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.

Contents

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.

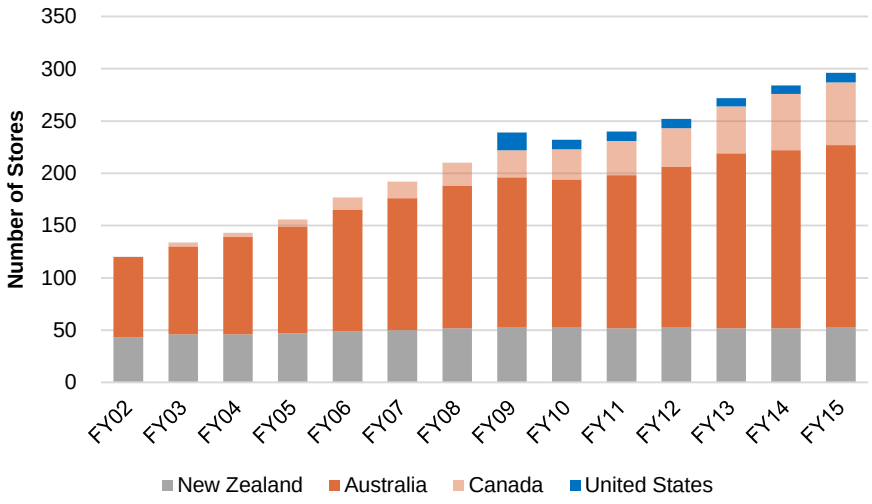
2.2 International expansion

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

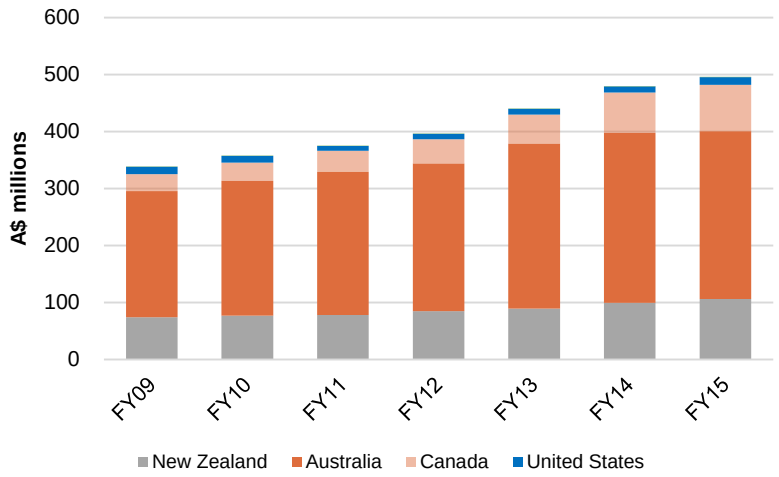
In its FY15 Annual Report, Michael Hill outlined plans to roll out an additional 10 stores in Canada during FY16. The majority of Michael Hill's future growth will likely be focused outside New Zealand because:

- 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.

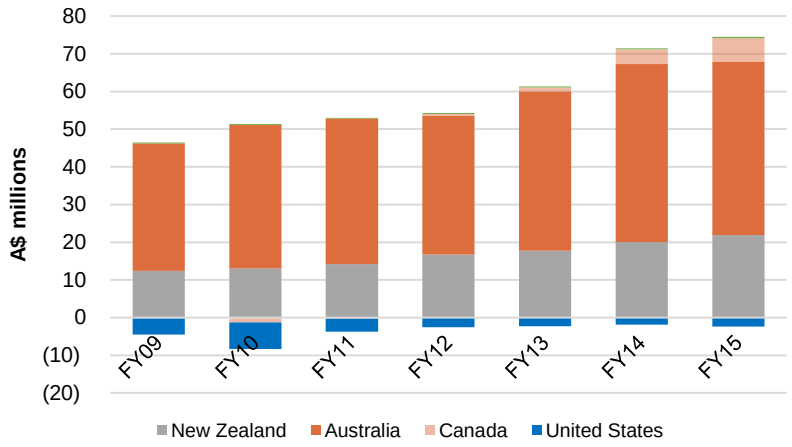
Figure 2.2: Michael Hill revenue, 2009 to 2015



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%
Other	*77,916,737*	*20.34%*
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

	Share price (NZ$)						
Period	Low	High	VWAP	Cumulative Volume	Percentage of Issued Capital	Percentage of Free Float	Average Daily Turnover (NZ$)
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.

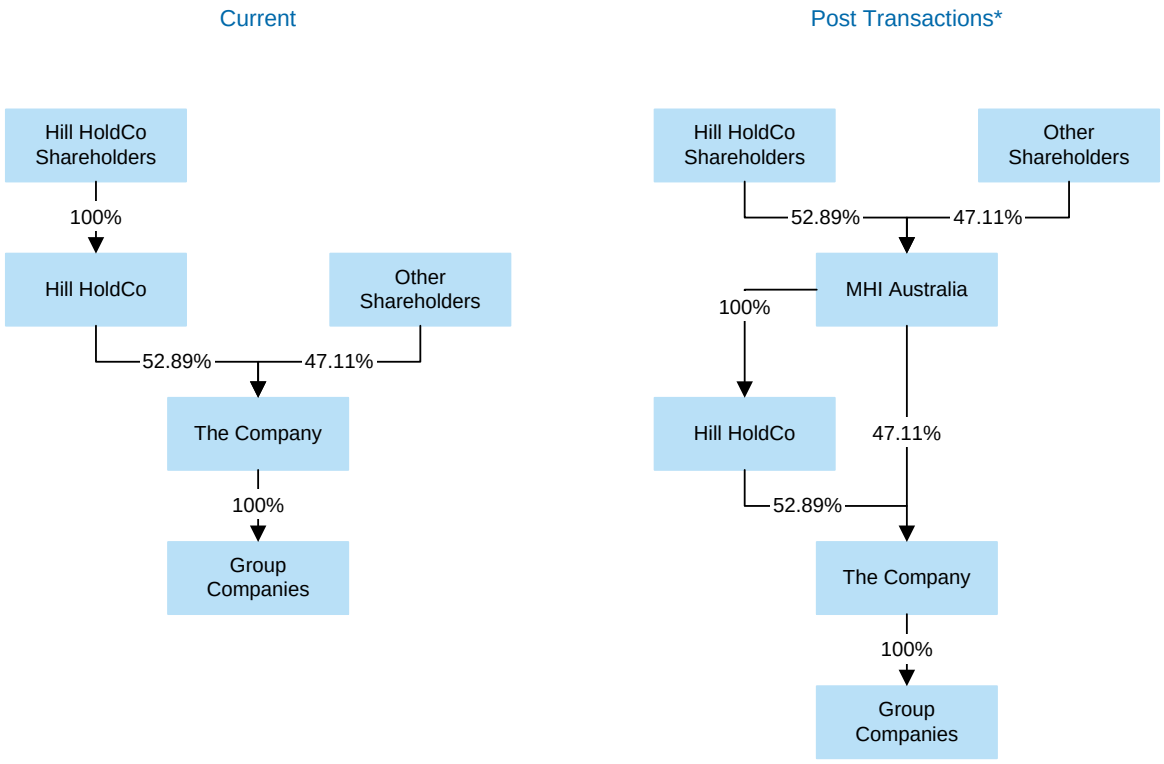
- Neither the Hill HoldCo Agreement nor the Scheme Implementation Agreement is terminated prior to the relevant date.

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 Council[1] 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 be 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 Peristani of the Federal Reserve Bank of New York[2] 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 market[3] 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 Sun[5].

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 trading[6] value for March 2016 on the NZX was NZ$4.4 billion[7] (or ~$A4 billion) whilst on the ASX total value traded was A$105 billion[8].
- 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 listed[9]. 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 advisers. 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 issuers[1]

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 ASX[2]. 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