20% of the number of that class of equity securities issued in that period with shareholder approval, or pursuant to other specified means; and
- (c) the number of that class of equity securities issued in that period pursuant to NZX Listing Rule 7.3.5 and ratified by shareholder approval; less
- (d) 20% of the number of equity securities of that class which have been acquired or redeemed by the issue during that period.

ASX Listing Rule 7.1, in general terms, prohibits MHI Australia from issuing or agreeing to issue Equity Securities (which includes shares) equal to more than 15% of its issued capital in any 12 month period (calculated according to a prescribed formula) without the approval of MHI Australia Members, subject to certain exceptions. Under ASX Listing Rule 7.1A an additional 10% capacity may be obtained by advance Member approval at the AGM where the company satisfies certain requirements and eligibility criteria.

Relevantly, issues that do not count towards the company's 15% capacity (or additional 10% capacity) as exceptions to ASX Listing Rule 7.1 (and ASX Listing Rule 7.1A) include:

- (a) an issue under a pro rata issue (rights issue) that complies with the ASX Listing Rules. Relevantly, ASX Listing Rule 7.7 requires that a pro rata issue of securities must be offered to all holders with registered addresses in Australia or New Zealand;
- (b) an issue under an off-market takeover bid or merger by scheme of arrangement under the Corporations Act; and
- (c) an issue under an employee incentive scheme or securities purchase plan, where certain criteria are satisfied.

ASX Listing Rule 10.11 restricts MHI Australia from issuing or agreeing to issue Equity Securities to MHI Australia Directors, or other Related Parties without the approval of MHI Australia Members by ordinary resolution, subject to certain exceptions.

Continuous disclosure

NZX Listing Rule 10.1.1(a) requires the Company to immediately release any 'Material Information' of which it becomes aware to NZX. 'Material Information' is defined, in relation to an Issuer (the Company), as information that:

- (a) a reasonable person would expect, if it were generally available to the market, to have a material effect on the price of Quoted Securities of the Issuer; and
- (b) relates to particular securities, a particular issuer, or particular issuers, rather than to securities generally or issuers generally.

The Company does not have to release information to NZX under NZX Listing Rule 10.1.1(a) if:

- (a) a reasonable person would not expect the information to be disclosed; and
- (b) the information is confidential and its confidentiality is maintained; and
- (c) one or more of the following applies:
 - the release of information would be a breach of law; or
 - the information concerns an incomplete proposal or negotiation; or
 - the information comprises matters of supposition or is insufficiently definite to warrant disclosure; or
 - the information is generated for the internal management purposes of the Company; or
 - the information is a trade secret.

The ASX Listing Rules and the Corporations Act impose a continuous disclosure obligation on MHI Australia. These require that once MHI Australia is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of MHI Australia's securities, MHI Australia must immediately tell ASX that information.

Under the Corporations Act a reasonable person would be taken to expect information to have a material effect on the price or value of MHI Australia securities if the information would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, or buy or sell, MHI Australia securities.

MHI Australia does not have to give information to ASX under the continuous disclosure rules if one or more of the following situations applies:

- it would be a breach of a law to disclose the information;
- the information concerns an incomplete proposal or negotiation;
- the information comprises matters of supposition or is insufficiently definite to warrant disclosure;
- the information is generated for the internal management purposes of the entity; or
- the information is a trade secret,

and the information is confidential (and ASX has not formed the view that the information has ceased to be confidential) and a reasonable person would not expect the information to be disclosed.

MHI Australia is also subject to NZX Listing Rules in relation to timely

disclosure, as set out in the opposite column.

Directors

Power of Directors

The Companies Act provides that the business and affairs of the Company shall be managed by, or under the direction or supervision of, the board of the Company. The board of the Company has all the powers necessary for managing, and for directing and supervising the management of, the business and affairs of the company, which are not required by the Companies Act, NZX Listing Rules or the Company's Constitution to be exercised by the shareholders.

The MHI Australia Constitution provides that subject to the Corporations Act and the other provisions of the MHI Australia Constitution, the business and affairs of MHI Australia shall be managed and controlled by the MHI Australia Directors, who may exercise all of the powers and do all acts and things that MHI Australia has power and authority to do, except those powers, acts or things which may only be done by the Company in General Meeting.

Fiduciary duties of directors and officers

Under the Companies Act, the directors of the Company are subject to duties to:

- act in good faith and in what the director believes to be the best interests of the company;
- exercise a power for a proper purpose;
- not act, or agree to the company acting, in a manner that contravenes the Companies Act or the constitution;
- not agree to, cause or allow, the business of the company to be carried on in a manner likely to create a substantial risk of serious loss to the company's creditors;
- not agree to the company incurring an obligation unless the director believes at that time on reasonable grounds that the company will be able to perform that obligation when required to do so; and
- exercise the care, skill and diligence of a reasonable director

Under Australian law, the directors and officers of MHI Australia are subject to duties to:

- exercise care, skill and diligence;
- act in good faith in the best interests of the company and for a proper purpose;
- avoid conflicts of interest;
- not improperly use their position, or information gained because of that position, to gain advantage or cause detriment to the company;
- not fetter their discretion as a director (if applicable); and
- not misappropriate company property.

in the same circumstances.

Appointment of directors

The Company must have at least three directors.

At least two directors must be ordinarily resident in New Zealand and at least two directors (or at least three directors if there are eight directors in total, or one-third of the total number if there are more than eight directors) must be independent directors.

At least one third of the directors or, if their number is not a multiple of three, then the number nearest to one third, must retire from office at the annual meeting, but shall be eligible for re-election at that meeting.

Directors appointed by the Company's Board, who are offered for re-election, are excepted. Those to retire are those who have been longest in office since they were last elected or deemed elected.

A retiring Director is eligible for re-election.

A person may be appointed as a director at any time by ordinary resolution of shareholders, or be appointed at any time by the Company's Board, subject to the restrictions set out in NZX Listing Rules, the Company's Constitution and the Companies Act. Any director so appointed by the Company's Board must retire at the next annual meeting of the Company (but is eligible for re-election).

Removal of directors

The Companies Act and NZX Listing Rules specify the circumstances when the office of director must be vacated (e.g. where removed by shareholders by ordinary resolution).

In addition, the Company's Constitution states that a director ceases to be a director where, for

As a public company, the Corporations Act requires MHI Australia have at least three directors (not counting alternative directors), two of whom must ordinarily reside in Australia. The MHI Australia Constitution specifies that MHI Australia must have a minimum of three and no more than nine directors.

A MHI Australia director may not hold office, without re-election, past the third AGM following the director's appointment or last election, or for more than three years, whichever is longer.

Subject to the Corporations Act, the MHI Australia Constitution and the ASX Listing Rules, the MHI Australia Directors may appoint any person to be a director, either to fill a casual vacancy or as an addition to the existing MHI Australia board, until the next AGM.

The Corporations Act, ASX Listing Rules and the MHI Australia Constitution specify the circumstances when a director must vacate office. These include where the director resigns or retires (including under 'retirement by rotation' provisions), is removed by

instance, the director resigns, ceases to be employed by the Company, is removed from office in accordance with the Companies Act or the NZX Listing Rules, or becomes disqualified from being a director.

Rotation of directors

Under NZX Listing Rule 3.3.11 at least one third of the Company's Directors or, if their number is not a multiple of three, then the number nearest to one third, must retire from office at each annual meeting on a rotating basis. Directors appointed by the Company's Board, who are offered for re-election, and directors appointed by Shareholders in certain circumstances are excepted. Those to retire are those who have been longest in office since they were last elected or deemed elected.

Members, is disqualified from holding office as a director, or is of unsound mind.

Under the ASX Listing Rules and the MHI Australia Constitution, there must be an election of directors each year and each director (excluding one managing director) must not hold office (without re-election) for more than three consecutive years or past the third AGM meeting after appointment, whichever is the longer.

Under the MHI Australia Constitution, and in accordance with the ASX Listing Rules in relation to the tenure and election of directors, one third of directors (excluding one managing director or directors otherwise required to re-submit for election) must retire from office on a rotating basis at the AGM and may re-submit for election.

Remuneration of directors

The Company's Constitution states that the Company's Board may, subject to NZX Listing Rules, authorise the payment of special remuneration to any director who is or has been engaged by the Company to carry out work or perform any services which are not in the capacity of a director. In addition, directors are entitled to be paid or reimbursed for all reasonable travelling, accommodation and other expenses incurred by them in attending meetings of the board or otherwise in connection with the business of the company.

Under NZX Listing Rule 3.5.1, the amount to be paid to the Company's Directors for their services as directors (not including the remuneration of executive directors as executives) must be approved by Shareholders by ordinary resolution.

The MHI Australia Constitution provides that each MHI Australia Director shall be entitled to remuneration for the MHI Australia Director's services from the date of the MHI Australia Director's election or appointment to the Board, and that it:

- a) shall be determined by the MHI Australia board; and
- b) must not include a commission on, or percentage of, operating revenue.

For non-executive directors, remuneration must be a fixed sum.

Under the MHI Australia Constitution and ASX Listing Rule 10.17, the total amount of Director's payable fees by MHI Australia to non-executive directors must be set by, and can only be increased by, an ordinary

Directors' remuneration may be expressed as an annual amount payable to each director, or an annual amount payable to all directors (in which case, if the number of directors increases, the total remuneration may be increased, up to a prescribed limit, without shareholder approval).

resolution of MHI Australia Members.

Directors are to be paid all reasonable travelling, hotel and other expenses incurred by them.

The Corporations Act requires listed companies to give Members a right to participate in a non-binding vote at the AGM on the adoption of the remuneration report of the company. The remuneration report is included in the directors' report and is required to contain a discussion of the board's policy in relation to remuneration of directors and other key management personnel of the company.

MHI Australia is also subject to NZX Listing Rules concerning director remuneration, as set out in the opposite column.

Retirement benefits

Under the Companies Act, the Company may pay remuneration, and compensation for loss of office, to directors, if the Company's Board is satisfied that it is fair to the company.

NZX Listing Rule 3.5.2 states that the Company may make a payment to a director or former director of the Company, or his or her dependents, in connection with retirement or the cessation of office only if the amount of the payment, or the method of calculation of the amount of that payment, is authorised by an ordinary resolution of shareholders. This does not affect the ability to pay executive directors in connection with termination of employment.

ASX Listing Rule 10.19 states that, without the approval of MHI Australia Members, MHI Australia must ensure that no officer will be, or may be, entitled to termination benefits if the value of those benefits and those that are or may become payable to all officers together exceed 5% of the equity interests of MHI Australia, as set out in its latest financial statements given to ASX.

The MHI Australia Constitution provides that in the event of a Director ceasing to be a Director as a consequence of dying, retiring or ceasing to hold office (**'Retiring Director'**), the Directors may approve and make such payment to the Retiring Director, or his legal personal representatives or dependents as permitted under section 200F of the Corporations Act (**'Permitted Payment'**). Benefits other than a Permitted Payment will require MHI Australia Member approval in accordance with Division 2 of Part 2D.2 of the Corporations Act.

**Corporate
governance**

The Company must provide a statement in its annual report on whether and, if so, how its corporate governance principles materially differ from the Corporate Governance Best Practice Code set out in appendix 16 to NZX Listing Rules (or a clear reference to where such statement may be found on the Company's public website).

MHI Australia must comply with the corporate governance requirements of the ASX Listing Rules, in relation to its corporate structure and policies, and must include a corporate governance statement (or a URL to the corporate governance statement on its website) in its annual report.

The corporate governance statement must disclose the extent to which the entity has followed the recommendations set by the ASX Corporate Governance Council during the reporting period. If the entity has not followed a recommendation for any part of the reporting period, its corporate governance statement must separately identify that recommendation and the period during which it was not followed and state its reasons for not following the recommendation and what (if any) alternative governance practices it adopted in lieu of the recommendation during that period.

As a Dual Listed Issuer, MHI Australia is not subject to the New Zealand corporate governance provisions set out in the opposite column, although NZX may at any time declare that any NZX Listing Rule shall apply, whether or not ASX Listing Rules or Corporations Act contain a similar or analogous provision and whether or not MHI Australia is then complying with any of those rules.

Insider trading

Under the Financial Markets Conduct Act NZ, an information insider of the Company (being a person who has material information relating to the Company that is not generally available to the market, and who knows or ought reasonably to know that it is material information and that it is not generally available to the market), must not trade quoted financial products (such as listed shares) of the Company, or directly or

Under the Corporations Act, any person with price sensitive information relating to MHI Australia or its securities is (subject to certain exceptions) prohibited from trading those securities or procuring others do so, or from communicating the information with someone else where they know the person is likely to trade or procure another to trade in the securities.

MHI Australia is also subject to

indirectly disclose inside information to another person if they know that that person will, or is likely to, trade quoted financial products of the Company or advise or encourage a third party to trade or hold those products. An information insider of the Company must also not advise or encourage another person to trade or hold those products, or advise or encourage another person to advise or encourage a third person to trade or hold quoted financial products of the Company.

***Director's
declarations of
personal interests***

The Companies Act generally requires a director who has an interest (as defined in section 139 of that Act) in a transaction or a proposed transaction with the company, to disclose the extent of his or her interest to the board of the company and cause this to be recorded in the interests register held by the company.

NZX Listing Rules 3.4.3 and 3.4.4 provide that a director may only vote on a board resolution in respect of a matter in which that director is interested if the director is required by the Companies Act to sign a certificate in relation to that matter, or the matter is one which relates to the grant of an indemnity pursuant to section 162 of the Companies Act.

If a director does not disclose that they are interested in a transaction, it does not affect the validity of the transaction. Under section 141 of the Companies Act, the Company may avoid a transaction in which a director was interested and under which the Company did not receive fair value.

equivalent New Zealand insider trading restrictions, as set out in the opposite column.

Under the Corporations Act, any MHI Australia Director with a material personal interest in a matter relating to the affairs of the company must (subject to limited exceptions) give the other directors notice of the interest as soon as practicable after the director becomes aware of the interest.

A director of MHI Australia who has a material personal interest in a matter that is being considered at a directors' meeting must not be present while the matter is being considered or vote on the matter, except where the director was exempted from disclosing the matter, the other directors pass a resolution to the contrary or participation is approved by ASIC.

However if, contrary to the above requirements, a director does not disclose a material personal interest, or votes despite having a material personal interest, it does not affect the validity of any contract.

Directors, when entering into transactions with its company, are subject to the common law fiduciary and statutory duties to avoid conflicts of interest.

Subject to complying with the Corporations Act regarding disclosure of personal interests, the MHI Australia Constitution allows a MHI

Release from liability and indemnification of directors and officers

Under the Companies Act, the Company cannot indemnify or effect insurance for directors or employees of the Company or a related company except as authorised by the Company's Constitution and as provided in section 162 of the Companies Act.

Indemnification under the Company's Constitution extends to:

- (a) costs incurred in any proceeding that relates to liability for an act or omission in his or her capacity as a director or employee, and in which judgment is given in the director's favour or in which the director is acquitted or which is discontinued; and/or
- (b) liability to a person (other than the company or a related company) for any act or omission in his or her capacity as a director or employee, or costs incurred in defending or settling a claim or proceeding relating to such liability, not being criminal liability or liability in respect of a breach of certain duties.

Insurance may be effected, in accordance with the Company's Constitution, for a director or employee of the Company, or a director or employees of a related company, in respect of:

- (a) liability (not being criminal liability) for an act or omission as a director or employee, and costs incurred in defending or settling a claim or proceeding relating to such liability; and/or
- (b) costs incurred in defending

Australia director to, among other things, enter into arrangements with MHI Australia and hold office or have an interest in another company.

Under Australian law, MHI Australia cannot:

- (a) exempt an officer from liability to MHI Australia, incurred in his capacity as an officer;
- (b) indemnify an officer against a liability owed to the company or a Related Body Corporate; or
- (c) indemnify an officer against the cost of legal proceedings where such proceedings result in them being found to have a liability to MHI Australia or a Related Body Corporate.

MHI Australia may pay an insurance premium to insure an officer against liability except for liability arising out of:

- (a) conduct involving a wilful breach of duty in relation to the company; and
- (b) a contravention of the Corporations Act provisions prohibiting officers from making improper use of their position or company information.

The MHI Australia Constitution expressly gives the company the power, at the discretion of the MHI Australia Directors, to pay the insurance premium for such a policy.

The MHI Australia Constitution provides that to the extent permitted by law MHI Australia shall:

- (a) indemnify an officer or former officer against liability incurred by the person as an Officer to a person other than the Company or a Related Body Corporate; and

criminal proceedings in relation to any act or omission as a director or employee, and in which the director is acquitted.

- (b) indemnify a present or former Officer or Auditor against liability for costs and expenses incurred by the person in defending proceedings, whether civil or criminal, in which judgment is given in favour of the person or in which the person is acquitted or in connection with an application, in relation to such proceedings, in which the Court grants relief to the person under the Corporations Act.

Members' meetings

Meetings of shareholders

The Companies Act requires the Company to hold an AGM not later than six months after its balance date and not later than fifteen months after the previous AGM.

A general meeting of Shareholders must be convened by the Company's Board when required to do so under the Companies Act.

A special meeting of Shareholders:

- (a) may be called by the Company's Board at any time; and
- (b) must be called by the Company's Board when requested in writing by Shareholders holding at least 5% of the voting rights entitled to be exercised on any of the questions to be considered at the meeting.

Pursuant to section 123 of the Companies Act, the New Zealand courts may order a meeting of shareholders to be held or conducted in such manner as the court directs.

Pursuant to NZX Listing Rule 5.5.1, the Company is required to hold all meetings of shareholders (i.e. holders of Quoted Securities as defined in

The Corporations Act requires MHI Australia, as a public company, to hold an AGM within 18 months after its registration, and at least once in each calendar year and within five months after the end of its financial year. The AGM must be held in accordance with the Corporations Act and ASX Listing Rules.

Under Australian law, a General Meeting of MHI Australia Members:

- (a) may be called by an individual MHI Australia Director;
- (b) must be called by the MHI Australia Directors upon a request by MHI Australia Members with at least 5% of the votes that may be cast at a General Meeting. If the MHI Australia Directors fail to call the meeting within 21 days, MHI Australia Members with more than 50% of the votes who made the request may call the Meeting;
- (c) may be called by MHI Australia Members with at least 5% of the votes that may

NZX Listing Rules) in New Zealand.

be cast at a General Meeting;
or

- (d) may be called by the Court if it is impracticable to call the meeting in any other way.

Notice of meetings

Notice of a shareholders' meeting must be sent to every shareholder entitled to receive notice of the meeting, to NZX, to every director, and to the auditor at least ten working days before the date of that meeting.

Under the Companies Act, a meeting may be held by a quorum of the shareholders being assembled together at the time and place appointed for the meeting or in two or more places linked together by audio-visual communication devices.

Shareholders are entitled to attend general meetings and to receive copies of all notices, reports and financial statements issued generally to holders of securities carrying votes. Copies of these documents must also be released to NZX.

Generally, at least twenty-eight days' notice must be given of a Meeting.

Written notice of a Meeting, with a proxy form, must be given individually to each member entitled to vote and to each director. That notice may be given personally, by post or another other electronic or fax means nominated by the member.

As a listed company, MHI Australia will be required to give ASX a copy of all documents it proposes to send to persons entitled to receive those documents from MHI Australia in respect of every Meeting.

Under the Corporations Act and MHI Australia Constitution, MHI Australia may hold a meeting at two or more venues in Australia or at such other place as may be determined by the Directors using any form of technology which gives the Members a reasonable opportunity to participate.

MHI Australia is not required to produce printed interim reports.

Quorum

Quorum for a meeting of Shareholders under the Company's Constitution is five (5) shareholders having the right to vote (present in person or by proxy).

If a quorum is not present within 30 minutes after the time appointed for the meeting, it (if convened on the written request of shareholders entitled to exercise that right) is dissolved, and in any other case is adjourned to the same day in the following week and at the same time

No business shall be transacted at any Meeting unless a quorum is present at the time when the Meeting proceeds to business. Under the MHI Australia Constitution, quorum for a Meeting is three MHI Australia Members (being present in person, attending as a proxy, attorney or as a Corporate Representative of a corporation which is a Member).

and place, or to such other date, time and place as the Company's Board may appoint. If at the adjourned meeting a quorum is not present within 30 minutes after the time appointed for the meeting, the shareholders or their proxies present are a quorum.

Shareholder's rights to call meetings

The Company's Board, when requested in writing to do so by Shareholders which together hold at least 5% of the votes entitled to be exercised on any of the questions to be considered at the meeting, must call a special meeting of Shareholders.

Under Australian law, a General Meeting of MHI Australia Members may be requisitioned or called by MHI Australia Members in certain circumstances. Namely, a General Meeting:

- (a) must be called by the MHI Australia Directors upon a request by MHI Australia Members with at least 5% of the votes that may be cast at a General Meeting. If the MHI Australia Directors fail to call the Meeting within 21 days, MHI Australia Members with more than 50% of the votes who made the request may call the Meeting; and
- (b) may be called by MHI Australia Members with at least 5% of the votes that may be cast at a General Meeting.

Passing resolutions at a general meeting

Unless otherwise specified in the Companies Act or the Company's Constitution, a power reserved to shareholders may be exercised by an ordinary resolution (i.e. a resolution approved by a simple majority of those shareholders entitled to vote and voting (in person or by proxy) on the question).

Unless otherwise required by the Corporations Act or MHI Australia Constitution, every question to be decided by a General Meeting is to be decided by a majority on a show of hands by persons present who are Members, or proxies, attorneys or Corporate Representatives entitled to act, unless immediately on the declaration of the result of the show of hands a poll be directed by the Chairman of the Meeting, or demanded in the manner allowed under the MHI Australia Constitution.

Ordinary and special resolutions

As set out above, unless the Companies Act or the Company's Constitution requires a special resolution, a power or right of approval reserved to shareholders may be exercised by an ordinary resolution.

An ordinary resolution is passed by a simple majority of votes cast by Shareholders present (in person or by proxy) and voting at that meeting.

A special resolution must be approved by a majority of 75% or more of the votes of those Shareholders entitled to vote and voting on the question. If a special resolution is to be considered, the text of that resolution must be set out in the notice of meeting.

Section 106 of the Companies Act requires certain matters to be resolved by the Company by special resolution, including approving a major transaction, approving an amalgamation of the company, or putting the company into liquidation. Under section 117 of the Companies Act, an action which affects the rights attaching to shares must be approved by special resolution of each "interest group" (as defined in section 116 of the Companies Act).

Under section 32 of the Companies Act, a special resolution would be required to modify or repeal the Company's Constitution.

Shareholder proposed resolutions

Under the Company's Constitution and the Companies Act, a shareholder may give written notice to the Company's Board of a matter which the shareholder proposes to raise for discussion or resolution at the next meeting of Shareholders at which the shareholder is entitled to vote. Depending on when the proposal is received, the Company's

Unless a special resolution is required by the Corporations Act or the MHI Australia Constitution, resolutions are passed by a simple majority of votes cast on the resolution by Members entitled to vote on that resolution.

The Corporations Act requires certain matters to be resolved by special resolution. A special resolution requires the vote to be passed by at least 75% of the votes cast by Members entitled to vote on the resolution. Matters requiring special resolution include a change to the MHI Australia Constitution, a change of name, a selective reduction of capital or selective share buy-back and a decision to voluntarily wind up MHI Australia.

MHI Australia Members with at least 5% of the votes that may be cast at a General Meeting, or at least 100 MHI Australia Members entitled to vote at a General Meeting may propose a resolution for consideration at the next General Meeting occurring more than two months' after the date of that notice.

Board must give notice of the proposal to the Shareholders in accordance with the requirements of clause 9 of the first schedule to the Companies Act.

Voting

Subject to the Company's Constitution, a share in the Company confers on the holder the right to a vote at a meeting of the Company on any resolution.

The NZX Listing Rules, in certain circumstances, may restrict a person from voting on a proposed resolution (for example, concerning a related party transaction, as described below). In accordance with ASX Listing Rules, a holder of Restricted Securities (as that term is defined in the ASX Listing Rules) ceases to be entitled to voting rights if the holder or controller is in breach of the restriction agreement under the ASX Listing Rules.

On a show of hands, every Company Shareholder present in person or by representative has one (1) vote. If a poll is demanded, every Company Shareholder present in person or by representative will have one (1) vote for every fully paid the Company Share held, and for each share held which is not fully paid, a fraction of the vote otherwise exercisable equivalent to the proportion paid up on that share.

In the case of a meeting of shareholders held by shareholders being assembled together, the chairperson shall, unless a poll is demanded, determine whether voting will be by voice or by show of hands. For other forms of meeting, the chairperson determines the method of voting, unless a poll is demanded.

A signed notice of appointment of a proxy must be received at least forty-eight (48) hours before a meeting.

Each MHI Australia Share confers a right to vote at all General Meetings.

Subject to Australian law, New Zealand law and rights or restrictions attached to a class or classes of MHI Australia shares, at a General Meeting of MHI Australia, every registered holder of shares present in person, by an attorney, representative or proxy has one vote on a show of hands, and on a poll, one vote for every fully paid share held.

The ASX Listing Rules and Corporations Act, in certain circumstances, may restrict a person from voting on a proposed resolution (for example, concerning a Related Party transaction or remuneration related resolution).

In accordance with the ASX Listing Rules, a holder of Restricted Securities (as that term is defined in the ASX Listing Rules) ceases to be entitled to voting rights if the holder or controller is in breach of the restriction agreement under the ASX Listing Rules.

To vote by proxy, a signed proxy form must be received at least 48 hours before a Meeting.

A poll may be demanded either: by the chairperson; five or more Shareholders having the right to vote at the meeting; a shareholder or shareholders representing not less than 10% of the total voting rights of all Shareholders having the right to vote at the meeting, or a shareholder or shareholders holding Shares that confer a right to vote at the meeting and on which the aggregate amount paid up is not less than 10% of the total amount paid up on all shares that confer that right.

Relationship between the company and its members

Related party transactions

NZX Listing Rule 9.2.1 prohibits the Company from entering into a Material Transaction (as defined in NZX Listing Rule 9.2.2) with a Related Party (as defined in NZX Listing Rule 9.2.3), or in the case of a guarantee or similar transaction, if a Related Party is or is likely to become a direct or indirect beneficiary of such guarantee or other transaction unless that Material Transaction is approved by an ordinary resolution of Shareholders.

A 'Material Transaction' includes (but is not limited to) a transaction or a related series of transactions whereby the Company purchases or sells assets having an aggregate net value in excess of 10% of the average market capitalisation of the Company.

A 'Related Party' includes (but is not limited to):

- (a) a director or executive officer of the Company or any Subsidiary;
- (b) a holder of a Relevant Interest (as defined in the Financial Markets Act NZ) in 10% or more of Shares; or
- (c) an Associated Person (as defined in NZX Listing Rule 1.8)

Under Australian law, MHI Australia must not give a financial benefit to a Related Party of the company unless the benefit falls within an exception or:

- a) it obtains the approval of MHI Australia's Members; and
- b) gives the benefit within 15 months after the approval.

A 'Related Party' includes an entity that controls MHI Australia, directors of MHI Australia, directors of any entity which controls MHI Australia, and in each case spouses and certain relatives of those people.

Financial benefits that are exempt from the requirement of member approval include financial benefits that are:

- a) on terms that would be reasonable in the circumstances if MHI Australia and the Related Party were dealing at arm's length, or are less favourable to the Related Party;
- b) reasonable remuneration;
- c) payment of expenses incurred for the benefit of MHI Australia;
- d) indemnities, exemptions, insurance premiums and payment for legal costs for officers; or

of the Company or a person described in (a) or (b).

e) under an order of a court.

ASX Listing Rule 10.1, subject to certain exceptions, requires MHI Australia to obtain the approval of members to acquire a substantial asset from, or dispose of a substantial asset to, certain persons including any Related Party, child entity and Substantial Holder in MHI Australia. The provisions apply even where the transaction may be on arm's length terms.

An asset is deemed 'substantial' if its value, or the value of the consideration for it, is 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX.

ASX Listing Rule 10.11 prohibits, subject to certain exceptions, MHI Australia from issuing or agreeing to issue Equity Securities to Related Parties without the approval of Members.

The exceptions to ASX Listing Rule 10.11 include:

- (1) an issue under a pro rata issue (rights issue) that complies with the ASX Listing Rules;
- (2) where a person becomes a Related Party only by virtue of the transaction which is the reason for the issue of the securities;
- (3) an issue under an off-market takeover bid or merger by scheme of arrangement under the Corporations Act; and
- (4) an issue under an employee incentive scheme or securities purchase plan, where certain criteria are satisfied.

Protection of minority shareholders / oppression remedy

Under the Companies Act, any the Company Shareholder or former the Company Shareholder may apply to the New Zealand courts for orders where the shareholder considers that the affairs of the Company have been, are being, or are likely to be, conducted in a manner which is, or the acts of the Company have been, are, or are likely to be, oppressive, unfairly discriminatory, or unfairly prejudicial to the shareholder, as a shareholder or in any other capacity.

Certain conduct is deemed, for this purpose, to be unfairly prejudicial to the shareholder.

A statutory derivative action under the Companies Act may also be brought by a Company Shareholder. In all cases, leave of the court must be granted, and may only be granted if the court is satisfied that either:

- (a) the Company, or a related company, does not intend to bring, diligently continue or defend, or discontinue the proceedings, as the case may be; or
- (b) it is in the interests of the Company, or a related company, that the conduct of the proceedings should not be left to the Company's Board or to the determination of the Shareholders as a whole.

If the court grants leave for a statutory derivative action, the court shall order that the whole or part of the reasonable costs of bringing or intervening in the proceedings must be met by the company unless the court considers that it would be unjust or inequitable for the company to bear those costs.

Under the Corporations Act, any MHI Australia Member or any person with a sufficient interest in MHI Australia can bring an action against MHI Australia where its conduct is:

- a) contrary to the interests of the Members as a whole; or
- b) oppressive to, unfairly prejudicial to, or unfairly discriminatory against, a member or members whether in that capacity or in any other capacity.

Where an action is brought by a Member, leave of the court must be granted. To do so the court must be satisfied that:

- a) it is probable that MHI Australia will not itself bring the proceedings, or properly take responsibility for them, or for the steps in them;
- b) the applicant is acting in good faith;
- c) it is in the best interests of MHI Australia;
- d) there is a serious question to be tried; and
- e) the applicant gave 14 days' written notice to MHI Australia of its intention to apply for leave (and the reasons), or the court decides it is otherwise appropriate to give leave.

Inspection of books

The Shareholders have powers to inspect limited records of the company under section 216 of the Companies Act.

Under the Corporations Act, a MHI Australia Member may inspect the books and records of MHI Australia, if it obtains a court order for access. The court must be satisfied that the applicant is acting in good faith and that the inspection is to be made for a proper purpose.

Amendments to constituent documents

A special resolution would be required to modify or repeal the Company's Constitution.

MHI Australia's Constitution may be modified, or repealed and replaced with a new constitution by special resolution of the Members.

In addition, under section 117 of the Companies Act, rights attaching to a class of shares may only be varied or cancelled by special resolution of each "interest group" (as defined in section 116 of that Act) who is affected by the proposed variation or cancellation.

Information about ownership

The Financial Markets Conduct Act requires any person with a substantial holding in the Company to disclose that interest to the Company and to NZX. Such notification is required when:

The Corporations Act requires any person with a Substantial Holding in shares in MHI Australia to disclose that interest to MHI Australia and the ASX. Such notification is required when:

- (a) the person begins to have or ceases to have a substantial holding in the Company;
- (b) the person has a substantial holding in the Company and there is a movement of at least 1% in their holding; or
- (c) the nature of the person's substantial holding in the Company changes.

- a) the person begins to have or ceases to have a Substantial Holding in MHI Australia;
- b) the person has a Substantial Holding in MHI Australia and there is a movement of at least 1% in their holding; or
- c) the person makes a takeover bid for securities of MHI Australia.

Takeovers

Takeover bids

Takeover activity in New Zealand is regulated by the Takeovers Code.

Generally if a person or entity wants to takeover or acquire more than 20% of the shares in MHI Australia they will need to make a takeover bid or do so by a scheme of arrangement in accordance with the Corporations Act.

The Takeovers Code prohibits any person:

- (a) who holds or controls no voting rights, or less than 20% of the voting rights, in a code company from increasing the percentage of voting rights which that person

This is because Australian law places a general prohibition on acquiring a Relevant Interest in a company's Voting Shares where, because of the

holds or controls unless, after completion of the transaction, that person and its associates hold or control in total not more than 20% of the voting rights in the code company; or

- (b) who holds or controls 20% or more of the voting rights in a code company from increasing the percentage of the voting rights which that person holds or controls.

The Takeovers Code sets out a number of circumstances in which a person may become the holder or controller of an increased percentage of the voting rights in a code company without contravening this rule. These are:

- (a) by an acquisition under a “full offer” made in compliance with the Takeovers Code;
- (b) by an acquisition under a “partial offer” (an offer for a specified percentage, which is less than 100%, of the voting securities of a code company) made in compliance with the Takeovers Code;
- (c) by an acquisition of voting securities in the code company or in any other body corporate approved by ordinary resolution of the code company’s shareholders in accordance with the Takeovers Code;
- (d) by an allotment of voting securities in the code company or in any other body corporate which is approved by ordinary resolution of the code company’s shareholders in accordance with the Takeovers Code;
- (e) in accordance with the “5% creep” exception, which, in general terms, enables a person holding more than 50% but less

transaction, someone’s Voting Power in the company increases:

- a) from 20% or below to more than 20%; or
- b) from a starting point that is above 20% and below 90%.

This general prohibition is subject to exceptions including:

- a) an acquisition resulting from the acceptance of an offer made to Members under a formal takeover bid or merger by scheme of arrangement in accordance with the highly prescriptive relevant Corporations Act requirements;
- b) an acquisition approved previously by an ordinary resolution passed at a General Meeting by the target company’s Members;
- c) a “creep” - an acquisition which results in someone’s Voting Power, which throughout the six months before the acquisition was at least 19%, increasing by no more than 3% in a six-month period; or
- d) a “downstream acquisition” - an acquisition of Relevant Interests in Voting Shares resulting from another acquisition of Relevant Interests in Voting Shares in another company.

than 90% of the voting rights in a code company to acquire up to an additional 5% in a 12 month period; or

- (f) if the person already holds or controls 90% of the voting rights in a code company.

Takeover bid defences

Rule 38(1) of the Takeovers Code provides that if a code company has received a takeover notice or has reason to believe that a bona fide offer is imminent, the directors of the company must not take or permit any action, in relation to the affairs of the code company, that could effectively result in

- (a) an offer being frustrated; or
- (b) the holders of equity securities of the code company being denied an opportunity to decide on the merits of an offer.

Rule 38(2) of the Takeovers Code provides that rule 38(1) does not prevent the directors of a code company taking steps to encourage competing bona fide offers from other persons.

However, rule 39(a) provides that the directors may take the kind of action specified in rule 38(1) if approved by an ordinary resolution of shareholders of the code company, if permitted under a contractual obligation made before the takeover offer was made (and in other limited circumstances), or with the prior approval of the Takeovers Panel.

Winding up

Under New Zealand law, a company may be placed in liquidation by a special resolution of shareholders, the court or (in limited circumstances) a resolution of creditors following voluntary administration. Directors cannot use their powers after a liquidator has been appointed except as required or permitted by Part 16 of

Under Australian takeovers law and policy, boards of target companies are limited in the defensive mechanisms that they can put in place to discourage or defeat a takeover bid.

The Australian Takeovers Panel has broad powers to declare circumstances to be “unacceptable” (and make appropriate orders) in relation to the control of public companies within its jurisdiction.

Insolvent companies may be wound up by a liquidator, appointed by creditors or the court. In such circumstances, Directors cease to be able to exercise their powers. If there are surplus funds after payment of the costs of the liquidation, and payments to other priority creditors, including employees, the liquidator will pay

the Companies Act. If there are funds left over after payment of the costs of liquidation, and payments to secured and priority creditors (including employees), the liquidator will pay these to unsecured creditors. If funds remain after these payments, the liquidator will then distribute the surplus to shareholders.

Each Shareholder would be entitled to an equal share in the distribution of any surplus assets of the Company at the point of winding up in proportion to the number of shares they hold (unless the constitution or terms of issue provided otherwise).

these as a dividend to unsecured creditors, including Members and subject to any special rights attaching to shares in a winding up.

As Members rank behind creditors they are unlikely to receive any dividend in an insolvent liquidation.

Under Australian law, Members of a solvent company may decide to wind up the company if the directors are able to form the view that the company will be able to pay its debts in full within twelve months after the commencement of the winding up. A meeting at which a decision is made to wind up a solvent company requires at least 75% of votes cast by the Members present and voting.

The MHI Australia Constitution provides that on a winding up the assets of the company after payment of debts, liabilities and winding up costs (surplus assets) will be distributed to Members with special rights in proportion to their shares, and then distributed to other Members in proportion to their shares.

Material differences between the Company's constitution and the MHI Australia Constitution

- 12.20 When read together, the preceding paragraphs of this section set out a summary of the material differences between the laws affected the Company, a limited liability company incorporated in New Zealand, and MHI Australia, a public company governed under Australian law with its primary listing to be conducted on ASX.
- 12.21 A summary of the key differences between the Company's constitution and the MHI Australia Constitution is set out above. Additional, material, differences between the MHI Australia Constitution and the Company's constitution that are not described elsewhere in this section are set out in the following paragraph.
- 12.22 The MHI Australia Constitution:
- a confirms that any MHI Australia shareholder agrees to and is obliged to observe the provisions of the MHI Australia Constitution;
 - b contains detailed mechanisms for the transmission of MHI Australia Shares on the death of an MHI Australia shareholder;
 - c affords any MHI Australia shareholder the ability to appoint an attorney to attend, act and vote at shareholder meetings;

- d provides detailed mechanisms to set and increase the aggregate remuneration payable to non-executive directors;
- e contemplates the convening of a meeting of MHI Australia shareholders in the event a proportional takeover bid for MHI Australia Shares is instituted;
- f entitles the board of MHI Australia to appoint a Managing Director for such period as they determine - under the Constitution of the Company, the maximum term for any Managing Director is five years;
- g makes no provision for or recognition of a the title or position of Founder President - under the Company Constitution such recognition and provision is made;
- h contains the necessary provisions, regulations and corresponding obligations commensurate with MHI Australia's status as a public entity to be listed on the ASX;
- i contemplates and makes provision for MHI Australia's status as a Dual Listed Issuer.

Meanings of terms

12.23 In this section only, when used in relation to MHI Australia or MHI Australia Shares, unless the context otherwise requires:

'**AGM**' means annual general meeting.

'**Associate**' has the meaning given to that term in the Corporations Act.

'**ASX Settlement Rules**' means the:

- a ASX Settlement Operating Rules;
- b ASX Operating Rules; and
- c ASX Clear Operating Rules.

'**Equity**' means the amount by which MHI Australia's assets exceed its liabilities in accordance with section 254T of the Corporations Act.

'**Equity Securities**' has the meaning given to that term in the ASX Listing Rules.

'**General Meeting**' means a general meeting of Members.

'**Marketable Parcel**' has the meaning given in the ASX Listing Rules.

'**Meeting**' includes AGMs and General Meetings, as applicable in the context.

'**Members**' has the meaning given in the Corporations Act.

'**Related Body Corporate**' has the meaning given in the Corporations Act.

'**Related Party**' has the meaning given in the Corporations Act.

'**Relevant Interest**' has the meaning given in the Corporations Act. The starting point is that a person has a Relevant Interest in securities if they:

- a are the holder of the securities; or
- b have power to exercise, or control the exercise of, a right to vote attached to the securities; or

c have power to dispose of, or control the exercise of a power to dispose of, the securities.

'Substantial Holder' has the meaning given in the ASX Listing Rules.

'Substantial Holding' has the meaning given in the Corporations Act. In general terms, a person will have a Substantial Holding in a company if:

- a the total votes attached to voting shares in the company which they or their Associates have relevant interests is 5% or more of the total number of votes attached to voting shares in the company; or
- b the person has made a takeover bid for voting shares in the company and the bid period (within the meaning of the Corporations Act) is open.

'Voting Power' has the meaning given in the Corporations Act.

'Voting Shares' has the meaning given in the Corporations Act.

13 New Zealand and Australian income tax implications for Shareholders

Introduction

- 13.1 This section is a general outline of the New Zealand and Australian income tax consequences for Eligible Shareholders who dispose of their Shares under the Scheme. This section does not address any tax consequences arising in jurisdictions other than New Zealand and Australia. This section also does not address the position of option holders in the Company.
- 13.2 This outline is of a general nature only. It does not constitute tax advice and should not be relied upon as such.
- 13.3 This general outline reflects the current provisions of the Income Tax Act 2007 (New Zealand), the current provisions of the Income Tax Assessment Act 1936 (Australia) and the Income Tax Assessment Act 1997 (Australia) (the Tax Law) and the regulations made under those Acts. It also takes into account current tax rulings issued by the Inland Revenue (IR) and by the Australian Taxation Office (ATO) and current administrative practice in each jurisdiction. This outline does not otherwise take into account or anticipate changes in the law, whether by way of judicial decision or legislative action.
- 13.4 Shareholders are advised to consult their own independent tax adviser regarding the consequences of acquiring, holding or disposing of Shares in light of the Tax Law and their own particular circumstances.
- 13.5 This outline is relevant to those persons who hold Shares as at the Record Date as capital assets for New Zealand and / or Australian income tax purposes. It does not apply to persons who:
- a hold Shares as revenue assets or trading stock;
 - b hold Shares subject to special tax rules, such as banks, insurance companies, tax exempt organisations, dealers in securities, managed investment trusts or Portfolio Investment Entities (PIEs);
 - c are 'significant stakeholders' or 'common stakeholders' as defined in section 124-783 of the Income Tax Assessment Act 1997 (Australia) in relation to the Scheme of Arrangement;
 - d change their tax residency while holding Shares; or
 - e are subject to the Taxation of Financial Arrangements rules in Division 230 of the Income Tax Assessment Act 1997 (Australia) in respect of their Shares.

New Zealand and Australian tax resident shareholders

- 13.6 A Shareholder's tax residence status will affect how New Zealand and Australian tax laws apply to the disposal of Shares under the Scheme and to the subsequent treatment of distributions from MHI Australia. Shareholders are advised to consult their own independent tax advisor regarding their tax residency status if there is any uncertainty.

New Zealand tax resident shareholders - Disposal of Shares under the Scheme – New Zealand implications

- 13.7 If the Scheme is approved, Shareholders will dispose of their Shares in the Company as a result of the implementation of the Scheme.

- 13.8 New Zealand does not have a general capital gains tax. Provided that the Shares are held on capital account, there should not be income tax on any capital gains derived on the disposal of the Shares.
- 13.9 Although New Zealand does not have a general capital gains tax, there are instances where Shareholders will be subject to New Zealand income tax on gains derived from the disposal of the Shares.
- 13.10 Generally, the gain (or loss) on disposal of the Shares will be subject to income tax if a Shareholder:
- a is in the business of dealing in shares;
 - b acquired the Shares as part of a profit-making undertaking or scheme; or
 - c acquired the Shares with the dominant purpose of selling them.
- 13.11 Where taxable, the amount of taxable gain (or tax deductible loss) will be the difference between the cost of the Shares and the amount received on disposal. As the Shares in the Company are exchanged under the Scheme on a one-for-one basis for Shares in MHI Australia, the amount received on disposal will be deemed to be the market value of the Shares received in MHI Australia.
- 13.12 A Shareholder with a taxable gain will likely be required to include that gain in a tax return for the tax year in which the sale is deemed to have occurred as a consequence of the implementation of the Scheme. The tax liability will be calculated with reference to the Shareholder's marginal tax rate.
- 13.13 There is no roll-over or other deferral relief available where a gain on the disposal of Shares under the Scheme is subject to New Zealand income tax.

New Zealand and other non-Australian tax resident shareholders – Disposal of Shares under the Scheme - Australian implications

- 13.14 If you are not a resident of Australia for income tax purposes and you do not hold your Shares as part of an Australian permanent establishment, you should not have to pay Australian income tax on any capital gain when you dispose of your Shares, unless both of the following requirements are satisfied:
- a you hold a "non-portfolio interest" in the Company; and
 - b the Shares pass the "principal asset test".
- 13.15 If either of the above elements is absent, any capital gain made on the disposal of your Shares should not be subject to income tax in Australia.
- 13.16 You will only hold a "non-portfolio interest" in the Company if you, together with your associates, own, or owned, at the Implementation Date or throughout a 12 month period during the two years preceding the exchange of your Shares, 10% or more of, broadly, all of the issued Shares in the Company.
- 13.17 The Shares would only pass the "principal asset test" if the market value of the Company's direct and indirect interests in Australian land, including leases and mining rights, is more than the market value of its other assets at the time the Scheme is implemented. Having regard to the nature and value of the assets held by the Company as disclosed in the Company's financial statements, the Shares should not pass the "principal asset test".

New Zealand tax resident shareholders - Subsequent disposal of MHI Australia Shares – New Zealand implications

- 13.18 The tax consequences on a subsequent disposal of MHI Australia Shares by a New Zealand tax resident shareholder are as outlined above.

New Zealand and other non-Australian tax resident shareholders - Subsequent disposal of MHI Australia Shares – Australian implications

- 13.19 If you are not a resident of Australia for income tax purposes and you do not hold your shares as part of an Australian permanent establishment, you should not have to pay Australian income tax on any capital gain from a subsequent disposal of your MHI Australia Shares, unless both the “non-portfolio interest” test and the “principal asset test” as outlined above are satisfied at the time when the disposal occurs.
- 13.20 If either of these elements is absent, any capital gain made from a subsequent disposal of your MHI Australia Shares should not be subject to income tax in Australia.

New Zealand tax resident shareholders - Application of New Zealand FIF and CFC rules

- 13.21 Following implementation of the Scheme, New Zealand resident Shareholders will hold shares in MHI Australia, a company incorporated and resident in Australia and listed on the Australian Securities Exchange and included in the ASX All Ordinaries Index. An investment in MHI Australia will be subject to the New Zealand foreign investment fund (FIF) rules and may also be subject to the controlled foreign company (CFC) rules.
- 13.22 On the basis that five or fewer New Zealand shareholders will hold more than 50% of the MHI Australia Shares, MHI Australia will be classified as a CFC on completion of the Scheme.
- 13.23 If, subsequent to the implementation of the Scheme, the shareholding in MHI Australia changes such that 5 or fewer New Zealand resident shareholders no longer hold more than 50% of the MHI Australia Shares, or a single New Zealand shareholder no longer holds 40% or more of the MHI Australia Shares, MHI Australia should no longer be classified as a CFC but will continue to be a FIF.
- 13.24 New Zealand resident Shareholders that hold 10% or more of the MHI Australia Shares on completion of the Scheme, may be required to attribute CFC or FIF income, subject to certain exemptions for investments in Australian companies. Shareholders should obtain independent advice on the application of the CFC and FIF rules to their shareholding.
- 13.25 New Zealand resident Shareholders with a shareholding of less than 10% in MHI Australia will be classified as having an interest in a FIF, but should generally be exempt from attributing FIF income on the basis of an exemption for ASX-listed Australian companies. This means that Shareholders with a direct shareholding of less than 10% in MHI Australia should continue to be taxed under the general New Zealand income tax rules, meaning that they will be taxed on dividends received if the MHI Australia Shares are held on capital account, and on dividends and realised share gains if the MHI Australia Shares are held on revenue account.

New Zealand tax resident Shareholders – Distributions received from MHI Australia – Tax implications

- 13.26 Distributions from MHI Australia will generally be taxable as dividends for New Zealand tax purposes. Some distributions may not be taxable dividends, such as non-taxable bonus issues and certain returns of capital.
- 13.27 New Zealand participates in a trans-Tasman imputation regime with Australia under which New Zealand income tax paid by a company that is a member of MHI Australia's New Zealand imputation group, will give rise to credits, known as imputation credits, which may be attached to dividends paid by MHI Australia.
- 13.28 MHI Australia has received a private binding ruling from the Inland Revenue confirming that New Zealand imputation credits attached to dividends paid by MHI Australia may be used by New Zealand resident shareholders as a credit against their tax liability in respect of the dividends, subject to certain exceptions. The maximum ratio at which MHI Australia will be able to attach imputation credits is 28:72 (i.e. \$28 of imputation credits to \$72 of cash dividend).
- 13.29 Dividends paid by MHI Australia should not be subject to Australian withholding tax, as they are projected to be fully franked or paid out of conduit foreign income. If the dividends are subject to Australian withholding tax, the rate of withholding tax will be 5% or 15% depending on the status and circumstances of the New Zealand tax resident Shareholder. New Zealand resident Shareholders should be able to credit the amount of any Australian withholding tax against their New Zealand income tax liability.
- 13.30 Current projections forecast sufficient imputation credits should be available to fully impute future dividend payments through to at least 2021.

Example of fully imputed and fully franked taxable dividend

- 13.31 The following is an illustrative example of a fully imputed and fully franked cash dividend of \$72 paid by MHI Australia to a New Zealand tax resident Shareholder:

	Cash dividend	\$72
Plus	Imputation credits attached	\$28
	Gross dividend	\$100

The income tax calculation of a New Zealand resident Shareholder with a marginal tax rate of 33% will be as follows:

	Taxable gross dividend	\$100
	Tax liability at 33%	\$33
Less	Imputation credits	(\$28)
	Net tax liability	\$5

Example of fully franked taxable dividend with no imputation credits attached

- 13.32 For completeness, the following is an illustrative example of a fully franked cash dividend of \$72 paid by MHI Australia to a New Zealand tax resident Shareholder, with no imputation credits attached:

	Cash dividend	\$72
Plus	Imputation credits attached	\$0
	Gross dividend	\$72

The income tax calculation of a New Zealand resident Shareholder with a marginal tax rate of 33% will be as follows:

	Taxable gross dividend	\$72
	Tax liability at 33%	\$24
Less	Imputation credits	(\$0)
	Net tax liability	\$24

New Zealand tax resident Shareholders – Dividends received in Australian dollars

- 13.33 To the extent a dividend is received in a currency other than New Zealand dollars (e.g. Australian dollars), the amount included in New Zealand assessable income is to be translated into New Zealand dollars generally at the exchange rate applicable on the day the dividend is paid.

Australian tax resident shareholders - Disposal of Shares under the Scheme – Australian tax implications

- 13.34 If the Scheme is approved, Shareholders will dispose of their Shares as a result of the implementation of the Scheme. The disposal will be a CGT event (CGT Event A1). The disposal will happen on the Implementation Date.
- 13.35 The tax implications for Shareholders who are residents of Australia for income tax purposes from the disposal of their Shares will depend upon their taxpayer status (e.g. whether they are an individual, a company or the trustee of a trust) and the cost base of their Shares. The circumstances in which scrip for scrip roll-over relief may be available to defer a capital gain arising from the exchange of Shares for shares in MHI Australia are outlined below.
- 13.36 A Shareholder will make a capital gain on the disposal of their Shares if the capital proceeds received exceed the cost base of their Shares. The capital proceeds will be the market value (calculated as at the Implementation Date) of the MHI Australia shares received in exchange for the Shares. A Shareholder will make a capital loss if the capital proceeds are less than the reduced cost base of their Shares.
- 13.37 Capital gains and capital losses of a taxpayer in a year of income from all sources are aggregated together with any unapplied net capital loss from prior years, to determine if the taxpayer has made a net capital gain. If a Shareholder makes a net capital gain for the year, they will be entitled to benefit from the CGT discount concession if:
- a the Shareholder has beneficially owned their Shares for at least 12 months at the Implementation Date; and

- b the Shareholder is an individual, the trustee of a trust, or a complying superannuation entity.
- 13.38 Should the CGT discount concession apply, a Shareholder will be entitled to reduce their capital gain realised on disposal of their Shares by 50% (for individuals and trustees) or 33.33% (for complying superannuation entities).
- 13.39 The CGT discount concession is applied only after available capital losses have been applied to reduce the capital gain.
- 13.40 The CGT discount concession will not be available to a Shareholder that is a company.
- 13.41 Any net capital gain for the year after the application of any CGT discount concession is included in the taxpayer's assessable income and is subject to income tax at the taxpayer's marginal tax rate.
- 13.42 Net capital losses may not be deducted against other income for income tax purposes, but may be carried forward to offset against capital gains derived in future income years. Specific loss rules apply to Shareholders that are companies. These rules may limit the ability to offset capital losses in a current or later income year.

Scrip for scrip roll-over relief – Australian tax resident shareholders

- 13.43 Broadly, scrip for scrip roll-over relief may be available to defer a capital gain made by a taxpayer if, under an arrangement, a taxpayer exchanges a share in a company for a share in another company where a number of conditions are satisfied.
- 13.44 The Company has received advice from its Australian tax advisers (supported by advice from senior Australian tax counsel) that the conditions for scrip for scrip roll-over relief should be satisfied. The Company had originally intended lodging with the ATO an application for a Class Ruling confirming this position per the announcement to this effect released to NZX on 13 April 2016.
- 13.45 Subsequent to that announcement, however, discussions with the ATO have indicated that the ATO may be changing its views in relation to the interpretation of some of the conditions required for scrip for scrip roll-over to be available. The ATO advised that reaching a final view on these issues would be a matter which would require final consideration by the ATO Tax Counsel Network but could not provide any timeframe for a response. On this basis, the Company and its advisers believe that such a ruling would not be available prior to the Scheme Meeting or Implementation. In light of that ATO feedback and subsequent tax advice received from the Company's tax advisers confirming that scrip for scrip roll-over should be available, the Company has decided not to pursue an application for a Class Ruling on this matter.
- 13.46 In particular, our Australian tax advisers and senior Australian tax counsel have specifically confirmed to the Company immediately prior to the finalisation of this Scheme Booklet that their advice remains unchanged following this feedback from the ATO. Each shareholder who considers they may be affected by this issue should take their own independent tax advice in light of their own particular circumstances.
- 13.47 Scrip for scrip roll-over relief will only be available where the Shareholder would have otherwise made a capital gain and the Shareholder chooses to obtain the roll-over. The choice to obtain scrip for scrip roll-over relief is evidenced by the manner in which the tax return for the relevant income year is prepared (e.g. by excluding the capital gain in respect of which the roll-over is chosen from the Shareholder's income tax return).

- 13.48 Where a Shareholder chooses to obtain scrip for scrip roll-over relief:
- a any capital gain made as a result of the exchange of Shares for MHI Australia Shares is disregarded;
 - b the first element of the cost base of the MHI Australia Share acquired in the exchange is the cost base of the Share for which roll-over relief is obtained; and
 - c the date of acquisition of the MHI Australia Share for CGT purposes is taken to be the date of acquisition of the Share (e.g. for the purposes of determining if the CGT discount is available for a later disposal of the MHI Australia Share).

Australian and other non-New Zealand tax resident Shareholders - Disposal of Shares under the Scheme – New Zealand tax implications

- 13.49 Shareholders that are not resident in New Zealand for income tax purposes and are resident in a country that has a Double Taxation Agreement (DTA) with New Zealand, such as Australia, Canada and the United States, should generally not be liable for New Zealand income tax on any gain on disposal of the Company Shares under the Scheme, provided that the Company Shares are not held as part of a New Zealand permanent establishment.
- 13.50 Shareholders that are not resident in New Zealand for income tax purposes and are resident in a country that does not have a DTA with New Zealand, may be liable for New Zealand income tax on any gain on a disposal of the Company Shares where the Shareholder:
- a is in the business of dealing in shares;
 - b acquired the shares as part of a profit-making undertaking or scheme; or
 - c acquired the shares with the dominant purpose of selling them.

Australian tax resident shareholders - Subsequent disposal of MHI Australia Shares — New Zealand and Australian tax implications

- 13.51 The calculation of any capital gain or capital loss for Australian resident Shareholders on a subsequent disposal of MHI Australia Shares in a normal on-market transaction, and the manner in which any resultant tax liability is determined (e.g. whether the CGT discount concession applies), should be as outlined at paragraphs 13.43 to 13.48 above.
- 13.52 Where an Australian resident Shareholder chooses to obtain scrip for scrip roll-over, the first element of the cost base of a MHI Australia Share is taken to be equal to the cost base of the Share which was exchanged for the MHI Australia Share. Any capital gain or capital loss on a subsequent disposal of the MHI Australia Share will be calculated by reference to this cost base.
- 13.53 The treatment of a disposal of MHI Australia Shares, subsequent to the Scheme, by Shareholders that are not resident in New Zealand should not be taxable in New Zealand.
- 13.54 The Company will provide advice on its website after Implementation of the Scheme which will confirm:
- a The first element cost base of a replacement MHI Australia Share if a Shareholder chooses to obtain scrip for scrip roll over relief;
 - b The acquisition date of MHI Australia Shares acquired under the Scheme; and

- c the capital proceeds received in relation to the disposal of Shares in exchange for MHI Australia Shares.

Stamp Duty and Gift Duty

- 13.55 New Zealand does not have stamp duty or gift duty regimes. Australia does not apply stamp duty on quoted marketable securities.

14 New Zealand and Australian income tax implications for the Group

- 14.1 This section provides a general outline of the New Zealand and Australian income tax implications that are likely to arise for the Group following the Implementation of the Scheme. No material adverse New Zealand and Australian income tax implications are expected to arise for the Group from the proposed Implementation of the Scheme. Although the Scheme does not directly involve a transfer of the shares in companies other than the Company there will be some consequential impacts on the Group's tax position. These are discussed below.
- 14.2 This general outline reflects the current provisions of the Income Tax Act 2007 (New Zealand), the current provisions of the Income Tax Assessment Act 1936 (Australia) and the Income Tax Assessment Act 1997 (Australia) (the Tax Law) and the regulations made under those Acts. It also takes into account current tax rulings issued by the Inland Revenue (IR) and by the Australian Taxation Office (ATO) and current administrative practice in each jurisdiction. This outline does not otherwise take into account or anticipate changes in the law, whether by way of judicial decision or legislative action.

Intra-Group financing arrangements

- 14.3 Following the Scheme being completed, some of the intra-group financing arrangements put in place between Australia and New Zealand, including the funding put in place for the transfer of the Group's intellectual property (IP) in December 2008, will be unwound. This should not in the ordinary course have a material impact as the corporate tax rates in Australia and New Zealand at 30% and 28% respectively are highly comparable and this position is not expected to change in the future.
- 14.4 Further, though this will also unwind the funding put in place for the transfer of the Group's IP in December 2008 this is not considered to have an adverse impact on the Michael Hill Group going forward compared to if the Scheme had not occurred. This is because:
- a As previously disclosed by the Company, the New Zealand Inland Revenue has disputed the tax treatment adopted by the Group in relation to these financing arrangements and the Group has commenced litigation proceedings in the High Court of New Zealand with a view to this matter being brought to a conclusion. Resolution of this dispute is likely to require an unwind of these financing arrangements.
 - b The OECD has issued a report on hybrid funding arrangements as part of its base erosion and profit shifting (BEPS) project. The report's recommendations, if adopted by the Australian and/or New Zealand governments, will result in any benefit arising from these arrangements being negated. In this respect, the Australian Government announced the introduction of anti-hybrid rules from 1 January 2018 which would require an unwind of these financing arrangements.
- 14.5 The Group's management forecasts have been prepared on the basis that the current IP financing arrangements will not be in place from 1 July 2016.

- 14.6 Accordingly, there should be no change to the forecast after-tax position of the group due to the changes in the intra-group financing arrangements following Implementation of the Scheme transactions.

Income tax consolidation

- 14.7 The Australian entities in the Group currently are members of a multiple-entry consolidated group for Australian income tax purposes, with MHJA as the head company (the MHJA MEC group). A consolidated group is treated as one taxpayer, and transactions between group members are ignored, for income tax purposes. As a result of the Scheme, the MHJA MEC group will cease to exist. However, a new income tax consolidated group will come into existence with MHI Australia as the head company (the MHI Australia consolidated group).
- 14.8 The principal income tax consequences that can arise from these events are as follows:
- a in certain circumstances, a capital gain can be deemed to arise when a consolidated group or a MEC group ceases to exist, or when a new consolidated group comes into existence.
 - b when a new consolidated group comes into existence, the tax base of certain assets of the subsidiary members of the group is reset based on the application of the tax consolidation tax cost setting process.
- 14.9 With respect to the above, it is anticipated that no material adverse tax consequences should arise for the Group. That is, no deemed capital gains are anticipated to arise upon the MHJA MEC group ceasing to exist or upon formation of the MHI Australia consolidated group.
- 14.10 As noted, a further consequence of the Scheme occurring is that the tax base of certain group assets will be reset. The amount to which the tax base of these assets will be reset depends on a number of variables as at the time of the completion of the Scheme and therefore cannot be determined with certainty at this time. These variables include the market value of the MHI Australia Shares, the Australian / New Zealand dollar exchange rate and the value of the assets and liabilities of the Group at the completion time. However, it is anticipated that the reset tax base of affected assets will be higher than their current tax cost, resulting in a potential one-off benefit to the Group which is forecast to be in the range of A\$10 million – A\$22 million. Any benefit will be realised over the period during which the reset cost of each affected asset is deducted for tax purposes.
- 14.11 Finally it should be noted that the Scheme will not disturb the terms of the agreed settlement that the group reached with the Commissioner of Taxation in respect of the value and components of the IP transferred in December 2008. In particular the Commissioner of Taxation has agreed for the previous Deed of Settlement to equally apply to the MHI Australia Group post the Implementation of the Scheme such that the current market value of the IP agreed with the Commissioner of Taxation will continue to apply and the on-going deductions available in respect of the IP should continue.

Franking credits and imputation credits

- 14.12 Following the Implementation of the Scheme, dividends will be paid to Shareholders by MHI Australia. Any franking credit balances in the MHI Group will be transferred to MHI Australia when the existing group companies join the MHI Australia consolidated group. Australian income tax paid by the MHI Australia group will generate franking credits that will be available to be distributed to Shareholders. In addition, foreign income received by the MHI Australia Group will in future be credited to a conduit foreign income account.

- 14.13 After the Implementation of the Scheme, it is anticipated based on current forecasts that the MHI Australia Group should be able to fully frank its dividends or, if unfranked, pay any residual amount from the conduit foreign income account. Dividends paid to a non-resident which are fully franked or which are unfranked but paid out of the conduit foreign income account are not subject to Australian withholding tax. In the event that MHI Australia dividends were unfranked and not paid from a conduit foreign income account then Australian withholding tax of 5% or 15% will be attracted depending on the particular circumstances of the Shareholder.
- 14.14 In addition, MHI Australia post the Implementation of the Scheme should under the trans-Tasman imputation regime, obtain New Zealand imputation credits for New Zealand income tax paid by a company that is a member of the MHI Australia New Zealand imputation group and these credits may be attached to dividends paid by MHI Australia. After the Implementation of the Scheme, it is anticipated based on current forecasts that the MHI Australia Group will have imputation credits available to fully impute its dividends through to 2021.
- 14.15 In this respect the Inland Revenue has issued a private binding ruling to the Company and MHI Australia confirming that:
- a The MHI imputation group, which is a trans-Tasman group, will continue after the Implementation of the Scheme;
 - b New Zealand income tax paid by members of the MHI imputation group before and after the Implementation of the Scheme will result in imputation credits;
 - c The imputation credits of the MHI imputation group at the date of the Scheme will continue to be available to attach to future dividends and will not be lost as a result of the Scheme;
 - d MHI Australia will be able to attach the imputation credits to dividends paid to its New Zealand and Australian resident Shareholders; and
 - e New Zealand resident Shareholders will, subject to limited exceptions, be able to credit the imputation credits against their New Zealand tax liability arising from dividends to which the imputation credits were attached.

Tax dispute with New Zealand Inland Revenue

- 14.16 The proposed Scheme does not have a direct impact on the on-going tax dispute between the Company and the New Zealand Inland Revenue for historic periods up to and including the year to 30 June 2015. In the absence of a settlement, litigation proceedings would continue. Any New Zealand income tax payments associated either with settlement or as a result of litigation will result in imputation credits which will be available to attach to dividends paid to the Shareholders in the Company and will similarly be available to the New Zealand shareholders in MHI Australia if the Scheme is implemented. The Company (and, if the Scheme proceeds, subsequently MHI Australia) will continue to keep shareholders informed on the progress of the tax dispute through market announcements and disclosures in its financial statements and annual reports.

15 Key agreements

- 15.1 Set out below are the key terms of the agreements which, along with the other broad terms of the Hill HoldCo Transaction and the Scheme set out elsewhere in this Scheme Booklet regulate how the Scheme will proceed, if approved by Shareholders.

Hill HoldCo Agreement

- 15.2 The key terms of the Hill HoldCo Agreement are as follows:

- a Under the Hill HoldCo Agreement:
- i the Hill HoldCo Shareholders have agreed to subscribe for, and MHI Australia has agreed to issue, one MHI Australia Share for every Share that Hill HoldCo holds in the Company on the Hill HoldCo Completion Date (i.e. the number of MHI Australia Shares equal in value to the Hill HoldCo shares transferred from the Hill HoldCo Shareholders to MHI Australia); and
 - ii in return, the Hill HoldCo Shareholders have agreed to transfer, and MHI Australia has agreed to accept, all of the shares in Hill HoldCo,
- subject to satisfaction or waiver of the conditions set out in the following paragraph.
- b The sale of shares in Hill HoldCo and subsequent issue of MHI Australia Shares will not occur unless the following conditions are satisfied:
- i The directors of MHI Australia approving the issue of the MHI Australia Shares to the Hill HoldCo Shareholders.
 - ii Any Company Shareholder approval in relation to the Hill HoldCo Agreement or the Hill HoldCo Transaction which may be necessary (being approval of the Hill HoldCo Transaction under rule 7(c) of the Takeovers Code by way of Resolution 1 passing).
 - iii Evidence satisfactory to the Buyer of the discharge and release of all prescribed encumbrances over any property or assets of the Company and the shares in Hill HoldCo.
- c Until the above conditions are satisfied and the shares in Hill HoldCo have been transferred to MHI Australia, MHI Australia has no rights of control over Shares in the Company owned by Hill HoldCo. During that period, the Hill HoldCo Shareholders retain all voting control over the Shares.
- d Prior to completion of the Hill HoldCo Transaction, Hill HoldCo and the Hill HoldCo Shareholders are required to provide information and access to assets to MHI Australia, conduct Hill HoldCo's business in the same way as prior to the Hill HoldCo Agreement being entered into, and comply with a number of restrictions on its activities to maintain the state of affairs.
- e Completion is to occur on 23 June 2016 at 1pm (Auckland time). However, MHI Australia can unilaterally extend the date for completion of the Hill HoldCo Transaction and change the time of completion at any time by notice in writing provided that:
- i the notice is given by 12 midday (Auckland time) on 23 June 2016;
 - ii the conditions precedent listed above are not satisfied by that date and time; and

- iii the extension is, and is no longer than as is, reasonably necessary to ensure that the conditions precedent to Implementation of the Scheme may be satisfied prior to the Scheme Implementation date; and
- iv the new completion date is no later than 31 December 2016.
- f If the Hill HoldCo Transaction proceeds but the Scheme does not become effective prior to the End Date, and no agreement as to an alternative course of action is reached under clause 3.4(a) of the Scheme Implementation Agreement (see paragraph 15.5 below), then the Hill HoldCo Shareholders will hold all the shares in MHI Australia and MHI Australia will hold all the shares in Hill HoldCo.
- g Hill HoldCo and the Hill HoldCo Shareholders provide warranties that are standard in an agreement of this nature.
- h The Hill HoldCo Agreement contemplates that the Hill HoldCo Shareholders may change prior to completion of the Hill HoldCo Transaction provided that MHI Australia consents to that change and the new shareholders sign a deed of accession to the Hill HoldCo Agreement to bind them as though they are the named "Hill HoldCo Shareholders".
- i The Hill HoldCo Agreement may be terminated:
 - i by agreement between the Hill HoldCo Shareholders and MHI Australia;
 - ii by notice in writing if a condition precedent to the Hill HoldCo Transaction is not satisfied or waived in accordance with the Hill HoldCo Agreement by the relevant condition date; or
 - iii by the Hill HoldCo Shareholders if MHI Australia fails to comply with any material provision of the Hill HoldCo Agreement.
- j As Hill HoldCo and MHI Australia are Australian entities, the Hill HoldCo Agreement is subject to Australian law.

Scheme Implementation Agreement

15.3 The key terms of the Scheme Implementation Agreement are as follows:

Conditions precedent

- 15.4 The obligations of the parties under the Scheme Implementation Agreement are subject to the satisfaction of each of the following conditions precedent:
- a The Company and MHI Australia entering into any necessary documents which are not inconsistent with the terms and conditions in the Scheme Implementation Agreement and are reasonably acceptable to the relevant party and its professional advisers.
 - b MHI Australia being satisfied that all of the Shares held by a Scheme Participant will be tendered to MHI Australia on Implementation free and clear of any and all encumbrances, liens, charges, demands of any nature under any applicable law, there being no other convertible securities or stock options outstanding to acquire Shares, and all "treasury shares" held by MHI being cancelled.
 - c MHI Australia, Hill HoldCo, and the Hill HoldCo Shareholders entering into the Hill HoldCo Agreement (which has already occurred) and shareholder approval of the Hill HoldCo Agreement occurring.

- d All Employee Options being novated to MHI Australia or cancelled, or agreements or deeds otherwise being entered into which are binding and unconditional except to the extent that the condition depends on completion of, or satisfaction of the conditions under, the Scheme Implementation Agreement to give effect to the same so that MHI Australia is satisfied, acting reasonably, that there will be no Employee Options on issue (by the Company) immediately after Implementation.
- e MHI Australia applying and being granted any waivers it deems necessary under Chapter 1 and 2 of the ASX Listing Rules and the NZX Listing Rules that are required in order for MHI Australia to be listed on the ASX as its primary listing and NZX as a Dual Listed Issuer. See paragraphs 16.8 to 16.10 for details of the waivers applied for.
- f Receipt of all required approvals and consents for the Scheme and all related matters under this Scheme Booklet, including:
 - i Approval by the Company Board and MHI Australia Board of this Scheme Booklet;
 - ii Shareholder approval of the Scheme and all other matters that Shareholders need to approve to implement the Scheme and give effect to the Scheme Implementation Agreement (**'Shareholder Approval'**);
 - iii approval for the listing of MHI Australia and the quotation of MHI Australia Shares on the ASX as its primary listing being obtained subject only to the Scheme being approved by the Court under Part 15 of the Act and taking effect and such other conditions as are acceptable to the MHI Australia Board and the Company Board, but with the resale of those MHI Australia Shares not being subject to any restriction period;
 - iv approval for the listing of MHI Australia and the quotation of the MHI Australia Shares on the NZX as a Dual Listed Issuer being obtained subject only to the Scheme being approved by the Court under Part 15 of the Companies Act and taking effect and such other conditions as are acceptable to the MHI Australia Board and the Company Board;
 - v other consents or approvals issued or provided, or the doing of other acts which the Company and MHI Australia agree are necessary or desirable to implement the Scheme by ASIC, ASX, NZX, FMA, the Takeovers Panel and OIO. The Financial Markets Conduct (Michael Hill Group) Exemption Notice 2016 has been granted in respect of the Scheme;
 - vi the approval of any other third parties from whom the Company or MHI Australia must obtain consent; and
 - vii compliance with all requirements that may be imposed by the NZX and/or ASX and which are able to be complied with prior to implementation of the Scheme.
- g The High Court approving the Scheme and making orders to implement the Scheme under Part 15 of the Act.
- h The satisfaction of any additional conditions set by the High Court under sections 236 or 237 of the Companies Act which are required by the High Court to be satisfied prior to the Implementation Date.
- i MHI Australia providing to the Company such necessary legal opinions with respect to MHI Australia in relation to the Hill HoldCo Transaction, the Scheme Implementation

Agreement and this Scheme Booklet that is satisfactory to the Company and its counsel, acting reasonably.

j There being no prohibition at law against the Scheme.

15.5 If any of the above conditions are not satisfied or waived or if the Scheme is not effective by the End Date, the parties will consult in good faith:

a with a view to determining whether the Scheme, or a similar transaction which results in MHI Australia having ultimate beneficial ownership and control of all Shares and any other equity securities of the Company other than Employee Options, may proceed by way of alternative means or methods; or

b to extend the End Date or to adjourn or change the date of an application to the High Court,

and agree a course of action that achieves either of those events.

Steps to obtain satisfaction

15.6 Both MHI Australia and the Company are required to take a number of steps to facilitate the satisfaction of the above conditions and the subsequent Implementation of the Scheme (as set out in clause 6 of the Scheme Implementation Agreement).

15.7 These obligations include preparing and dispatching this Scheme Booklet, putting the Scheme to Shareholders, determining who is entitled to receive the Scheme Consideration, providing information to the other party, and conducting business in the ordinary and proper course of business.

15.8 If all conditions are satisfied, under the Scheme the following will occur on the Implementation Date without any further act or formality, except as otherwise provided:

a each Share held on the Record Date by each Scheme Participant will be transferred to MHI Australia; and

b in consideration for the transfer of each Share held by a Scheme Participant pursuant to paragraph a, MHI Australia will provide Scheme Participants with the Scheme Consideration.

Termination rights

15.9 If the parties are unable to reach agreement as contemplated by paragraph 15.5 within five Business Days after the date in paragraph 15.5a, then unless that condition is waived, any party may terminate the Scheme Implementation Agreement without any liability to the other party by reason of that termination alone unless the relevant occurrence or the failure of the condition to be satisfied or of the Scheme to become effective arises out of a breach by that terminating party.

15.10 In addition, unless otherwise agreed by the parties to the Scheme Implementation Agreement in writing, either the Company or MHI Australia may terminate the Scheme Implementation Agreement by giving written notice to the other party at any time prior to the Second Court Date, if:

a the parties agree in writing to terminate the Scheme Implementation Agreement;

- b a Material Adverse Change or Prescribed Occurrence occurs in respect of the other party;
- c Shareholder Approval is not obtained;
- d the other party is in material breach of any clause, including a representation or warranty, of the Scheme Implementation Agreement, and the relevant circumstance continues to exist for 30 days after notice of the circumstance and the terminating party's intention to terminate is given;
- e a Court or other Government Body has issued a final and non-appealable order, decree or ruling or taken other action which permanently restrains or prohibits the Scheme;
- f any condition precedent has not been satisfied or waived in accordance with the Scheme Implementation Agreement; or
- g the Scheme does not become effective by the End Date.

Deed poll

- 15.11 The Scheme Implementation Agreement also required MHI Australia to enter into a deed poll for the benefit of Scheme Participants binding it to comply with its obligations under the Scheme. MHI Australia has entered into that deed poll.

16 Additional information

No Overseas Investment Office approval currently required

- 16.1 Although MHI Australia is an overseas person for the purposes of the Overseas Investment Act 2005, the Company does not currently have any interests in securities or land which would require MHI Australia to obtain consent under that Act for the Scheme to proceed. If the Company obtained any such securities or land, or the 'significant business assets' threshold test of that Act was triggered, consent would be sought.

Service of documents

- 16.2 The Company (Michael Hill International Limited (to be renamed 'Michael Hill New Zealand Limited' as part of the Scheme), NZBN 9429039612588), is authorised to accept service of documents on behalf of MHI Australia at its address in New Zealand, being The Offices of Kensington Swan, Ground Floor, 18 Viaduct Harbour Avenue, Auckland, 1010, New Zealand.

Information required under Rule 7(c) of the Takeovers Code

- 16.3 The information required by Rule 7(c) of the Takeovers Code in respect of the Hill HoldCo Transaction is as follows:

Requirement	Information
<i>Identity of the person acquiring the Hill HoldCo shares</i>	MHI Australia (ACN 610 937 598 Limited, ACN 610 937 598).
<i>Identity of any other person who will become a controller of an increased percentage of the Company's Shares as a result of the acquisition</i>	N/A – the Hill HoldCo Shareholders will continue to control 52.89% of the Company (by virtue of their direct holding in MHI Australia).

Requirement	Information
<p><i>The persons disposing of the Hill HoldCo shares</i></p>	<p>As at the date of this Scheme Booklet, Richard Michael Hill, Anne Christine Hill, Emma Jane Hill, Mark Simon Hill, and Veritas Hill Limited as trustees of the Boxer Hill Trust.</p> <p>Richard Michael Hill, Anne Christine Hill, and Emma Jane Hill are directors of the Company.</p>
<p><i>Particulars of the shares in Hill HoldCo to be acquired</i></p>	<p>Number: All of the ordinary shares in Hill HoldCo (being 111,374,090 ordinary shares).</p> <p>Percentage that number represents: 100%.</p> <p>Percentage that will be held or controlled by MHI Australia after completion of the acquisition: 100%.</p> <p>Aggregate percentage that will be held or controlled by MHI Australia and its associates after completion of the acquisition: 100%.</p>
<p><i>Particulars of the Shares in the Company to be controlled</i></p>	<p>Number of Shares in the Company held or controlled by Hill HoldCo: 202,644,452.</p> <p>Percentage that number represents: 52.89%.</p> <p>Consideration for the acquisition or the manner in which it will be determined, and when the consideration is payable: Such number of fully paid ordinary MHI Australia Shares that is equal to the number of fully paid ordinary shares that Hill HoldCo holds in the Company on the date of completion of the Hill HoldCo Agreement such as to be equal in value to the shares in Hill HoldCo transferred from the Hill HoldCo Shareholders to MHI Australia. This will, in effect, ensure that the Hill HoldCo Shareholders hold or control the same number of shares and voting rights in MHI Australia as they do in the Company on the date of completion of the Hill HoldCo Agreement (currently 202,644,452 Shares). The consideration is payable upon completion of the Hill HoldCo Agreement occurring on 23 June 2016.</p> <p>Reasons for the transaction: To ensure that the Hill family will support the Scheme and not be placed in a more disadvantageous position than currently.</p>
<p><i>Statement by MHI Australia setting out particulars of any agreement or arrangement (whether or not legally enforceable) that has been, or is intended to be, entered into between MHI Australia and any other person (other than between MHI Australia and the Hill HoldCo Shareholders in</i></p>	<p>The Company and MHI Australia have entered into the Scheme Implementation Agreement and propose to implement the Scheme, which will, if completed, result in MHI Australia becoming the ultimate beneficial owner of the Company and the Group. No other agreement or arrangement has been, or is intended to be, entered into.</p>

Requirement	Information
<i>respect of the matters outlined above) relating to the acquisition, holding, or control of the voting securities to be acquired, or to the exercise of voting rights in the Company</i>	
<i>A report from an independent adviser under Rule 18 of the Code</i>	See Appendix B.
<i>Directors' statement</i>	<p>The directors of the Company unanimously recommend that Shareholders approve the Hill HoldCo Transaction, as the Scheme will not proceed if the Hill HoldCo Transaction is not approved. The directors' reasons for recommending the Scheme (and also the Hill HoldCo Transaction) are set out in section 2 and in the Chair's letter on page 6.</p> <p>A director may withdraw or revise his or her recommendation prior to the Second Court Date and in that event the Company will make a market announcement of that withdrawal on NZX's website (https://www.nzx.com/companies/MHI/announcements).</p>

Information provided pursuant to Schedules 1 and 2 of the Takeovers Code

16.4 The table set out below contains information set out in Schedules 1 and 2 of the Takeovers Code that is relevant to the Scheme and is not otherwise included in this Scheme Booklet:

Requirement	Information
<i>Particulars of any agreement or arrangement (whether legally enforceable or not) made, or proposed to be made, between MHI Australia or any Associates of MHI Australia, and any of the directors or senior officers of the Company or of any related company of the Company (including particulars of any payment or other benefit proposed to be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office) in connection with, in anticipation of, or in response to, the Scheme.</i>	<p>Existing directors of the Company who become directors of MHI Australia on Implementation will receive remuneration in that capacity (see section 11).</p> <p>Emma Jane Hill, Richard Michael Hill, and Anne Christine Hill are parties to the Hill HoldCo Agreement (as Hill HoldCo Shareholders).</p> <p>Directors and senior officers of the Company who hold Shares in the Company on Implementation and are not Ineligible Shareholders will receive MHI Australia Shares on Implementation on the same basis as all other Scheme Participants.</p>
<i>Particulars of any agreement or arrangement (whether legally enforceable or not) made, or proposed to be made, between the Company or any related company of the Company, and any of the directors or senior officers or their Associates of the Company or its related companies, under which a payment or other benefit may be made or given by way of</i>	<p>The senior officers identified in Appendix A who hold Employee Options on Implementation will have those Employee Options novated from the Company to MHI Australia on Implementation (see paragraphs 4.9 to 4.11).</p> <p>No other such agreements or arrangements</p>

Requirement	Information
<i>compensation for loss of office, or as to their remaining in or retiring from office in connection with, in anticipation of, or in response to, the Scheme.</i>	(whether legally enforceable or not) have been made or are proposed to be made.
<i>Particulars of any material agreement or arrangement (whether legally enforceable or not) of the Company and its related companies entered into as a consequence of, in response to, or in connection with, the Scheme.</i>	Only the agreements and arrangements relating to the Hill HoldCo Transaction and the Scheme set out in this Scheme Booklet (and, in particular, the Hill HoldCo Agreement and Scheme Implementation Agreement (see section 15), novation of the Employee Options (see paragraphs 4.9 to 4.11), and the deed poll referred to in paragraph 4.24).
<p><i>A statement as to whether there are any negotiations underway as a consequence of, in response to, or in connection with, the Scheme that relate to or could result in:</i></p> <p><i>(a) an extraordinary transaction, such as a merger, amalgamation, or reorganisation, involving the Company or any of its related companies; or</i></p> <p><i>(b) the acquisition or disposition of material assets by the Company or any of its related companies; or</i></p> <p><i>(c) an acquisition of equity securities by, or of, the Company or any related company of the Company; or</i></p> <p><i>(d) any material change in the equity securities on issue, or policy relating to distributions, of the Company.</i></p>	As the Hill HoldCo Agreement has been executed, no such negotiations are under way.

New Zealand financial markets legislation

16.5 In accordance with the Financial Markets Conduct (Michael Hill Group) Exemption Notice 2016, it is a term of the offer of MHI Australia Shares under the Scheme that:

- a MHI Australia issues the MHI Australia Shares to Shareholders, credited as fully paid, in exchange for their Shares in the Company in accordance with the Scheme;
- b immediately after the implementation of the Scheme, MHI Australia is the parent company of the Group;
- c the assets and business of the Group immediately after the implementation of the Scheme are the same as the assets and business of the Group immediately prior to the implementation of the Scheme, except that the assets of the Group after the

implementation of the Scheme will include all the Shares in the Company and all the shares in Hill HoldCo; and

- d MHI Australia has submitted to the non-exclusive jurisdiction of the courts of New Zealand and has appointed an agent in New Zealand who is authorised to accept service in New Zealand of documents on its behalf in connection with the Scheme and the Hill HoldCo Transaction (see paragraph 16.2 above).

16.6 In addition, it is a condition of the exemption that:

- a the Restructure proceeds by way of the Scheme;
- b no MHI Australia Shares are issued pursuant to the Scheme unless the application for quotation of the MHI Australia Shares on the ASX is approved by the ASX within two months of the date of the Special Meeting, and such approval by the ASX is subject only to the standard pre-quotation conditions of the ASX;
- c no MHI Australia Shares are issued pursuant to the Scheme until after the application for quotation of the MHI Australia Shares on the ASX is approved by the ASX, and such approval by the ASX is subject only to the standard pre-quotation conditions of the ASX;
- d this Scheme Booklet is sent to Shareholders as part of the notice of meeting for the Special Meeting; and
- e this Scheme Booklet includes particulars of all matters that are material to a Shareholder making a decision on whether to approve the Hill HoldCo Transaction and the Scheme(see paragraph 16.7).

16.7 The following disclosures are made in accordance with the Financial Markets Conduct (Michael Hill Group) Exemption Notice 2016:

- a this Scheme Booklet includes particulars that are material to a Shareholder making a decision on whether to approve the Hill HoldCo Transaction and the Scheme; and
- b without limiting a above, this Scheme Booklet includes the following:
 - i the terms of the MHI Australia Shares (see section 12);
 - ii the purpose and effect of the Scheme and Hill HoldCo Transaction, and the steps necessary to bring the Scheme and Hill HoldCo Transaction into effect (see sections 2 to 8);
 - iii a statement of the reasons why the directors of the Company recommend that Shareholders vote in favour of both the Hill HoldCo Transaction and the Scheme (see section 2);
 - iv a summary of the material advantages, and material disadvantages, of the Scheme and Hill HoldCo Transaction, and the risks associated with holding MHI Australia Shares (see section 2);
 - v a summary of the costs of the Scheme and Hill HoldCo Transaction (see section 4);
 - vi particulars of any material (see sections 13 and 14):
 - A taxation issues relevant to New Zealand shareholders in the Company caused by the change in shareholding resulting from the implementation of the Scheme and the Hill HoldCo Transaction;

- B differences in the taxation obligations of New Zealand shareholders in holding, or disposing of, shares in MHI Australia compared to the taxation obligations of Shareholders in holding, or disposing of, shares in the Company; and
- vii a statement of the material differences (if any) between the constitution of MHI Australia and the constitution of the Company (which forms part of the comparison set out in section 12); and
- viii a statement that MHI Australia has submitted to the non-exclusive jurisdiction of the courts of New Zealand in connection with the offer of MHI Australia Shares under the Scheme. MHI Australia confirms that it has submitted to the non-exclusive jurisdiction of the courts of New Zealand in connection with the offer of the MHI Australia Shares;
- ix the full name and address in New Zealand of one or more persons resident or incorporated in New Zealand who are authorised to accept service at that address of documents on MHI Australia's behalf (see paragraph 16.2 above); and
- x a comparative description of the material rights and protections of shareholders under New Zealand company law and the NZX Listing Rules, and any material changes to those rights and protections as a result of holding shares in an Australian incorporated company listed on the ASX (see section 12);
- xi the name and address of every person who will be a director of MHI Australia immediately following the implementation of the Hill HoldCo Transaction and Scheme (see section 11); and
- xii an independent adviser's report on the merits of the Scheme for each class of Shareholders, and for each interest class of those Shareholders, who will be asked to vote on the Scheme (see Appendix B, although the report does not need to, and does not refer to, classes of Shareholders, on the basis that the Company only has one class of shares (as distinct from the two Interest Classes identified for the purposes of voting on the Scheme)).

Application for waivers from NZX Listing Rules and ASX Listing Rules

- 16.8 In connection with the Scheme, MHI Australia has applied for a waiver from NZX Listing Rules 5.1.1, 5.2.1, and 5.2.2(b) so that MHI Australia's application to list on the NZX Main Board need not be made through a Primary Market Participant acting as an Organising Participant.
- 16.9 MHI Australia has received a decision in principle that the waivers sought will be granted. The final decision made by NZX in relation to the applications referred to above will be announced to the market.
- 16.10 MHI Australia has also sought and been granted a waiver from ASX Listing rule 1.4.7 to the extent necessary to permit the Information Memorandum not to include additional experts' consents in respect of the inclusion (by reference) in the Information Memorandum of reports contained in this Scheme Booklet. Without the waiver, if an information memorandum is used for the purposes admission to the official list of ASX and it includes a statement claiming to be made by an expert or based on a statement made by an expert, a statement must also be included that the expert has given, and has not withdrawn, consent to the issue of the Information Memorandum with the particular statement included in its form and context.

Certificate

16.11 To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this Scheme Booklet is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise.

Signed by, in respect of the Company:



Michael Parsell
Chief Executive Officer,
Michael Hill International Limited



Philip Taylor
Chief Financial Officer,
Michael Hill International Limited



Gary Smith
Director
Michael Hill International Limited



Emma Jane Hill
Director
Michael Hill International Limited

Signed by, in respect of MHI Australia:



Michael Parsell
The person fulfilling the role of Chief Executive
Officer,
A.C.N. 610 937 598 Ltd



Philip Taylor
The person fulfilling the role of Chief Financial
Officer,
A.C.N. 610 937 598 Ltd



Gary Smith
Director
A.C.N. 610 937 598 Ltd
(Being the only other director of A.C.N. 610 937
598 Ltd)

Glossary

In this Scheme Booklet, unless the context otherwise requires:

'Associate' has the meaning given to that term in the Takeovers Code.

'ASX' means ASX Limited ACN 008 624 691, and where the context permits, the Australian Securities Exchange operated by ASX Limited.

'ASX Listing Rules' means the listing rules of ASX.

'Board' means either the board of the Company or MHI Australia, as the context requires.

'Business Day' means a day (other than a Saturday, Sunday or public holiday) on which banks are open for general business banking in Wellington, New Zealand, and Brisbane, Australia.

'Class 1' means Hill HoldCo.

'Class 2' means all other Shareholders.

'Companies Act' means the New Zealand Companies Act 1993.

'Company' means Michael Hill International Limited, the current New Zealand incorporated parent company of the Group incorporated under the Companies Act under company number 342863.

'Corporations Act' means the Corporations Act 2001 (Cth).

'Dual Listed Issuer' has the meaning given to that term in the NZX Listing Rules, and is a status that can only be held by an issuer incorporated in Australia which also is admitted and not removed from the ASX's Official List.

'Employee Option' means an existing option to acquire the Company's Shares issued by the Company to members of its executive management team.

'End Date' means 31 December 2016.

'Financial Markets Conduct Act' means the Financial Markets Conduct Act 2013.

'First Court Date' means 3 June 2016, being the date on which the High Court made orders under Part 15 of the Companies Act directing the Company to convene a Special Meeting of Shareholders to consider the Scheme.

'FMA' means the Financial Markets Authority.

'Governmental Body' means:

- any person, body or other thing exercising an executive, legislative, judicial or other governmental function of any country or political subdivision of any country;
- any public authority constituted by or under a law of any country or political subdivision of any country; and
- any person deriving a power directly or indirectly from any other Government Body.

'Group' means:

- before Implementation, the Company and its subsidiaries; and

- after Implementation, MHI Australia and its subsidiaries (including Hill HoldCo and the Company).

'Heffalump' means Heffalump Holdings Limited, an Associate of Hill HoldCo.

'Hill HoldCo' means Durante Holdings Pty Limited, ACN 146 861 056.

'Hill HoldCo Transaction' means the acquisition of all of the Hill HoldCo Shareholders' shares in Hill HoldCo by MHI Australia, as described in section 3.

'Hill HoldCo Agreement' means the agreement for sale of shares between the Hill HoldCo Shareholders, Hill HoldCo, and MHI Australia dated 3 June 2016.

'Hill HoldCo Completion Date' means as soon as reasonably practicable following the Special Meeting and prior to the second Court hearing on the Second Court Date.

'Hill HoldCo Shareholders' means the shareholders of Hill HoldCo at the relevant time (see paragraph 16.3).

'Implementation' means the implementation of the Scheme.

'Implementation Date' means 6:00pm (Brisbane time) 30 June 2016 or such other date set by the Court or agreed between the parties in writing in accordance with an order of the Court (such date to be at least two Business Days after the date that all of the conditions to the Scheme Implementation Deed have been satisfied or waived).

'Independent Adviser' means KordaMentha.

'Ineligible Shareholders' means each Shareholder in respect of whom MHI Australia is not satisfied that the laws of that Shareholder's country of residence (as shown in the Register) permit the issue and allotment of the MHI Australia Shares to the Shareholder, either unconditionally or after compliance with conditions which MHI Australia in its sole discretion regards as acceptable and not unduly onerous.

'Information Memorandum' means the information memorandum required under condition 3 of ASX Listing Rule 1.1, in connection with the proposed admission of MHI Australia to the official list of, and corresponding quotation of MHI Australia Shares on, ASX.

'Interest Class' means each of Class 1 and Class 2, each such class having been determined by reference to the principles set out in Schedule 10 to the Companies Act.

'Material Adverse Change' has the meaning given to that term in respect of the relevant party in the Scheme Implementation Agreement.

'MHI Australia' means A.C.N. 610 937 598 Ltd, ACN 610 937 598, and being the intended parent company of the Group following Implementation.

'MHI Australia Constitution' means the constitution of MHI Australia.

'MHI Australia Share' means a fully paid ordinary share in the capital of MHI Australia.

'NZX' means NZX Limited.

'NZX Listing Rules' means the NZX Main Board/Debt Market Listing Rules.

'Prescribed Occurrence' has the meaning given to that term in respect of the relevant party in the Scheme Implementation Agreement.

'Record Date' means 5.00pm on 28 June 2016 (being the day which is two Business Days prior to the Implementation Date).

'Resolution 1' means the resolution to be put to Shareholders to approve the Hill HoldCo Transaction, as set out on page 3.

'Resolution 2' means the resolution to be put to Shareholders to approve the Scheme, as set out on page 3.

'Restructure' means the proposed restructure which will result in the re-domicile of the Group through the Company becoming a wholly-owned subsidiary of MHI Australia and MHI Australia becoming listed on ASX and NZX Main Board.

'Scheme' means the scheme of arrangement under sections 236 and 236A of the Companies Act to give effect to the Scheme Implementation Agreement set out in sections 4 and 15, and includes any alterations or conditions referred to in sections 6 and 15.

'Scheme Consideration' means one (1) new MHI Australia Share for each Share held on the Record Date.

'Scheme Implementation Agreement' means the deed between the Company and MHI Australia dated 8 June 2016 which sets out the terms and conditions of the Scheme.

'Scheme Participant' means each Shareholder other than Hill HoldCo on the Record Date.

'Second Court Date' means the first day on which an application made to the Court for a final order under section 236 of the Act approving the Scheme is heard.

'Share' means a fully paid ordinary share in the capital of the Company.

'Shareholders' means those persons entered in the Company's share register as holding Shares.

'Takeovers Code' means the New Zealand Takeovers Code Approval Order 2000 (SR 2000/210).

Appendix A Details of Employee Options

Name	Country	Number of Employee Options as at the date of this Scheme Booklet
Mike Parsell	Australia	6,000,000
Phil Taylor	Australia	2,250,000
Stewart Silk	Australia	1,000,000
Tony Van Der Ark	Australia	1,000,000
Galina Hirtzel	Australia	1,000,000
Lindsay Corfield	Australia	1,000,000
Darcy Harkins	USA	500,000
Brett Halliday	Canada	500,000
Kevin Stock	Australia	500,000
	Total	13,750,000

Appendix B KordaMentha's independent adviser report



KordaMentha

Share Transactions in connection with Michael Hill International Limited

Independent Adviser's Report

June 2016

KordaMentha confirms that it:

- (a) has no conflict of interest that could affect its ability to provide an unbiased report; and
- (b) has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

KordaMentha has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code **and the Panel's requirements for schemes of arrangement involving Code companies** for the purposes of preparing this report.

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Glossary of key definitions

ASX	The market on which MHI Australia Shares are proposed to be traded, operated by ASX Limited
Australian Corporations Act	Australian Corporations Act 2001
Companies Act	Companies Act 1993
Employee Options	All of Michael Hill's employee options
FY	Financial year ending 30 June
Hill HoldCo	Durante Holdings Pty Limited
Hill HoldCo Agreement	Agreement for sale of shares in Hill HoldCo dated 3 June 2016
Hill HoldCo Shareholders	The shareholders of Hill HoldCo
Hill HoldCo Transaction	The acquisition by MHI Australia from the current shareholders of Hill HoldCo of all of their shares in Hill HoldCo in exchange for one share in MHI Australia for each Company share owned by Hill HoldCo
Implementation	Date of implementation of the Scheme, including the issue and allotment of Scheme Consideration, which is intended to be 30 June 2016
Ineligible Shareholder	Michael Hill shareholders deemed to be ineligible to receive MHI Australia Shares under the Scheme, as set out in section 5 of the Scheme Booklet
Interest Class	An 'interest class' under section 236A of the Companies Act, as determined in accordance with principles set out in the Companies Act and the common law
Michael Hill or the Company	Michael Hill International Limited
Michael Hill Shares	383,153,190 ordinary shares in Michael Hill
MHI Australia	The Australian incorporated company currently known as A.C.N 610 937 598 Ltd, ACN 610 937 598, and being the intended parent company following Implementation
MHI Australia Constitution	Constitution of MHI Australia
MHI Australia Shares	383,153,190 ordinary shares to be issued in MHI Australia
NZX	NZX Limited
NZX Main Board	The market operated by NZX on which MHI shares are currently traded and on which MHI Australia Shares are proposed to be traded under a dual listing
Proposed Share Transactions	Proposed Hill HoldCo Transaction and Scheme
Record Date	Date for determining entitlements to Scheme Consideration which is 28 June 2016 at 5pm
Report	This Independent Adviser's Report
Scheme	The proposed scheme of arrangement in respect of the Company under sections 236 and 236A of the Companies Act, as set out in the Scheme Booklet, and under which MHI Australia will acquire from each of Michael Hill's eligible shareholders (other than Hill HoldCo) of all their shares in Michael Hill in exchange for shares in MHI Australia on a one-for-one basis
Scheme Booklet	The scheme booklet in respect of the Hill HoldCo Transaction and the Scheme dated 8 June 2016
Scheme Consideration	Either one new MHI Australia Share for each Michael Hill Share owned on the Record Date or, if for Ineligible Shareholders, the net proceeds from the sale of MHI Australia Shares
Scheme Implementation Agreement	Agreement which governs how the Scheme will proceed dated 8 June 2016
Special Meeting	Special Meeting of the shareholders to be held on 23 June 2016
VWAP	Volume weighted average price

1 Introduction

1.1 Overview

Michael Hill International Limited ('Michael Hill' or 'the Company') operates a specialist retail jewellery chain, with 181 stores in Australia, 66 stores in Canada, 53 stores in New Zealand and 10 stores in the United States.

Michael Hill's shares ('Michael Hill Shares') are publically listed on the NZX Main Board, being the main board equity securities market operated by NZX Limited ('NZX').

Durante Holdings Pty Limited ('Hill HoldCo') currently holds 52.89% of the Michael Hill Shares, and is controlled by interests associated with the Hill family.

'MHI Australia' is a company incorporated in Australia, in accordance with Australian law, for the specific purpose of becoming the Australian holding company of Michael Hill. MHI Australia will be listed on ASX. Application will also be made to NZX for permission to list and quote the MHI Australia shares ('MHI Australia Shares') on the NZX Main Board with the status of a dual listed issuer.

On 13 April 2016, Michael Hill announced a proposal to re-domicile the Company from New Zealand to Australia. This will involve two separate transactions ('Proposed Share Transactions'), which are:

- 'Hill HoldCo Transaction', under which:
 - MHI Australia will acquire all of the shares in Hill HoldCo from its shareholders ('Hill HoldCo Shareholders') in exchange for one MHI Australia Share for each Michael Hill Share held by Hill HoldCo such as to be equal in value to the shares in Hill HoldCo transferred from the Hill HoldCo Shareholders to MHI Australia.
- Scheme of arrangement ('Scheme'), under which:
 - All shareholders in the Company (other than Hill HoldCo) will exchange their Michael Hill Shares for MHI Australia Shares on a one-for-one basis ('Scheme Consideration'). The Scheme needs to be approved in accordance with section 236A of the Companies Act.
 - The obligations of the Company under Michael Hill's employee options ('Employee Options') will be novated to, and assumed by, MHI Australia so that relevant employees will in the future have the option to buy shares in MHI Australia (rather than the Company) if the options are exercised. Some minor incidental changes are required to accommodate Australian law and the requirements of ASX, but otherwise the terms of the Employee Options will remain the same.
 - The Company will change its name to 'Michael Hill New Zealand Limited' and MHI Australia will take the name of 'Michael Hill International Limited' when, and provided that, it is available under Australian law.

Further detail on the Hill HoldCo Transaction and the Scheme is included in the Scheme booklet dated 8 June 2016 ('Scheme Booklet').

If the Hill HoldCo Transaction and Scheme are approved, then existing Michael Hill shareholders (other than Hill HoldCo) will receive either one new MHI Australia Share for each Michael Hill Share held or, for those shareholders deemed to be ineligible to participate in the Scheme ('Ineligible Shareholder'), the net proceeds of the sale of their MHI Australia Shares (the number of which is equal to the number of their Michael Hill Shares) on market. MHI Australia is satisfied that MHI Australia Shares can be issued in New Zealand and Australia. MHI Australia will seek advice, after the Special Meeting and before implementation of the Scheme, in respect of any shareholder with more than 100,000 Michael Hill Shares, and in any jurisdiction with more than 100,000 Michael Hill Shares in aggregate to determine whether those Michael Hill shareholders are eligible to participate in the Scheme. Therefore overseas shareholders (i.e. those registered outside of New Zealand and Australia) may not know for certain if they are eligible to participate in the Scheme before they vote on the Hill HoldCo Transaction and Scheme.

The consideration to which an Ineligible Shareholder will become entitled will be allotted to a nominee approved by MHI Australia. That nominee will sell those MHI Australia Shares (at the Ineligible Shareholder's

risk and subject to willing buyers on market) and pay the proceeds received to that Ineligible Shareholder. The Company will meet the nominee's costs of implementing these arrangements. MHI Australia will indemnify each Ineligible Shareholder for any loss suffered by reason of the nominee's failure to perform its obligations to sell the MHI Australia Shares which the relevant Ineligible Shareholder would otherwise have been entitled to receive.

The directors of Michael Hill consider that moving the Company's domicile and obtaining an ASX listing will align all of its reporting and management systems, reduce the complexity of operating the business in its current structure and provide the best base for future growth.

1.2 Timeline

A timeline of key events of in relation to the Hill HoldCo Transaction and Scheme is shown below in Figure 1.1 (please refer to the Important Dates section of the Scheme Booklet for a more comprehensive list of dates):

Figure 1.1: Timeline of key events

Date	Event
13 April 2016	Announcement of the Hill HoldCo Transaction and Scheme
5:00pm 21 June 2016	Determine eligibility to attend and vote at special meeting of the Michael Hill shareholders ('Special Meeting')
9:00am 23 June 2016	Special Meeting
28 June 2016 (at 5:00pm)	Record date for determining entitlements to Scheme Consideration
By 27 June 2016 (but currently expected to be 23 June 2016).	Court date/Effective date that Scheme becomes binding
30 June 2016 (at 6:00pm Brisbane time)	'Implementation Date' – date of issue and allotment of Scheme Consideration
7 July 2016	Listing of MHI Australia on ASX and the consequential dual listing on NZX Main Board

Source: MHI management

1.3 Resolutions

The Company has called a Special Meeting of shareholders for 23 June 2016.

The business of the Special Meeting will be to consider two resolutions that, if passed, will effect the Hill HoldCo Transaction and Scheme. A summary of the resolutions is as follows:

- Resolution 1: For the purposes of Rule 7(c) of the Takeovers Code, Michael Hill shareholders (other than Hill HoldCo Shareholders and their associates) approve the Hill HoldCo Transaction.
- Resolution 2: For the purposes of Part 15 of the Companies Act, Michael Hill shareholders (including Hill HoldCo and its associates) approve the Scheme.

The Hill HoldCo Transaction will only proceed if Resolution 1 is passed. The Scheme will only proceed if Resolution 1 and Resolution 2 are passed and the Hill HoldCo Transaction becomes unconditional.

Michael Hill's Board unanimously recommends that Shareholders vote in favour of the resolutions at the Special Meeting.

1.4 Regulatory Requirements and Scope of this Report

The Hill HoldCo Transaction and Scheme are subject to certain regulatory requirements in New Zealand. Michael Hill is a 'code company' which means it is subject to the Takeovers Code.

The Hill HoldCo Transaction is governed by the Takeovers Code. The Scheme is governed by the Companies Act and is required to be approved by the High Court. Detailed explanation is set out in the Scheme Booklet (which includes the Notice of Meeting). A summary is set out under relevant sub-headings below.

1.4.1 Hill HoldCo Transaction

Rule 6 of the Takeovers Code provides that a person who holds or controls:

- Less than 20% of the voting rights in a code company may not become the holder or controller of an increased percentage of more than 20% of the voting rights in the code company; or
- 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company.

This 'fundamental rule' is subject to a number of exceptions, including the exception set out in Rule 7(c) which permits an acquisition by a person of voting securities in a code company which will result in the person controlling more than 20% of the voting rights if it is approved by an ordinary resolution of shareholders.

The Hill HoldCo Transaction involves MHI Australia acquiring shares in Hill HoldCo which will result in it controlling more than 20% of the voting rights in the Company. Accordingly, Michael Hill is seeking approval by the Company's shareholders in accordance with Rule 7(c) of the Takeovers Code.

The Hill HoldCo Shareholders and their associates (including, for present purposes, Hill HoldCo), and MHI Australia, cannot vote on the Hill HoldCo Transaction. MHI Australia does not currently hold or control any shares in the Company.

KordaMentha has been appointed, under Rule 18 of the Takeovers Code, to prepare an Independent Adviser's Report considering the merits of the transaction having regard to the interests of those persons who may vote to approve it (i.e. Michael Hill shareholders excluding the Hill HoldCo Shareholders and their associates).

1.4.2 Scheme

Under the Companies Act, a scheme of arrangement affecting voting rights in a code company must be approved by:

- 75% or more of the votes entitled to be cast, and cast, on the resolution by each 'Interest Class' of shareholders; and
- A simple majority of all votes entitled to be cast on the resolution (regardless of whether they are cast). That is, shareholders holding more than 50% of the Company's shares must approve the Scheme.

'Interest Classes' are determined in accordance with principles set out in the Companies Act and the common law. The Company has determined that there will be two Interest Classes of shareholders for the purposes of Resolution 2, as follows:

- Hill HoldCo
- All other shareholders.

As the Company is a 'code company' under the Takeovers Code, the Takeovers Panel regulates changes in the holding or control of its voting rights.

Under section 236A of the Companies Act, the Court cannot approve a scheme of arrangement that affects the voting rights of a code company unless:

- (a) it is satisfied that the shareholders of the Code company will not be adversely affected by the use of a scheme rather than the Takeovers Code to effect the change involving the Code company; or
- (b) a statement in writing by the Panel that it has no-objection to the scheme is produced to the Court.

Accordingly, under section 236A of the Companies Act, the Company is able to request a 'no-objection statement' from the Takeovers Panel. This statement is presented to the High Court when seeking orders in respect of a scheme of arrangement under the Companies Act. The Takeovers Panel has indicated that it will provide a no-objection statement on the basis that there will be two interest classes as described for the purposes of voting on the proposed Scheme.

Although there is no legal requirement under the Companies Act or the Takeovers Code for an Independent Adviser's Report as a result of the Scheme, the practice of the Takeovers Panel (except in very limited circumstances) is to require an Independent Adviser's Report on the merits of the transaction for each class of shareholders, and for each Interest Class of those shareholders, who will be asked to vote on a scheme before it will consider issuing a final no-objection statement.

KordaMentha has been appointed to provide an Independent Adviser's Report to assist Michael Hill shareholders to consider the merits of the Scheme (as well as the Hill HoldCo Transaction).

Because the Scheme is conditional on the Hill HoldCo Transaction we have tended to comment on the merits of both under the Hill HoldCo Transaction and Scheme. However, where it is appropriate to make separate observations to particular shareholder groups we have also done so.

KordaMentha issues this Independent Adviser's Report to assist Michael Hill shareholders who are entitled to vote to assess the merits of whether to vote for or against Resolutions 1 and 2. Regardless of whether the voting thresholds are achieved for the Scheme, the Scheme is still subject to approval by the Court.

This report is not to be used for any other purpose without our prior written consent.

1.4.3 Other

The sources of information, to which we have had access and upon which we have relied, are set out in Appendix 1 of this report.

This report should be read in conjunction with the statements and declarations set out in Appendix 2 regarding our independence, qualifications, general disclaimer and indemnity and the restrictions upon the use of this report.

References to '\$', dollars or cents are to Australian dollars, unless specified otherwise. References to financial years or 'FY' mean the Company's financial year end on 30 June unless specified otherwise.

Please note, tables may not add due to rounding.

2 Company background

2.1 Overview

Michael Hill operates a specialist retail jewellery chain, with 167 stores in Australia, 66 stores in Canada, 52 stores in New Zealand and ten stores in the United States, trading under the Michael Hill brand. It has also recently launched a new brand called Emma & Roe focused on boutique charm bracelets with 14 stores in Australia and one in New Zealand. Globally, the group employs approximately 2,450 employees. Its corporate headquarters are located in Brisbane, Australia.

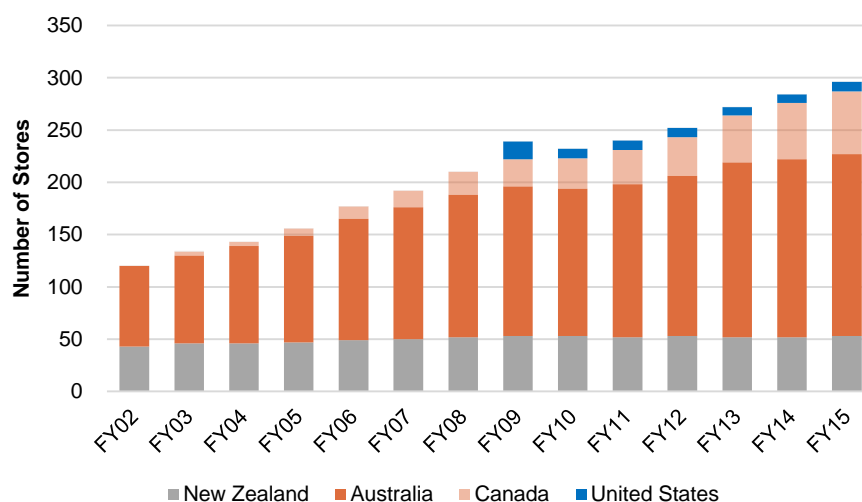
2.2 International expansion

Michael Hill started its operations in New Zealand in 1979 as a family owned business and listed on the NZX Main Board in 1987, the same year that it expanded into Australia. In 2002, it expanded into Canada and in 2008 further expanded into the United States.

The majority of new stores that the Company has opened since 2002 have been located outside New Zealand. The number of stores in New Zealand has remained relatively steady within the 43 to 53 range over the 2002 to 2015 period, whilst stores outside New Zealand have grown from 77 to 243. Of the 243 stores outside of New Zealand, 174 were based in Australia (59% of total number of stores).

Figure 2.1 shows that the number of New Zealand stores (relative to all stores) decreased from 36% to 18% between 2002 and 2015 as a result of significant international expansion.

Figure 2.1: Michael Hill's store footprint, 2002 to 2015



Source: Michael Hill Annual Reports

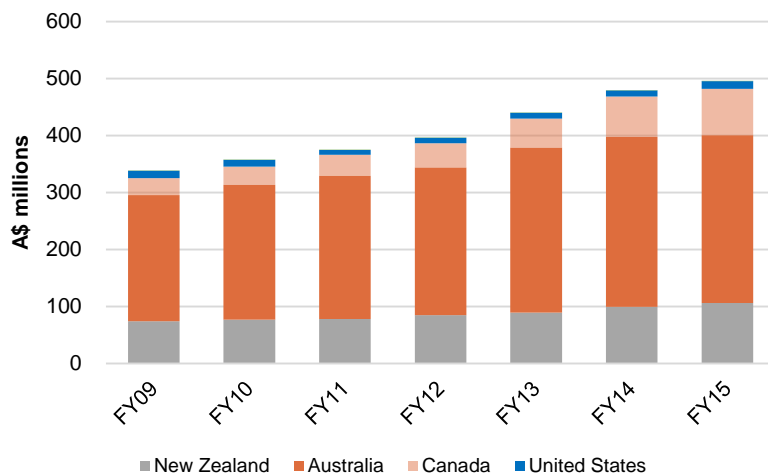
In its FY15 Annual Report, Michael Hill outlined plans to roll out an additional 10 stores in Canada during FY16. The majority of Michael Hill's future growth will likely be focused outside New Zealand because:

- Michael Hill stores have already been rolled out to most New Zealand towns.
- Michael Hill occupies a smaller share of the retail jewellery markets in Australia, Canada and the United States.
- The Australian, Canadian and United States economies are many times larger than New Zealand.
- Average disposable incomes are higher in Australia, Canada and the United States.

New store openings in Australia, Canada and the United States have resulted in revenue generated in New Zealand (as a proportion of total revenue) decreasing from 38% to 21% over the 2002 to 2015 period.

Revenue in Australia constituted 58% of total Michael Hill revenue in FY15 as shown in Figure 2.2.

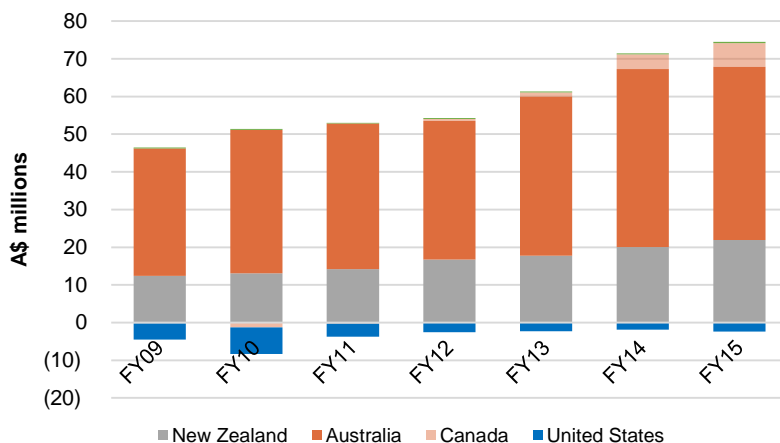
Figure 2.2: Michael Hill revenue, 2009 to 2015



Source: Michael Hill management reporting

New store openings during the 2009 to 2015 period translated to increased earnings being generated in Australia and Canada as shown in Figure 2.3.

Figure 2.3: Michael Hill operating surplus, 2009 to 2015



Source: Michael Hill management reporting

Australian stores generated 64% of the total Company operating surplus in FY15, which again underlines the strategic importance of the Australian market.

2.3 Shareholders

Michael Hill currently has 383,153,190 fully paid ordinary shares.

Table 2.1 below sets out Michael Hill's top 20 shareholders at 31 May 2016:

Table 2.1: Share register as at 31 May 2016

Shareholder	# of Shares	%
Durante Holdings Pty Limited	202,644,452	52.89%
Accident Compensation Corporation	26,409,756	6.89%
Tea Custodians Limited	19,036,343	4.97%
JPMorgan Chase Bank NZ Branch	9,668,550	2.52%
HSBC Nominees (New Zealand) Limited	7,183,691	1.87%
Michael Robin Parsell	6,669,114	1.74%
Citibank Nominees (New Zealand) Limited	3,849,780	1.00%
New Zealand Superannuation Fund Nominees Limited	3,494,051	0.91%
Forsyth Barr Custodians Limited	3,468,452	0.91%
Rosanne Laurel Parsell	3,350,250	0.87%
National Nominees New Zealand Limited	3,277,770	0.86%
Double Dragon Superannuation Pty Limited	2,370,000	0.62%
NZPT Custodians (Grosvenor) Limited	2,009,219	0.52%
Philip Roy Taylor	2,000,000	0.52%
Gary John Gwynne & Patricia Ann Gwynne & David Hugh Rishworth	1,972,000	0.51%
Custodial Services Limited	1,828,487	0.48%
Wayne Kenneth Butler & Christina Anne Butler & Roko Marijan Jujaj Urlich	1,823,640	0.48%
Heffalump Holdings Limited	1,524,750	0.40%
FNZ Custodians Limited	1,495,074	0.39%
Mint Nominees Limited	1,161,074	0.30%
<i>Other</i>	<i>77,916,737</i>	<i>20.34%</i>
Total	383,153,190	100.00%

Source: Michael Hill Share Register (31 May 2016)

Michael Hill is a very closely held company. The largest two shareholders are Hill HoldCo and ACC which together account for nearly 60% of Michael Hill Shares. Furthermore, the CEO, Michael Parsell owns 1.74% of Michael Hill Shares and the CFO, Philip Taylor owns 0.52% of Michael Hill Shares.

Because Hill HoldCo is registered in Australia, the majority of Michael Hill Shares are held by shareholders registered in Australia. However, 94.9% of Michael Hill shareholders (mainly retail investors) are based in New Zealand as highlighted in Table 2.2 below.

Table 2.2: Share register by location of registered owner as at 31 May 2016

Geography	# of Shares	%	# of Shareholders	%
Australia	224,521,776	58.6%	135	3.5%
New Zealand	154,270,690	40.3%	3661	94.9%
Other	4,360,724	1.1%	61	1.6%
Total	383,153,190	100.0%	3,857	100.0%

Source: Michael Hill Share Register (31 May 2016)

Apart from Hill HoldCo, currently only 5.7% of Michael Hill Shares are held by shareholders registered in Australia. Apart from Hill HoldCo, Michael Hill currently has a fairly limited shareholder base in Australia. We understand that this is at least partly due to it not being domiciled in Australia, and also not being listed on the ASX and being a company established in New Zealand.

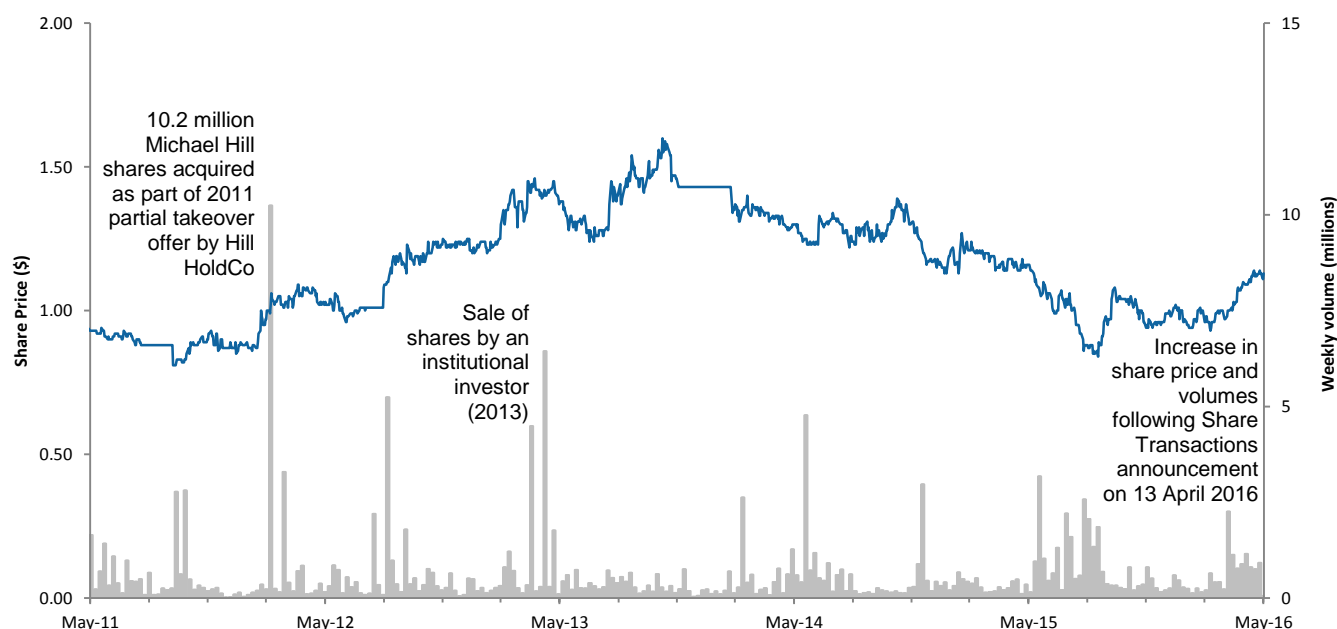
2.4 Share price performance

Share price and volume

Michael Hill shares are traded on the NZX Main Board.

Figure 2.4 illustrates the share price of Michael Hill and the volume of share trades between 31 May 2011 and 31 May 2016.

Figure 2.4: Michael Hill share price performance during 2011 to 2016



Source: Capital IQ

Michael Hill's share price trended upwards from NZ\$0.93 on 31 May 2011 and reached a high of NZ\$1.60 on 7 November 2013. Since then the share price has trended downwards over the last two and a half years and was NZ\$1.01 on 13 April 2016 when the Proposed Share Transactions were announced. Over this period, Michael Hill has reported losses from its US stores and slower same store sales growth (compared to prior years). It has also been involved in a well-publicised tax dispute with the IRD in New Zealand. We note that the share price has increased from NZ\$1.01 on 13 April 2016 to NZ\$1.13 on 31 May 2016 with an increase in volumes.

Overall Michael Hill trading volumes have been relatively low, which is to be expected given its closely held share register. However, there have been several notable spikes in traded volumes over the last five years driven by trading related to Hill HoldCo and institutional investors, including:

- A partial takeover offer from Hill HoldCo in 2011 where 10.2 million shares were acquired to lift Hill HoldCo's holding above 50%.
- A sale of Michael Hill shares by substantial holder in 2013.
- Several share purchases over the 2014 and 2015 period driven by ACC.

Michael Hill Share trade volumes are typically higher in the month of July when the 12 month trading update for the year ended 30 June is released to the market. Aside from the July month, trading volumes are relatively low.

Michael Hill Shares liquidity

Only 10.29% of Michael Hill Shares were traded over the 12 months ended 31 May 2016. This is equivalent to daily turnover of approximately NZ\$158,686, as shown below in Table 2.3.

Table 2.3: Share trading volumes as at 31 May 2016

Period	Share price (NZ\$)			Cumulative Volume	Percentage of Issued Capital	Percentage of Free Float	Average Daily Turnover (NZ\$)
	Low	High	VWAP				
1 week	1.11	1.14	1.13	766,500	0.20%	0.38%	144,429
1 month	1.08	1.14	1.11	3,687,330	0.96%	1.82%	186,480
3 months	0.92	1.14	1.05	10,620,160	2.77%	5.24%	179,123
12 months	0.84	1.16	0.99	39,425,490	10.29%	19.45%	158,686

Source: Capital IQ

Overall, the level of daily turnover in Michael Hill's shares is very low for a listed company with a market capitalisation of over NZ\$430 million. The current low level of liquidity appears to be mainly driven by the closely held nature of Michael Hill, as discussed.

3 Proposed Share Transactions

3.1 Overview

It is envisioned that, if approved, the Proposed Share Transactions will proceed in two stages as follows:

3.1.1 Hill HoldCo Transaction

To give effect to the Hill HoldCo Transaction MHI Australia, Hill HoldCo, and the Hill HoldCo Shareholders have entered into an agreement for sale of shares dated 3 June 2016 ('Hill HoldCo Agreement'). The Hill HoldCo Agreement is described at section 15 of the Scheme Booklet. Under the Hill HoldCo Agreement:

- Hill HoldCo Shareholders have agreed to subscribe for (and MHI Australia has agreed to issue) such number of MHI Australia Shares as is equal to the number of shares that Hill HoldCo holds in the Company.
- In return, the Hill HoldCo Shareholders have agreed to transfer (and MHI Australia has agreed to accept) all of the shares in Hill HoldCo.

The Hill HoldCo Transaction will proceed if Resolution 1 (to approve the Hill HoldCo Transaction) is approved by a simple majority of the votes entitled to be cast, and cast, by those shareholders eligible to and who vote on Resolution 1. Please note that if the Hill HoldCo Transaction is approved but the Scheme is not the Hill HoldCo Transaction will nevertheless proceed.

3.1.2 Scheme

The Company and MHI Australia entered into a scheme implementation deed on 8 June 2016, which governs how the Scheme will proceed ('Scheme Implementation Agreement'). The Scheme Implementation Agreement is described at section 15 of the Scheme Booklet. Under the Scheme:

- All shareholders in the Company (other than Hill HoldCo and Ineligible Shareholders) will exchange their Michael Hill Shares for MHI Australia Shares on a one-for-one basis. The Scheme needs to be approved in accordance with section 236A of the Companies Act.
- The obligations of the Company under its Employee Options will be novated to, and assumed by, MHI Australia so that relevant employees will in the future have the option to buy shares in MHI Australia (rather than the Company) if the options are exercised. Some minor incidental changes are required to accommodate Australian law and the requirements of ASX, but otherwise the terms of the Employee Options will remain the same.
- The Company will change its name to 'Michael Hill New Zealand Limited' and MHI Australia will take the name of 'Michael Hill International Limited' when, and provided that, it is available under Australian law.

The Scheme will only proceed if:

- Resolution 1 (to approve the Hill HoldCo Transaction) is approved by a simple majority of the votes entitled to be cast, and cast, by those shareholders who are eligible to and who vote on Resolution 1 (at which time the Hill HoldCo Transaction becomes unconditional).
- Resolution 2 (to approve the Scheme) is approved by 75% or more of the votes entitled to be cast, and cast, on the resolution by each Interest Class of shareholders; and
- Resolution 2 is approved by a simple majority of all votes entitled to be cast on the resolution (regardless of whether they are cast).
- The High Court approves the Scheme and orders the implementation of the Scheme.

Further detail on the Hill HoldCo Transaction and the Scheme is included in the Scheme Booklet. We also note that both Proposed Share Transactions are subject to:

- There not having occurred prior to the relevant date, any Material Adverse Change or Prescribed Occurrence (as defined in the Scheme Booklet), which is standard in transactions of this nature.

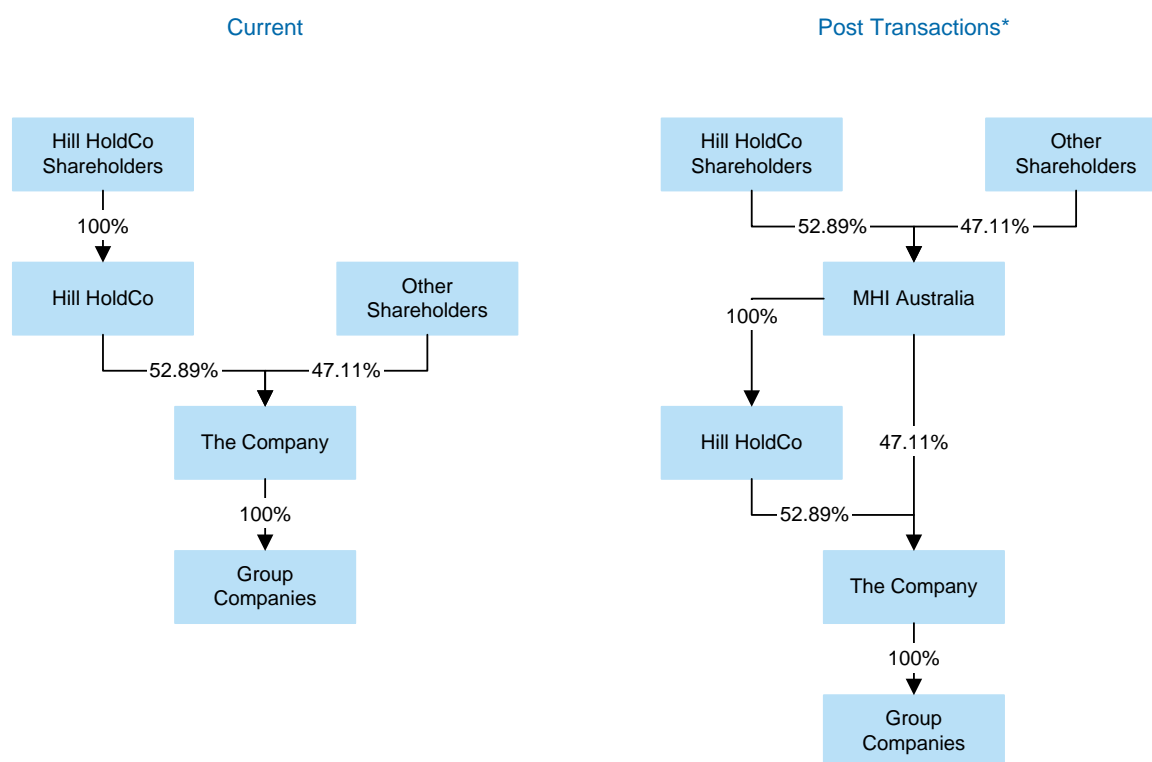
- Neither the Hill HoldCo Agreement nor the Scheme Implementation Agreement is terminated prior to the relevant date.

The Company, MHI Australia, and the Hill HoldCo Shareholders (as relevant) may amend the Scheme Implementation Agreement or the Hill HoldCo Agreement. Any amendment must be contained in a written document, and if it relates to the Scheme, must be filed with the High Court. If made following the Special Meeting, the amendment must be approved by the High Court and, if required by the High Court, communicated to Michael Hill's shareholders.

3.2 Proposed Structure

The corporate structure of Michael Hill pre and post the Hill HoldCo Transaction and the Scheme is shown in Figure 3.1 below.

Figure 3.1: Summary of Michael Hill Structure



* Assumes both Hill HoldCo Transaction and the Scheme are approved and implemented

Source: MHI management

Hill HoldCo Shareholders currently own 100% of Hill HoldCo which in turn owns 52.89% of the Company. Other Michael Hill shareholders own the remaining 47.11%.

Following the Hill HoldCo Transaction and the Scheme, Hill HoldCo Shareholders will own 52.89% of MHI Australia and other Michael Hill shareholders (or, in the case of Ineligible Shareholders, a nominee on behalf of those shareholders) will own 47.11% of MHI Australia. MHI Australia will then own 100% of the Company. The net economic position of shareholders eligible to participate in the Hill HoldCo Transaction and the Scheme is unchanged. However, there are implications including changes to legal rights, costs, tax and liquidity.

4 Implications of the Hill HoldCo Transaction and the Scheme

4.1 Legal Issues

Michael Hill is a limited liability company incorporated in New Zealand under the Companies Act and governed by New Zealand law. MHI Australia is an Australian public company registered under and regulated by the Corporations Act 2001 ('Australian Corporations Act') and relevant Australian laws.

If the Scheme is implemented, the rights of Shareholders who receive MHI Australia Shares will be governed principally by Australian law and MHI Australia's Constitution.

There are differences between the current rights of Michael Hill shareholders and what will be the rights of MHI Australia shareholders. Some of these differences are summarised below (shareholders should refer to section 12 of the Scheme Booklet which contains a more extensive and complete comparison of New Zealand and Australian company rules prepared by Michael Hill's legal advisors):

- Michael Hill currently must have at least three directors, two of whom must be ordinarily resident in New Zealand. MHI Australia will need to have at least three directors, two of whom must ordinarily reside in Australia. Following the Hill HoldCo Transaction and the Scheme, MHI Australia will have no requirement to have any New Zealand resident directors.
- Michael Hill currently must have two or more independent directors under NZX Listing Rules and currently complies with this requirement. Under ASX Listing Rules, MHI Australia will not be explicitly required to have independent directors. However, the ASX Corporate Governance Council¹ recommends the appointment of independent directors, including an independent chair. We understand that MHI Australia will continue to have independent directors as required by NZX Main Board listing rule 3.3.1 as a dual listed issuer (including two independent directors ordinarily resident in Australia) but will also continue to not have an independent chair. Under both jurisdictions directors can be appointed by an ordinary resolution.
- The Takeovers Code in New Zealand has provisions (often referred to as creep provisions) where a person holding more than 50% but less than 90% of the voting rights in a code company (i.e. in a similar position to Hill HoldCo) can acquire up to an additional 5% in a 12 month period without any Code obligations that would involve other shareholders. A more generous provision exists in Australia, where a person holding between a 20% and 90% interest in a company has an ability to acquire additional shares up-to 3% every six months, without any Code obligations that would involve other shareholders. Australia's more flexible takeovers regime for "creep" acquisitions removes one potential disincentive to the major shareholder and its associates diluting their shareholding below 50%, should they wish to do so. However, in this instance the major shareholder has given no indication of any intention to do so.
- If the Hill HoldCo Transaction and the Scheme are implemented, MHI Australia shareholders wishing to take action to enforce the provisions of MHI Australia's Constitution, or Australian corporations or securities law as they relate to MHI Australia, will need to take action in the Australian courts, applying Australian law. Currently, shareholders wishing to take action in relation to the Company need to bring that action before the New Zealand courts and under New Zealand law.
- Under the New Zealand Companies Act, a special resolution of the shareholders is needed for the following matters:
 - approving a major transaction;
 - approving an amalgamation of the company;
 - putting the company into liquidation;
 - an action that affects the rights attaching to shares must be approved by special resolution of each interest group; and
 - any modification of the Company's Constitution.

¹ The ASX Corporate Governance Principles and Recommendations with 2010 Amendments 2nd edition

The Australian Corporations Act lists matters requiring a special resolution as being a change to MHI Australia's Constitution, a change of name, a selective reduction of capital or selective share buy-back and a decision to voluntarily wind up MHI Australia.

As a dual listed issuer, MHI Australia will still be subject to some NZX Listing Rules, which includes the amount paid to directors needing to be approved by an ordinary resolution. In addition, MHI Australia will be subject to both NZX Listing Rules and ASX Listing Rules in relation to continuous disclosure and insider trading. MHI Australia shareholders will likely be provided with additional protection through the monitoring of two regulatory bodies in relation to these matters. This should be balanced with the additional operational costs, which are discussed below.

Overall, MHI Australia will be regulated by Australian law and the rules and policies of the NZX Main Board and ASX. As the regulatory environment in Australia is comparable to that in New Zealand, shareholders in MHI Australia will have similar regulatory protection to that currently available under the Companies Act for Michael Hill.

4.2 Costs of Hill HoldCo Transaction and the Scheme

One disadvantage that will result from the Hill HoldCo Transaction and the Scheme are the costs which will be borne by Michael Hill and MHI Australia.

The majority of costs expected to be incurred in relation to the Hill HoldCo Transaction and the Scheme will already have been expended before shareholder voting at the Special Meeting on 23 June 2016. Therefore these costs are sunk and not relevant to a shareholder's decision whether to support Resolutions 1 and 2. However, some costs have not yet been incurred, and some will be ongoing and are relevant for shareholders to consider.

Michael Hill management estimate that approximately \$1,750,000 of Hill HoldCo Transaction and the Scheme related costs will be expended prior to the Special Meeting and approximately \$250,000 after the Special Meeting if the necessary voting thresholds are met.

In addition, Michael Hill management estimate that re-domiciling to Australia will result in the following additional ongoing costs:

- ASX listing costs of approximately \$52,000 per annum.
- Additional compliance costs due to increased disclosure requirements in Australia (e.g. remuneration policy) of approximately \$50,000 per annum.
- Additional shareholder meetings (both in Australia and New Zealand) at an incremental cost of approximately \$50,000 per annum.

Both the one-off incremental cost (after the Special Meeting) of approximately \$250,000 and the increase in ongoing operational costs of approximately \$152,000 per annum are relatively small when compared to the scale of Michael Hill's business (with revenue of \$503.4 million and net profit after tax of \$27.8 million achieved in FY15).

4.3 Tax Issues

Sections 13 and 14 of the Scheme Booklet set out the tax implications of the Hill HoldCo Transaction and the Scheme as assessed by Michael Hill and its tax advisors. Whilst tax implications will differ depending on each shareholders' personal circumstances we strongly recommend that Michael Hill shareholders read these relevant sections and, if uncertain as to any aspect, seek specialist advice prior to reaching any decision as to whether or not to vote in favour of Resolutions 1 and 2.

KordaMentha does not provide tax advice.

Our understanding, from Michael Hill and its tax advisors, is that based on current tax law and understanding of the Hill HoldCo Transaction and the Scheme no material adverse New Zealand or Australian income tax

implications are expected to arise for the eligible shareholders (who hold Michael Hill shares as capital assets), MHI Australia or the Company from the Hill HoldCo Transaction and the Scheme.

We note that the Company has received advice from its Australian tax advisers (supported by advice from senior Australian tax counsel) that the conditions for scrip for scrip roll-over relief should be satisfied for Australian tax resident shareholders. The Company had originally intended lodging with the Australian Taxation Office ('ATO') an application for a Class Ruling confirming this position per the announcement to this effect released to NZX on 13 April 2016.

Subsequent to that announcement, however, discussions with the ATO have indicated that the ATO may be changing its views in relation to the interpretation of some of the conditions required for scrip for scrip roll-over to be available. The ATO advised that reaching a final view on these issues would be a matter which would require final consideration by the ATO Tax Counsel Network but could not provide any timeframe for a response. On this basis, the Company and its tax advisers believe that such a ruling would not be available prior to the Scheme Meeting or Implementation. In light of that ATO feedback and subsequent tax advice received confirming that scrip for scrip roll-over should be available, the Company has decided not to pursue an application for a Class Ruling on this matter.

As at the date of this report, this issue represents a potential risk for Australian tax resident shareholders of Michael Hill and any shareholder who considers they may be affected should take their own tax advice in light of their circumstances.

Our report relies on Michael Hill's tax advice that the conditions for scrip for scrip roll-over relief should be satisfied.

Furthermore, tax implications will differ depending on each shareholders' personal circumstances and it is strongly recommended that shareholders read section 13 of the Scheme Booklet in its entirety and seek separate specialist taxation advice if in any doubt as to the impact of the Hill HoldCo Transaction and the Scheme having regard to their personal circumstances.

We note MHI Australia will end up owning 100% of the shares of Hill HoldCo. We understand that Hill HoldCo has no activities other than owning Michael Hill Shares and MHI Australia has received warranties and indemnities on Hill HoldCo's historical tax obligations from Hill HoldCo shareholders.

We understand that, although it is not a driver for the Scheme, there is a potential one-off tax benefit to MHI Australia as a consequence of the Scheme. This arises because as a new consolidated group comes into existence following the implementation of the Scheme (i.e. MHI Australia), the tax base of certain assets of the subsidiary members of the group is reset. It is anticipated that the reset tax base of affected assets will be higher than their current tax cost, resulting in a potential one-off benefit to MHI Australia which is forecast to be in the range of A\$10 million to A\$22 million. Any benefit will be realised over the period during which the reset cost of each affected asset is deducted for tax purposes.

4.4 Liquidity

Overall, the Hill HoldCo Transaction and the Scheme impact on the liquidity of MHI Australia Shares is largely uncertain.

In the short term, there will possibly be some disadvantages to liquidity for some shareholders from being dual listed, including:

- Trading volumes being split across the NZX Main Board and ASX, which may make it harder to trade significant parcels of shares on any one exchange. However, offsetting this most brokers in New Zealand can trade shares across both the NZX Main Board and ASX.
- Gaining additional Australian investors, institutional investor coverage and research analyst coverage may take time, particularly given that the free float and trading volume of Michael Hill shares has been relatively low compared to other ASX listed companies. During this time trading on the ASX may be at low volumes. We have undertaken some indicative analysis (set out at Appendix 3) of the trading volumes for dual listed ASX/NZX issuers, which shows mixed results. However, these are for New

Zealand incorporated companies with a dual listing which is different to MHI Australia, which will be an Australian entity (with a physical presence in Australia). Some NZX listed companies that dual list have had very low trading volumes on the ASX. Others that have dual listed have been much more successful in generating significant interest in Australia and this will likely be driven by MHI Australia's ability to expand its shareholder base as opposed to the listing on the ASX in, and of, itself.

The Hill HoldCo Transaction and the Scheme may help improve liquidity in MHI Australia's shares in the medium to long term because:

- Possible inclusion on ASX indices would bring more attention from fund managers and brokers/research analysts. We understand that while MHI Australia will no longer be included in the S&P/NZX All Index, it will remain eligible for key NZX indices (S&P/NZX 20 Index, S&P/NZX 50 Index, S&P/NZX 50 Portfolio Index) as a dual listed issuer. However, we note that the number of securities used to determine index eligibility will be derived by taking the total number of shares quoted and multiplying it by the proportion of MHI Australia's revenue that is generated in New Zealand. After initial index inclusion, the weighting basis of revenue generated in New Zealand will be adjusted each year after the release of MHI Australia's latest annual results.
- The funds available for investment are significantly larger on the ASX compared to the NZX Main Board due to the comparatively larger size of the Australian economy and the maturity of its superannuation industry. Over time, the level of Australian interest from both Australian institutional and retail investors may increase, particularly if MHI Australia can present a compelling investor relations programme. This in turn would likely drive greater liquidity. However, as shown in Appendix 3, the trading volumes for dual listed issuers on the ASX has been very mixed, and any increase in trading volumes is not certain.
- Increased coverage by Australian research analysts would increase liquidity (whilst we understand Macquarie in Australia currently cover Michael Hill, there may be more scope to gain additional research coverage).

Any positive impacts on liquidity from listing on the ASX need to be considered against the back drop of MHI Australia continuing to be a closely held company, with 52.89% of its shares held by Hill HoldCo Shareholders and over 67% by its top four shareholders. If Hill HoldCo or one of the larger institutional shareholders of MHI Australia were to decrease their shareholdings with a corresponding increase in the participation of retail and/or institutional shareholders, then liquidity is likely to improve. Australia's more flexible takeovers regime for "creep" acquisitions removes one potential disincentive to the major shareholder and its associates diluting their shareholding below 50%, should they wish to do so. However, in this instance the Hill HoldCo has given no indication of any intention to do so.

5 Merits of the Hill HoldCo Transaction and the Scheme

The Takeovers Code and the Takeovers Panel's preconditions to providing a no-objection statement requires the independent adviser to form an opinion as to the merits of the Hill HoldCo Transaction and the Scheme.

In particular, a report from an independent adviser is required on the merits of:

- (a) any proposed acquisition under Rule 7(c) (i.e. the Hill HoldCo Transaction) having regard to the interests of those persons who may vote to approve the acquisition; and
- (b) on the merits of a scheme of arrangement (i.e. the Scheme) for each class of shareholders, and for each Interest Class of those shareholders, who will be asked to vote on the scheme.

The Takeovers Panel has agreed to KordaMentha providing a combined report which covers the above matters. We discuss issues specific to the Hill HoldCo Transaction and the Scheme below.

The term 'merits' has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term 'merits', KordaMentha suggests that merits include both positives and negatives in respect of the Hill HoldCo Transaction and the Scheme.

5.1 Advantages of the Hill HoldCo Transaction and the Scheme

The Michael Hill Board has set out the following reasons for re-domiciling to Australia:

- Australia dominates Michael Hill's financial performance now, and will do so in the foreseeable future as Michael Hill continues its store expansion and the roll out of Emma & Roe stores.
- Since the 1990's the Michael Hill senior management team and all the administrative support functions have been located in Brisbane. The Company has no executive management function or corporate office in New Zealand.
- Michael Hill's operating activities are largely based in Australia, including:
 - Supply chain, logistics and manufacturing operations are based in Brisbane.
 - Banking and insurance relationships are all managed from Brisbane with Australian based banks, insurers and brokers.
 - Intellectual property is located in, and managed from, Brisbane.
- Michael Hill reports in Australian currency as required by financial reporting standards which implicitly recognises the fundamental importance to the Company of its Australian operations.
- If Michael Hill needs access to capital for its growth strategy, then the Australian market will provide additional depth.

Each issue identified above is not necessarily a strong reason for changing the domicile of the Company. However, taken together these issues do create some administrative complexity which could distract management attention away from more productive areas of the business.

It is not possible to quantify the benefits of re-domiciling Michael Hill. Most of the direct benefits are intangible and difficult to measure in monetary terms.

A recent study by Cetorelli and Peristiani of the Federal Reserve Bank of New York² suggests that firm value may be enhanced by listing on a larger stock exchange due to:

² Firm Value and Cross Listings: The Impact of Stock Market Prestige, Nicola Cetorelli and Stavros Peristiani, Federal Reserve Bank of New York (March 2015)

- Enhanced firm visibility in main operational market.
- Strengthened corporate governance.
- Improved capacity for large shareholders to transfer ownership.

This study included 30 New Zealand companies that were cross listed on the ASX. The study concluded that firms listing in a larger more prestigious market³ may enjoy valuation gains over the five year period following the listing. We note that there are other studies that show the cross listings do not necessarily by themselves increase value, and as such have placed limited reliance on the empirical estimation. However, we have discussed the applicability of the benefits identified by this study under the subheadings set out below for Michael Hill. In addition, we have outlined the potential tax benefits that may arise from this transaction.

5.1.1 Tax benefits

We understand that, although it is not a driver for the Hill HoldCo Transaction and the Scheme, there is a potential one-off tax benefit to Michael Hill, from the Hill HoldCo Transaction and the Scheme. The Scheme Booklet provides a range for this potential one-off benefit of \$10 million to \$22 million.

The New Zealand and Australian income tax implications will differ depending on each shareholder's personal circumstances and it is strongly recommended that shareholders read section 13 of the Scheme Booklet in its entirety, and seek separate specialist taxation advice if in any doubt as to the impact of the Scheme having regard to the personal circumstances of the individual shareholder.

5.1.2 Enhanced firm visibility in main operational market

At present, Michael Hill is a New Zealand domiciled company with the majority of its operations based in Australia.

Excluding Michael Hill Shares held by Hill HoldCo, only 5.7%⁴ of Michael Hill Shares are held by shareholders registered in Australia. This shows that Michael Hill currently has a relatively small proportion of retail Australian investors, despite having the majority of its operations in Australia. This is not surprising given its listing on the NZX Main Board and the history and profile of the Michael Hill brand in New Zealand.

By being listed in Australia it is possible that brand recognition in Australia may increase due to:

- A higher percentage of Australian retail investors becoming MHI Australia shareholders over time.
- Mainstream media coverage of ASX listed company profit announcements for MHI Australia.
- Perception that Michael Hill is becoming an Australian brand as highlighted by recent coverage of the MHI Australia dual listing in the Herald Sun⁵.

However, whilst possible that listing in Australia would drive enhanced visibility in the Australian market, it would be presumptive to assume that this would necessarily be the case.

5.1.3 Strengthened Corporate Governance

As an Australian registered company MHI Australia will have all of its governance, executive and business operations operating in one jurisdiction. This may simplify its structure. However, the corporate governance requirements in Australia are not sufficiently different from those in New Zealand to be assured that corporate governance will be strengthened by re-domiciling to Australia.

In order to pursue its international expansion strategy MHI Australia will need to attract senior management and Board members with international experience (and in particular experience in the Australian market). It is

³ The study gives the ASX a higher prestige rating compared to the NZX

⁴ The shareholdings are detailed in Table 2.1 of section 2 in this report

⁵ Herald Sun, 14 April 2016: Michael Hill sees sparkling future

likely that prospective Board members will be more familiar with the Australian commercial and regulatory environment (compared to New Zealand) and thus be more willing to act for Australian domiciled companies. This is likely to be a benefit of re-domiciling to Australia.

5.1.4 Improved capacity for large shareholders to transfer ownership

We understand that neither the transfer of ownership by Hill HoldCo, nor the raising of additional capital, are priorities for the MHI Australia Board. However, it is likely to be easier to transfer ownership of large blocks of MHI Australia shares to Australian investors and market participants given the significantly larger size of the Australian capital markets, as highlighted by:

- Cash market trading⁶ value for March 2016 on the NZX was NZ\$4.4 billion⁷ (or ~\$A4 billion) whilst on the ASX total value traded was A\$105 billion⁸.
- Cash market trading volume for March 2016 on the NZX was 167,010 trades whilst the comparable ASX volume was 21 million trades.
- The market value of securities on the ASX is approximately A\$1.5 trillion (as at 14 April 2016) compared to the NZX's A\$106 billion (as at 14 April 2016).

Whilst Australian investors and market participants are not precluded from entering into financial or commercial arrangements with New Zealand participants, it is reasonable to expect that there may be an increased level of comfort to these parties in dealing with a locally based company. This may stem from a greater familiarity with local laws and the commercial rights and protection afforded to each party.

Furthermore, we understand that of the \$377 billion funds under management in Australia, only \$66 billion is currently available for investment in listed New Zealand securities that are not ASX listed⁹. This is because many of the fund managers are constrained by investment mandates and trust deeds limiting them to investments in Australian-listed entities.

5.2 Disadvantages of the Hill HoldCo Transaction and the Scheme

5.2.1 Ineligible Shareholders

MHI Australia Shares will only be issued to Michael Hill shareholders if MHI Australia is satisfied that the laws of a Shareholder's registered address (as shown in the Company share register) permit the issue and allotment of the MHI Australia Shares to the shareholder, either unconditionally or after compliance with conditions which MHI Australia in its sole discretion regards as acceptable and not unduly onerous. Michael Hill shareholders who do not satisfy the above requirements will be considered to be 'Ineligible Shareholders'.

MHI Australia is satisfied that MHI Australia Shares can be issued in New Zealand and Australia under relevant exemptions from the securities laws of those jurisdictions

MHI Australia has determined that it would be unduly onerous and costly to investigate and comply with the securities laws restrictions in every other country in which Michael Hill shareholders are registered prior to the Special Meeting. However, if the shareholders approve the Hill HoldCo Transaction and the Scheme, MHI Australia will seek advice after the Special Meeting and before Implementation in respect of any Michael Hill shareholder with more than 100,000 shares, and in any jurisdiction with more than 100,000 shares in aggregate.

Based on the Michael Hill share register as at 31 May 2016, it is expected that advice would be sought in five jurisdictions regarding the allotment of MHI Australia Shares, which are the Philippines, Canada,

⁶ Cash market trading includes equity, warrant, and interest rate market transactions

⁷ NZX Monthly Shareholder Metrics for March 2016

⁸ ASX Monthly Activities Report for March 2016

⁹ A recent study by Orient Capital (commissioned by the ASX)

<http://www.nbr.co.nz/article/more-kiwi-firms-may-be-lured-asx-deeper-investment-pool-costs-fall-b-180132>

Netherlands, United Kingdom and Singapore. As at 31 May 2016, 1.14% of Michael Hill Shares are held by shareholders registered outside Australia and New Zealand who hold in aggregate 4,360,724 shares.

Ineligible Shareholders will effectively sell their shares at the prevailing market price with no transaction costs. If those shareholders wanted to continue to invest in Michael Hill they could presumably then buy MHI Australia Shares on market. They would, of course, need to consider their individual tax circumstances and the consequences of doing so.

For Ineligible Shareholders the disadvantages of the Scheme may outweigh the advantages. However, we note:

- Ineligible Shareholders may be able to repurchase shares in MHI Australia.
- It is reasonably standard (due to tax and regulatory requirements) for Australia and New Zealand listed companies to restrict transactions to shareholders resident in Australia and New Zealand.

5.2.2 Increased ongoing costs from Hill HoldCo Transaction and the Scheme

Michael Hill management estimate that re-domiciling to Australia will result in increased ongoing costs of approximately \$152,000 per annum (additional listing costs, disclosure requirements and shareholder meetings).

In addition, if Resolutions 1 and 2 are approved there will also be an estimated \$250,000 of additional one-off costs to implement the Hill HoldCo Transaction and the Scheme.

These costs are relatively small given the scale of Michael Hill's business.

5.3 Other impacts from the Hill HoldCo Transaction and the Scheme

5.3.1 Impact on liquidity is largely unclear

Overall, the Hill HoldCo Transaction and the Scheme's impact on Michael Hill share trading liquidity is largely uncertain.

In the short term there will possibly be some disadvantages to being dual listed for some shareholders, including:

- Trading volumes being split across the NZX Main Board and ASX. However, offsetting this most brokers in New Zealand can trade shares across both the NZX Main Board and ASX.
- Gaining additional Australian investors, institutional investor coverage and research analyst coverage may take time, particularly given that the free float and trading volume of Michael Hill shares are relatively low compared to other ASX listed companies.

The Hill HoldCo Transaction and the Scheme may help improve liquidity in Michael Hill's shares in the medium to long term because:

- Of possible inclusion on ASX indices.
- The funds available for investment are significantly higher on the ASX compared to the NZX Main Board, which could result in a wider shareholder base.
- Increased coverage by Australian research analysts would increase liquidity.

Any positive impacts on liquidity from listing on the ASX need to be considered against the back drop of MHI Australia continuing to be a closely held company, with 52.89% of its shares held by Hill HoldCo Shareholders and over 67% by its top four shareholders. If Hill HoldCo or one of the larger institutional shareholder of Michael Hill were to decrease their shareholdings with a corresponding increase in the participation of retail and/or institutional shareholders, then liquidity is likely to improve. Australia's more flexible takeovers regime for "creep" acquisitions removes one potential disincentive to the major

shareholder and its associates diluting their shareholding below 50%, should they wish to do so. However, in this instance Hill HoldCo has given no indication of any intention to do so.

5.3.2 Volatility in share price

As a result of the Hill HoldCo Transaction and the Scheme, the Company will become a foreign entity for New Zealand investors. Certain New Zealand fund managers and other investors may as a result of internal investment criteria be required to dispose of their Michael Hill shares. These disposals, coupled with those required to be made by nominees on behalf of ineligible shareholders, may lead to a period of volatility in Michael Hill's share price immediately following completion of the Hill HoldCo Transaction and the Scheme as investors seek to rebalance their portfolio.

5.3.3 Tax implications of the Hill HoldCo Transaction and the Scheme will differ depending upon each shareholder's personal circumstances

Our understanding, from Michael Hill and its tax advisors is that, based on current tax law and understanding of the Hill HoldCo Transaction and the Scheme, no material adverse New Zealand or Australian income tax implications are expected to arise for the eligible shareholders (who hold Michael Hill shares as capital assets), MHI Australia or the Company as a consequence of the Hill HoldCo Transaction and the Scheme.

We note that this relies on Michael Hill's tax advisers' view that conditions for scrip for scrip roll-over relief should be satisfied for Australian tax resident shareholders. As at the date of this report, this issue represents a potential risk for Australian tax resident shareholders of Michael Hill and any shareholder who considers they may be affected should take their own tax advice in light of their circumstances. Our report relies on Michael Hill's tax advice that the conditions for scrip for scrip roll-over relief should be satisfied.

Section 14 of the Scheme Booklet sets out the New Zealand and Australian income tax implications for MHI Australia and the Company

5.3.4 Satisfaction of conditions precedent

Shareholder approval is required in order to facilitate the Hill HoldCo Transaction and the Scheme, however, it should be noted that this approval does not guarantee completion of the Hill HoldCo Transaction and the Scheme. The conditions precedent under both the Hill HoldCo Agreement and Scheme Implementation Agreement, as detailed in section 15 of the Scheme Booklet, must also be satisfied in order for the Scheme to proceed.

Regardless of whether the voting thresholds are achieved for the Scheme, the Scheme is still subject to approval by the Court.

We note that at the date of this report, we have been advised that there is no reason to expect that this will not occur within the timeframes contemplated.

5.4 Summary of the merits of the Hill HoldCo Transaction and the Scheme

Voting for or against Resolutions 1 and 2 is a matter for individual shareholders based on their own views as to the merits and their own particular circumstances (including tax). However, from the Company's perspective, in our opinion, the potential advantages of the Hill HoldCo Transaction and the Scheme outweigh the potential disadvantages (we comment below on issues specific to each shareholder group entitled to vote on the resolutions).

Eligible Michael Hill shareholders (other than Hill HoldCo) will ultimately end up exchanging their shares in Michael Hill for shares in MHI Australia. Those shares will still represent the same proportional interest in the assets of Michael Hill that they currently hold and those shares will be able to be traded on the ASX. Furthermore, MHI Australia will also be listed on the NZX Main Board as a dual listed issuer.

Eligible Michael Hill shareholders will materially be in the same position, in relation to value, immediately following completion of the Hill HoldCo Transaction and the Scheme as compared to their position if it is not completed. However, we note the following implications:

- The resetting of the tax base for certain assets of MHI Australia is expected to result in a one-off benefit of \$10 million to \$22 million.
- The majority of costs in relation to the Hill HoldCo Transaction and the Scheme will have been incurred by the date of the Special Meeting. However ongoing additional costs of approximately \$152,000 are expected to arise from the Hill HoldCo Transaction and the Scheme. In addition, there would be additional one-off costs of \$250,000 to implement the Hill HoldCo Transaction and the Scheme.
- The re-domiciling of Michael Hill to Australia is expected to result in a better alignment of its governance, executive and business operations which will all operate in one jurisdiction following the Hill HoldCo Transaction and the Scheme. Benefits include:
 - MHI Australia will be able to hold all of its Board meetings in Australia.
 - Earnings and dividends are declared in the same currency.
 - Enhanced ability to attract Board members with relevant international expertise.
- The impact on Michael Hill's immediate share liquidity is unclear, with other dual listed issuers having a wide range of outcomes. An ASX listing is not necessarily, in itself, a means of increasing share liquidity. However, MHI Australia's liquidity may improve over time due to:
 - The transfer of ownership of large blocks of MHI Australia Shares to Australian investors and market participants will be easier given the significantly larger size of Australian capital markets.
 - Australia's more flexible takeovers regime for "creep" acquisitions removes one potential disincentive to the major shareholder diluting their shareholding below 50%, should they wish to do so. However, in this instance Hill HoldCo has given no indication of any intention to do so.

5.5 Merits for Shareholders voting on Hill HoldCo Transaction

As Independent Adviser, we are to consider the merits of the proposed acquisition under Rule 7(c) of the Takeovers Code (i.e. the Hill HoldCo Transaction). We need to have regard to the interests of those persons who may vote to approve the acquisition. The shareholders eligible to vote on the Hill HoldCo Transaction (Resolution 1) are the Michael Hill shareholders other than Hill HoldCo Shareholders and their associates. For these shareholders we consider the advantages and disadvantages set out in sections 5.1 to 5.3 are relevant but in addition, for these shareholders, we note:

The Hill HoldCo Transaction allows MHI Australia to acquire more than 20% of Michael Hill without making a takeover offer under the Takeovers Code. In isolation, this would typically be disadvantageous to non-Hill HoldCo associated shareholders because a new shareholder (MHI Australia) is able to acquire a holding of 52.89% without making a full takeover offer to all shareholders. A full takeover offer would typically be more advantageous for shareholders because it would give them optionality to sell at a price which often includes a premium for control.

We note that if the Hill HoldCo Transaction is approved but the Scheme is not the Hill HoldCo Transaction will nevertheless proceed. Following the implementation of the Hill HoldCo Transaction, Michael Hill will effectively be exchanging one 52.89% Australian registered shareholder (Hill HoldCo) for another (MHI Australia).

5.6 Merits for Shareholders voting on the Scheme

As Independent Adviser, we are to consider the merits of the Scheme for each Interest Class of shareholders. We need to have regard to the interests of those persons who may vote to approve the acquisition by Interest Class.

All Michael Hill shareholders are entitled to vote on Resolution 2 to support the Scheme. The advantages and disadvantages for these shareholders are the same as discussed above for the Hill HoldCo Transaction and the Scheme. Regardless of whether the voting thresholds are achieved for the Scheme, the Scheme is still subject to approval by the Court.

The Company has determined that there will be two Interest Classes of Shareholders for the purposes of voting on the Scheme, as follows:

- Hill HoldCo
- All other shareholders (including Hill family shareholders other than Hill HoldCo) wherever they are situated or whatever the address appearing in the share register.

For the two Interest Classes set out above we consider the advantages and disadvantages set out in sections 5.1 to 5.3 are relevant but in addition, for these shareholders, we make some additional observations below.

5.6.1 Merits for Hill HoldCo

Other advantages and disadvantages of the Scheme for Hill HoldCo include:

- The Hill HoldCo Transaction and the Scheme has been divided into two transactions and structured in that manner to ensure that Hill HoldCo and its shareholders are not adversely affected by the Hill HoldCo Transaction and the Scheme.
- MHI Australia will be subject to more flexible takeover provisions in Australia and as a result Hill HoldCo Shareholders would be less restricted to maintaining a shareholding above 50% in MHI Australia.

5.6.2 Merits for all other shareholders

Other advantages and disadvantages of the Scheme for all other shareholders include:

- MHI Australia will be subject to more flexible takeover provisions
- the tax implications will differ depending on each shareholder's personal circumstances and it is strongly recommended that shareholders read section 13 of the Scheme Booklet in its entirety and seek separate specialist taxation advice if in any doubt as to the impact of the Scheme having regard to the personal circumstances of the individual shareholder.

For Ineligible Shareholders (within this Interest Class) the disadvantages of the Scheme may outweigh the advantages. However, we note:

- Ineligible Shareholders may be able to repurchase shares in MHI Australia.
- It is a reasonably standard approach (due to tax and regulatory requirements) for Australia and New Zealand listed companies to restrict transactions to shareholders resident in Australia and New Zealand.

5.7 Potential outcomes of voting

The Hill HoldCo Transaction (Resolution 1) requires a simple majority of voting Michael Hill shareholders other than the Hill HoldCo Shareholders and their associates.

The outcome of Resolution 1 will likely be determined by the level of support received from key institutional shareholders. We have not discussed their intentions with any of these parties.

The Scheme requires a simple majority of all Michael Hill shareholders (whether they vote or not) and a 75% majority of those eligible to vote, and who vote, in each of the relevant Interest Classes.

Given Hill HoldCo will support Resolution 2 then a simple majority of all Michael Hill shareholders will be achieved.

Within each of the Interest Classes we note:

- Hill HoldCo: Hill HoldCo Shareholders will support the Scheme and therefore a 75% majority will be achieved.
- Other Shareholders: A 75% majority will need to be achieved. The outcome of Resolution 2 will likely be determined by the level of support received from key institutional shareholders.

5.8 Implications if the Hill HoldCo Transaction and the Scheme are not implemented

Should the Hill HoldCo Transaction and the Scheme not be implemented, Michael Hill shareholders will continue to hold shares in the Company. There will be no material change in the operations of Michael Hill, the plans for the roll out of new stores internationally will continue and the head office will remain in Brisbane, Australia. It should be noted, however, that none of the advantages and disadvantages of the Hill HoldCo Transaction and the Scheme, as discussed above, will be realised, and a significant amount of the costs related to the Hill HoldCo Transaction and the Scheme will still have been incurred.

Appendix 1: Sources of information

Documents relied upon

Documents relied upon include, but are not limited to, the following:

- ASX Monthly Activities Report for March 2016
- Capital IQ website: www.capitaliq.com
- Comparison of New Zealand and Australian Company Rules (Kensington Swan / Hopgood Ganim)
- Firm Value and Cross Listings: The Impact of Stock Market Prestige, Nicola Cetorelli and Stavros Peristiani, Federal Reserve Bank of New York (March 2015)
- MHI's Annual Reports for 2003 to 2015
- MHI's shareholder notices
- MHI's share register
- MHI's market announcements
- MHI website: www.mhi.com
- NZX website: www.nzx.com
- NZX Shareholder Metrics – March 2016
- Reserve Bank of New Zealand website: www.rbnz.govt.nz
- Scheme Booklet (including Notice of Meeting) dated 8 June 2016
- Other publically available information.

We have also had discussion with some of Michael Hill's management executives and its advisors.

Reliance upon information

In forming our opinion we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Michael Hill and its advisors. We have no reason to believe any material facts have been withheld.

We have evaluated that information through analysis, enquiry and examination for the purposes of forming our opinion but we have not verified the accuracy or completeness of any such information. We have not carried out any form of due diligence or audited the accounting or other records of Michael Hill. We do not warrant that our enquiries would reveal any matter that an audit, due diligence review or extensive examination might disclose.

Appendix 2: Qualifications and declarations

Qualifications

KordaMentha is an independent New Zealand Chartered Accounting practice, internationally affiliated with the KordaMentha group. The firm has established its name nationally through its provision of professional financial consultancy services with a corporate advisory and insolvency emphasis, and because it has no business advisory, audit or tax divisions, avoids any potential conflicts of interest which may otherwise arise. This places the firm in a position to act as an independent adviser and prepare independent reports.

The persons responsible for preparing and issuing this report are Grant Graham (BCom, CA); Shane Bongard (BCom (Hons)) and Suresh Yahanpath (MAppFin, BCom, BSc). All three have significant experience in providing corporate finance advice on mergers, acquisitions and divestments, advising on the value of shares and undertaking financial investigations.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of KordaMentha's opinion as to merits of the Hill HoldCo Transaction and the Scheme. KordaMentha expressly disclaims any liability to any Michael Hill equity security holder that relies or purports to rely on the Report for any other purpose and to any other party who relies or purports to rely on the Report for any purpose.

This report has been prepared by KordaMentha with care and diligence and the statements and opinions given by KordaMentha in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by KordaMentha or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of this report, provided that this shall not absolve KordaMentha from liability arising from an opinion expressed recklessly or in bad faith.

Indemnity

Michael Hill has agreed that, to the extent permitted by law, it will indemnify KordaMentha and its partners, employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity does not apply in respect of any negligence, misconduct or breach of law. Michael Hill has also agreed to indemnify KordaMentha and its partners, employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person except where KordaMentha or its partners, employees and officers are guilty of negligence, misconduct or breach of law in which case KordaMentha shall reimburse such costs.

Independence

KordaMentha does not have at the date of this report, and has not had, any shareholding in, or other relationship, or conflict of interest with Michael Hill that could affect its ability to provide an unbiased opinion in relation to this transaction. KordaMentha will receive a fee for the preparation of this report. This fee is not contingent on the success or implementation of the Hill HoldCo Transaction and the Scheme or any transaction complementary to it. KordaMentha has no direct or indirect pecuniary interest or other interest in this transaction. We note for completeness that a draft of this report was provided to Michael Hill and its legal advisers, solely for the purpose of verifying the factual matters contained in the Report. While minor changes were made to the drafting, no material alteration to any part of the substance of this report, including the methodology or conclusions, were made as a result of issuing the draft.

Consent

KordaMentha consents to the issuing of this report, in the form and context in which it is included, in the information to be sent to Michael Hill shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without the prior written consent of KordaMentha as to the form and context in which it appears



Appendix 3: Trading Volumes for dual listed issuers¹

Table A3.1 below shows the average daily trading volumes over the three months ended 31 May 2016 for NZX listed companies that have a dual listing on the ASX². The selection of companies are based on the list included on ASX website of New Zealand registered companies with an ASX listing. We have excluded companies that have been delisted or suspended from either exchange.

Table A3.1: Trading Volumes of NZX listed companies that are dual listed

Company	Average Daily Trading Volume (ASX)	Average Daily Trading Volume (NZX)	% traded on ASX	% traded on NZX
A2 Milk Company Limited	4,881,330	3,078,930	61.3%	38.7%
AFT Pharmaceuticals Limited	8,710	15,930	35.3%	64.7%
Auckland International Airport	99,490	1,779,130	5.3%	94.7%
Air New Zealand Limited	71,020	2,410,230	2.9%	97.1%
CBL Corporation Limited	158,410	227,430	41.1%	58.9%
Chorus Limited	196,850	797,700	19.8%	80.2%
Contact Energy	116,520	2,051,030	5.4%	94.6%
EBOS Group Limited	13,850	85,590	13.9%	86.1%
Evolve Education Group Limited	71,050	117,360	37.7%	62.3%
Fletcher Building Limited	867,760	1,968,200	30.6%	69.4%
Fisher & Paykel Healthcare Corporation Limited	404,220	1,167,850	25.7%	74.3%
Fonterra Shareholders Fund	46,880	294,060	13.8%	86.2%
Genesis Energy Limited	82,260	816,710	9.2%	90.8%
Gentrack Group	93,650	119,590	43.9%	56.1%
Infratil Limited	4,750	875,380	0.5%	99.5%
Intueri Education Group	55,190	100,860	35.4%	64.6%
Kathmandu Holdings Limited	312,470	430,770	42.0%	58.0%
Meridian Energy Limited	23,270	3,003,610	0.8%	99.2%
Metlifecare Limited	-	347,100	0.0%	100.0%
Metro Performance Glass	9,120	298,500	3.0%	97.0%
Mighty River Power Limited	11,940	1,658,110	0.7%	99.3%
Nuplex Industries Limited	68,860	1,086,560	6.0%	94.0%
New Talisman Gold Mines Limited	1,342,140	1,574,310	46.0%	54.0%
New Zealand Oil & Gas Limited	50,530	253,240	16.6%	83.4%
Orion Health Group Limited	10,200	106,470	8.7%	91.3%
Sky City Entertainment Group Limited	910,450	2,117,200	30.1%	69.9%
Smartpay Holdings Limited	254,030	63,470	80.0%	20.0%
Summerset Group Holdings Limited	16,460	335,670	4.7%	95.3%
Sky Network Television Limited	499,700	2,376,190	17.4%	82.6%
Spark New Zealand Limited	1,133,540	4,709,490	19.4%	80.6%
Trade Me Group Limited	994,060	974,490	50.5%	49.5%
Tower Limited	47,500	350,650	11.9%	88.1%
Vista Group International	10,360	482,050	2.1%	97.9%
Xero Limited	62,880	134,210	31.9%	68.1%
Z Energy	103,320	707,250	12.7%	87.3%
Average			22%	78%
Minimum			0%	20%
Lower Quartile			5%	65%
Median			17%	83%
Upper Quartile			35%	95%
Maximum			80%	100%

Source: Capital IQ

¹ New Zealand Incorporated

² This includes ASX Listings and ASX Foreign Exempt listings. Under the ASX Foreign Exempt listed companies are required to comply with the rules of the NZX Main Board, and only a small number of ASX's rules