



17 August 2016

Michael Hill International Limited announces settlement of dispute with New Zealand Inland Revenue

The directors of Michael Hill International Limited (ASX:MHJ) announce that a settlement has been reached with the New Zealand Commissioner of Inland Revenue (the Commissioner) which brings to an end a dispute which has its origins in the transfer of the Group's intellectual property to Australia in late 2008.

As a result of the settlement, the Company advises that:

- an additional tax liability of NZ \$30.3m (AU\$28.5m) and a corresponding tax expense for the period to 30 June 2015 will be recognised;
- the Group's proceedings against the Commissioner, in which it challenged certain of the Commissioner's tax assessments for the income tax years noted above will be discontinued; and
- the settlement will resolve all matters arising between the parties in relation to the proceedings.

The settlement does not involve the payment of any penalties.

Tax pooling deposits, which the Company has entered into over a number of years, will fund a portion of the agreed settlement with the Commissioner, including UOMI (Use of money interest) and NZ \$7.7m of core tax. The residual amount of NZ \$22.6m will be funded from the Group's existing financing facilities, without any impact on the Company's ongoing operations, and will not impact the Group's planned store roll out program.

Implementation of the settlement will generate imputation credits enabling dividends to be fully imputed for the benefit of New Zealand shareholders for some years to come (assuming current levels of financial performance and dividend distribution are maintained), including the final dividend expected to be paid in October 2016.

In settling this dispute the Board has been conscious of the increasing difficulties for our shareholders in trying to understand and quantify the potential price impact of the contingency should an adverse outcome result (reflecting the uncertainty and risk involved in any formal litigation).

Accordingly whilst the Board remains comfortable that the Group's tax treatment of the transaction fully complied with all relevant tax laws at that time, the Board is now of the opinion that removing the continued uncertainty and the significant cost associated with the dispute, is in the overall best interests of shareholders and that the settlement reached is accordingly a sensible commercial outcome. The results for the year to 30 June 2016 will be released on 19 August.

For further information:

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About Michael Hill International

Michael Hill International was founded by Sir Michael Hill in 1979 when he opened his first jewellery store in Whangarei, New Zealand. The Group currently has 293 Michael Hill branded stores in New Zealand, Australia, Canada and the US and 11 Emma & Roe branded stores in New Zealand and Australia. The Group's global headquarters including its wholesale and manufacturing divisions is located in Brisbane, Australia. The Company is listed on both the ASX (ASX:MHJ) and NZX (NZX:MHJ).

For more information:

www.investor.michaelhill.com

www.michaelhill.co.nz

www.emmaandroe.com.au