

michael hill

INTERNATIONAL LIMITED

Michael Hill International Limited Notice of Annual Meeting

Notice is hereby given that the annual meeting of shareholders of Michael Hill International Limited will be held at the Ellerslie Events Centre, Guineas Room 3, 80-100 Ascot Avenue, Greenlane, Auckland on Thursday, 8 November 2007 at 10.30 am.

Business

The business of the meeting will be:

1. Financial statements and reports

To receive and consider the annual report including the financial statements and the auditor's report for the year ended 30 June 2007.

2. Re-election of Richard Michael Hill and Gary John Gwynne as directors

To consider, and if thought fit, to re-elect Richard Michael Hill and Gary John Gwynne as directors of the company by passing the following ordinary resolutions:

- a. "That Richard Michael Hill be re-elected as a director of the company."
- b. "That Gary John Gwynne be re-elected as a director of the company."

See explanatory notes.

3. Election of Emma Jane Hill as a director

To consider, and if thought fit, to elect Emma Jane Hill as a director of the company by passing the following ordinary resolution:

"That Emma Jane Hill be elected as a director of the company."

See explanatory notes.

4. Auditors

To record that the company's auditors PriceWaterhouseCoopers are automatically reappointed as auditors pursuant to section 200 of the Companies Act 1993 and to consider, and if thought fit, to pass the following ordinary resolution:

"That the directors be authorised to fix the remuneration of the auditors for the ensuing year."

5. Exercise of Options by Emma Jane Hill

To consider, and if thought fit, pass the following ordinary resolution:

"That shareholders approve for the purposes of Takeovers Code Rule 7(d) the allotment of up to 100,000 ordinary shares (or in the event that the allotment takes place after the company's share split 1,000,000 ordinary shares) to Emma Jane Hill, being a director, on the exercise of options to subscribe for ordinary shares in the company pursuant to the Option Agreement signed between Emma Jane Hill and the company on 22 August 2002 and approved by shareholders at the annual meeting held on 28 November 2002."

Neither Emma Jane Hill nor any other Hill Family interests will vote on this resolution.

See explanatory notes.

6. Issue of Options to Michael Robin Parsell

To consider, and if thought fit, to pass the following ordinary resolution:

"That shareholders approve for the purposes of clause 3.1 of the company's constitution and Listing Rule 7.3.6 the issue of 200,000 options to subscribe for ordinary shares in the company to Michael Robin Parsell, being chief executive officer and a director, pursuant to the Option Agreement signed between Michael Robin Parsell and the company the principal terms of which are set out in the explanatory notes to the company's 2007 notice of annual meeting."

In accordance with Listing Rule 9.3.1, Michael Robin Parsell may not vote on this resolution.

See explanatory notes.

7. Non-Executive Directors' Remuneration

To consider, and if thought fit, to pass the following ordinary resolution setting the maximum level of non-executive directors' annual remuneration, which will apply until altered by a further ordinary resolution of shareholders:

"That the maximum amount of annual directors' fees payable to all non-executive directors in their capacity as directors shall be increased to a maximum amount of \$395,000, until such time as this amount may be altered by a further ordinary resolution of shareholders."

See explanatory notes.

In accordance with Listing Rule 9.3.1, no non-executive director nor any of their Associated Persons may vote on this resolution.

8. Other business

To consider any other ordinary business which may be properly brought before the meeting.

Proxies

All shareholders are entitled to attend and vote at the meeting or to appoint 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 on a discretionary proxy.

Enclosed with this notice of meeting is a proxy form. For the appointment of a proxy to be valid, the form must be deposited at the office of the company's share register, Computershare Investor Services Limited at either Private Bag 92119, Auckland 1020 or at Level 2, 159 Hurstmere Road, Takapuna, North Shore City, Auckland so as to be received no later than 48 hours before the start of the meeting being no later than 10.30 am on Tuesday, 6 November 2007. Postal voting is not permitted.

All of the directors offer themselves as proxy to shareholders and, subject to the restriction that they cannot vote a discretionary proxy if they themselves are disqualified from voting, will vote in favour of all of the resolutions put to the meeting unless otherwise directed.

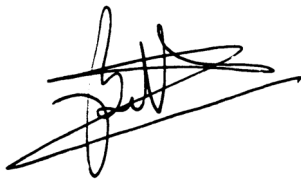
Corporate representatives

A corporation which is a shareholder may appoint a person to attend the meeting on its behalf in the same manner as that in which it could appoint a proxy. The form to appoint a proxy/corporate representative must be signed on behalf of the company by a person acting under the company's express or implied authority.

Requisite majorities and voting

In order for it to be passed, an ordinary resolution requires the affirmative vote of a simple majority of more than 50% of the votes cast by those entitled to vote and who vote in person or by proxy.

By order of the board of directors



W. K. Butler

Company Secretary

24 September 2007

Explanatory Notes

Resolutions 1 and 2 (Business Item 2) – Re-election of Richard Michael Hill and Gary John Gwynne as directors

Richard Michael Hill and Gary John Gwynne are currently directors of the company and retire by rotation in accordance with Listing Rule 3.3.8. Each director, being eligible, offers himself for re-election.

Mr Hill is currently a director of the company and was appointed chairman of the board on its formation in 1987.

Mr Hill is the founder of Michael Hill Jeweller. He is not considered by the board to be an independent director.

Mr Gwynne is currently a director of the company. He was appointed to the board in February 1998. Mr Gwynne has an extensive background in marketing and retailing.

The board considers Mr Gwynne to be an independent director.

Further details in respect of Mr Hill and Mr Gwynne are contained in the company's annual report which can be viewed at www.michaelhill.com.

The other directors support the re-election of Mr Hill and Mr Gwynne as directors.

Resolution 3 (Business Item 3) – Election of Emma Jane Hill as director

Emma Jane Hill was appointed as a director by the board on 22 February 2007. She retires in accordance with Listing Rule 3.3.3.

Ms Hill is the daughter of Michael and Christine Hill. Ms Hill was employed until recently as the company's Retail General Manager, Canada. She is not considered by the board to be an independent director.

Further details in respect of Ms Hill are contained in the company's annual report which can be viewed at www.michaelhill.com.

The other directors support the election of Ms Hill as a director.

Resolution 5 (Business Item 5) – Exercise of Options by Emma Jane Hill

At the company's annual meeting on 28 November 2002, shareholders voted to approve the issue to Emma Jane Hill ("Ms Hill") of options (the "E Hill Options") to subscribe for ordinary shares in the company.

The E Hill Options were issued to Ms Hill under an agreement dated 22 August 2002 as a part of Ms Hill's remuneration as Retail General Manager, Canada. The E Hill Options were issued on terms consistent with the terms of other options issued to senior management, and the board's belief that part of Ms Hill's remuneration should be linked to the value created for shareholders. The granting of options helped achieve this objective by giving Ms Hill an interest in the company the value of which she influenced through her performance. This promotes a partnership environment as between senior management of the company and shareholders.

Key terms of the E Hill Options

Full details of the terms of the E Hill Options were set out for shareholders' consideration in the notice for the 28 November 2002 meeting at which the issue of the E Hill Options was approved.

In summary, the E Hill Options:

- are exercisable at a price of \$6.15 per share (to be paid in cleared funds). This price was 15% above the weighted average price of the company's shares in the month following the company announcing its results for the year ended 30 June 2002;
- expire on 30 June 2008 if not exercised;
- were able to be exercised on a progressive basis from 1 July 2005 if Ms Hill chose to do so. In the event none have yet been exercised;
- are able to be terminated by the company in the event that Ms Hill's employment was terminated for dishonesty or a material breach of employment duties;
- could be adjusted to reflect changes in the capital structure of the company prior to their exercise.

Following exercise, all ordinary shares allotted pursuant to the exercise of the E Hill Options shall rank pari passu with all other ordinary shares of the company on issue except for dividends which have been declared but were unpaid at the date of delivery of an exercise notice and in respect of which the record date for determining entitlements falls prior to the date on which Ms Hill must pay for the ordinary shares.

Ms Hill is yet to exercise any of the E Hill Options. Subject to the approval of this resolution for the allotment of ordinary shares to Ms Hill on her exercise of the E Hill Options, Ms Hill has indicated to the company that she intends exercising all 100,000 E Hill Options in a single tranche prior to their expiry on 30 June 2008 subject to the company's share price remaining at a level which retains value in the E Hill Options.

Effect of the share split

The company has announced that its shares will be subdivided or “split” in the ratio of 10:1 on 19 November 2007. This will have the effect of adjusting the terms of the E Hill Options so that Ms Hill will have the right to subscribe for 1,000,000 ordinary shares (i.e. 10 x 100,000) at an exercise price of \$0.615 (i.e. \$6.15 ÷ 10). The total price to be paid to the company does not change and remains at \$615,000.

Why is shareholder approval needed?

Shareholder approval for the allotment of ordinary shares to Ms Hill on her exercise of the E Hill Options is required by Rule 7(d) of the Takeovers Code. No approval is required under the Listing Rules as the issue of the E Hill Options was previously approved under Listing Rule 7.3.6 at the company’s annual meeting on 28 November 2002.

Takeovers Code Rule 7(d)

Rule 6 of the Takeovers Code prohibits any person and their associates from becoming the holder or controller of more than 20% of the voting rights in a “Code Company” (which includes the company), except as provided in Rule 7. Rule 7(d) permits such an increase in voting rights if the allotment to that person has first been approved by an ordinary resolution of shareholders entitled to vote in accordance with the requirements of the Takeovers Code. This meeting seeks that approval.

Ms Hill currently holds and controls 54,136 ordinary shares in the company, being 0.14% of its total issued share capital of 38,105,319 ordinary shares. These shares are held by Ms Hill directly. Prior to their exercise the E Hill Options have no voting rights and are not included within these figures.

The company holds 58,429 ordinary shares in itself as “treasury stock”. These are held for the purpose of the company’s share scheme. Such shares have their voting rights suspended so long as they are held by the company. For the purposes of the Takeovers Code, there are therefore presently 38,046,890 voting rights in the company. As a consequence the total percentage of presently exercisable voting rights held by Ms Hill is 0.14%. Assuming Ms Hill exercises all the options this figure will increase to 0.40% of all voting rights in the company (the total voting rights in the company will increase to 38,146,890).

Ms Hill is the daughter of Michael and Christine Hill, both of whom are directors of the company. Ms Hill was herself appointed a director on 22 February 2007. Ms Hill could be considered, by virtue of her family relationships, to be associated for the purposes of the Takeovers Code with the wider Hill Family interests.

As at the date of this notice Hill Family interests hold or control a total of 18,295,777 ordinary shares in the company (48.01% of its issued share capital and 48.11% of voting rights) as follows:

Registered Holder	Number of shares*
Quinten Trust (Messrs R.M. Hill & R.M.J Ulrich & Mrs A.C. Hill)	10,116,260
Michael Hill International Share Trust (Messrs D.W. Hewitt & R.M.J. Ulrich)	7,736,636
Boxer Hill Trust (Messrs R.M. Hill & R.M.J. Ulrich & Mrs A.C. Hill)	356,630
Emma Jane Hill	54,136
Wilemena Joyce Stephen	32,115
Total	18,295,777

*The company recently completed an on-market share buyback program pursuant to which 1,203,281 ordinary shares were bought back and cancelled of which 710,000 were purchased from the Michael Hill International Share Trust. The buyback increased the percentage voting rights of each of the other Hill Family interests for the purposes of the Takeovers Code. However, these Hill Family interests have the benefit of Clause 5 of the Takeovers Code (Class Exemptions) Notice (No 2) 2001 and have 6 months from the various buyback transactions to reduce their respective percentage of voting rights to their pre-buyback levels. Likewise the Michael Hill International Share Trust has the benefit of Clause 6 of the Takeovers Code (Class Exemptions) Notice (No 2) 2001 and has 6 months to restore its holding to pre-buyback levels should it so wish. It is intended that the Michael Hill International Share Trust will purchase shares from the other Hill Family interests returning them to their pre-buyback percentage within the 6 month time frame, following which this Trust will remain below its pre-buyback percentage of voting rights.

The effect of Rule 6(1)(a) is that, although Ms Hill herself has and will continue to have a relatively small shareholding, any issue of new ordinary shares to her as a result of the exercise of the E Hill Options may contravene the Takeovers Code because after the allotment Ms Hill, together with those parties who could be considered to be her associates, will have increased their aggregate holding or control of more than 20% of the voting rights in the company.

The company seeks shareholder approval for the allotment of ordinary shares in the company consequent upon the exercise of the E Hill Options pursuant to Rule 7 of the Takeovers Code. Rule 16 of the Takeovers Code sets out the information shareholders must receive before voting on any resolution under Rule 7(d) of the Takeovers Code.

The following information is set out for the purposes of Rule 16:

- the allottee of the voting securities will be Ms Hill;
- the voting securities to be allotted will comprise 100,000 ordinary shares (or 1,000,000 ordinary shares if the E Hill Options are exercised after the company’s proposed share split);
- the table below sets out*:

- i. the percentage of the aggregate of all existing voting securities currently held or controlled by Ms Hill;
- ii. the percentage of the aggregate of all existing voting securities that the allotment of ordinary shares to Ms Hill on the exercise of the options would represent; and
- iii. the percentage of all voting securities that will be held or controlled by Ms Hill after completion of the allotment on the exercise of the options.
- iv. the aggregate of the percentages of all voting securities that will be held or controlled by Ms Hill and those parties who could be considered to be her associates after completion of the allotment.

<i>Name of Shareholder</i>	<i>Number & percentage of the voting securities currently held or controlled by Ms Hill</i>	<i>Number & percentage of the voting securities on issue that the E Hill Options would represent if exercised</i>	<i>Number & percentage of the voting securities that would be held and controlled by the Ms Hill post-exercise of the E Hill Options</i>	<i>Number & percentage of the voting securities that would be held or controlled by Ms Hill and those parties who could be considered to be her associates post exercise of the E Hill Options</i>
Emma Jane Hill	54,136 (0.14%)	100,000 (0.26%)	154,136 (0.40%)**	18,395,777 (48.22%)

*These figures are calculated on the current issued share capital of the company less all shares held as treasury stock as at the date of the preparation of this notice of meeting and on the assumption that Ms Hill exercises, subject to the approval of shareholders, all 100,000 options in a single tranche some time between the date of the annual meeting and 30 June 2008 in the absence of any changes to the capital structure in this period which would result in the percentages changing (Note that percentages that are calculated post the exercise of the options are based on the total voting rights in the company increasing by 100,000 on the exercise of the options). The announced share split will not change the percentages referred to above, just the actual numbers by a factor of 10 in each case.

** These figures do not take into account the transfer of shares and negligible reduction to the percentage holding of voting rights for Ms Hill post exercise of the options which arises from the adjustment required to return her to her pre-buyback percentage of voting rights as referred to above under the table setting out the Hill Family interests. This adjustment will take place after the date of this notice but before the exercise of the options and will have no impact on the total number of voting securities in the company. After this adjustment, and after exercising the options, Ms Hill will hold 152,475 or 0.40% of the voting rights in the Company.

- d. The issue price of \$6.15 per share (or \$0.615 after the share split) is payable ten business days after exercise of the E Hill Options;
- e. The reasons for the allotment are that the E Hill Options were issued as part of Ms Hill's remuneration as a senior executive of the company and the issue of shares upon exercise of the E Hill Options follows as part and parcel of that remuneration;
- f. If the allotment is approved, it will be permitted under Rule 7(d) as an exception to Rule 6 of the Takeovers Code;
- g. There is no agreement or arrangement (whether legally enforceable or not) that has been, or is intended to be, entered into between Ms Hill and any other person (other than the Option Agreement itself, between Ms Hill and the company in respect of the E Hill Options) relating to the allotment, holding, or control of the voting securities to be allotted to Ms Hill upon exercise of the E Hill Options, or to the exercise of voting rights in the company.

Approval of shareholders was not previously sought under the Takeovers Code because prior to the current period, by reason of uncertainty as to the number of E Hill Options which might be exercised, further complexity would have arisen under the Takeovers Code in relation to the requirement to specify the percentage increases, thus requiring either multiple shareholder approvals and/or an exemptions from the Takeovers Code and consequential additional compliance costs.

Independent adviser's report

In accordance with Rule 18 of the Takeovers Code, the company's directors, other than Michael, Christine and Emma Hill, have obtained an independent adviser's report from Simmons Corporate Finance Limited on the merits of the proposed allotment of ordinary shares consequent upon the exercise of the E Hill Options by Ms Hill having regard to the interests of the shareholders, other than Ms Hill and the Hill Family interests who may not vote on this matter.

A summary of the independent adviser's report accompanies this notice and concludes that:

Any allotment of 100,000 shares to Ms Hill following exercise of the E Hill Options will have negligible impact on the Hill Family Interests' level of shareholding voting control and will have no impact on its control over the board of directors or the Company's operations. Furthermore, we do not envisage that the issue of shares will have any noticeable impact on the Company's share price or the liquidity of the shares.

A summary of the Independent Adviser's Report forms part of this Notice of Meeting and shareholders are encouraged to read it. The directors (other than Michael, Christine and Emma Hill who have played no part in this matter), agree with the report's conclusions.

Directors' statement

In accordance with Rule 19 of the Takeovers Code, the directors, other than Michael, Christine and Emma Hill, recommend the approval of the resolution regarding the allotment of ordinary shares following exercise of the options by Ms Hill.

In their view, the issue of the E Hill Options to Ms Hill was consistent with other options issued to senior management, and the board's belief that part of Ms Hill's remuneration should be linked to the value created for shareholders. The issue of the E Hill Options recognised and rewarded the key role that Ms Hill was to play in her role as Retail General Manager, Canada in the successful expansion of Michael Hill International into the Canadian market. The allotment of shares consequent upon the exercise of the E Hill Options simply completes the process of remunerating Ms Hill at the level considered appropriate by the board.

Michael, Christine and Emma Hill have abstained from the above recommendation because of their relationship to the subject of the proposed allotment.

Resolution 6 (Business Item 6) – Issue of Options to Michael Robin Parsell

Purpose of the Proposed Issue of Options

The issue of options ("M Parsell Options") to Michael Robin Parsell ("Mr Parsell") pursuant to clause 3.1 of the company's Constitution and Listing Rule 7.3.6 will form part of Mr Parsell's remuneration package as Chief Executive Officer. The issue of M Parsell Options to Mr Parsell represents his participation in a scheme under which a total of up to 525,000 options may be issued in the current year to employees of the company to support their ongoing contribution to the company's success.

Mr Parsell has played, and the directors wish to ensure that he continues to play, a key role in the growth and success of Michael Hill International. The Directors believe that the granting of the M Parsell Options will further align Mr Parsell's interests with those of shareholders by enhancing Mr Parsell's direct interest in the company and promoting a partnership environment as between the management of the company and shareholders.

Key terms of the M Parsell Options

The company will issue to Mr Parsell, immediately, and conditional, upon obtaining shareholder approval at the company's annual meeting of shareholders, 200,000 M Parsell Options. The key terms and conditions of the issue are set out below, and apply to all employees participating in the currently proposed scheme.

Each Option entitles Mr Parsell to subscribe for one ordinary share during the period and in the manner described below at an exercise price of \$12.53 per ordinary share (which is 30% above the volume weighted average market price of ordinary shares in the 20 Business Days following the announcement on 17 August 2007 of the company's results for the year to 30 June 2007 to the New Zealand Exchange Limited).

The M Parsell Options may be exercised by Mr Parsell giving an exercise notice in the period commencing immediately following the announcement of the company's annual financial results for the year ending 30 June 2012 to the New Zealand Exchange Limited (or any other registered securities exchange on which the company's shares are at the relevant time listed) and ending on 30 September 2017. All M Parsell Options which have not been exercised will expire at midnight on 30 September 2017.

The exercise price payable for an ordinary share may be amended if other ordinary shares or convertible securities are offered for subscription by way of a rights issue, or there is a subdivision or consolidation of the company's shares, in each case such amendment to be calculated in accordance with the Listing Rules.

The M Parsell Options do not carry an entitlement to participate in dividends or vote until exercised.

Provided that all other terms of the proposed issue are complied with, settlement for the issue of the ordinary shares shall occur no later than 10 business days after the delivery of an exercise notice. Mr Parsell must, on the relevant settlement date, pay by bank cheque or other cleared funds the exercise price applicable to the ordinary shares.

All M Parsell Options may be exercised immediately in the event of an amalgamation, merger, acquisition of, or change in control of, the company or (subject to the board's agreement) if there is a sale of the whole or substantial part of the business of the company. In any such event, the board may agree with Mr Parsell to vary any of the terms of issue, so as to enable Mr Parsell to participate in the proposal.

The M Parsell Options will not be quoted on any stock exchange and cannot be freely traded, however, they may be transferred by Mr Parsell with the board's consent. These restrictions do not apply to the ordinary shares issued pursuant to the exercise of the M Parsell Options. All ordinary shares issued pursuant to the exercise of the M Parsell Options shall rank pari passu with all other ordinary shares of the company on issue except for dividends which have been declared but were unpaid at the date of delivery of an exercise notice and in respect of which the record date for determining entitlements falls prior to the date on which Mr Parsell must pay for the ordinary shares.

Where

- a. Mr Parsell's employment with the company is terminated after 30 June 2012 (which includes a resignation by Mr Parsell) for any reason other than by reason of fraud or dishonesty by Mr Parsell (as determined by the company in its absolute discretion); and
- b. at the date of termination Mr Parsell has not exercised all of his entitlement,

Mr Parsell may exercise those M Parsell Options which at the date of termination have not been exercised, whether or not those M Parsell Options are then able to be exercised under the issue terms for the M Parsell Options. However, if those M Parsell Options are not exercised within three months after the date of termination, they may be cancelled by the company giving written notice to Mr Parsell. If, however, Mr Parsell's employment with the company is terminated by reason of fraud or dishonesty by Mr Parsell (as determined by the company at its absolute discretion) then those M Parsell Options which at the date of termination have not been exercised may be cancelled immediately by the company giving Mr Parsell written notice.

Effect of the share split

The company has announced that its shares will be subdivided or "split" in the ratio of 10:1 on 19 November 2007. This will have the effect of adjusting the terms of the M Parsell Options so that Mr Parsell will have the right to subscribe for 2,000,000 ordinary shares (i.e. 10 x 200,000 at an exercise price of \$1.253. The total price to be paid to the company does not change.

Why is shareholder approval needed?

Listing Rule 7.3.6 provides that directors of a company must not participate in any issue of options unless the scheme for such participation and the precise levels of entitlement for any such person has been previously approved by an ordinary resolution of the relevant issuer.

Resolution 7 (Business Item 7) – Non-Executive Directors' Remuneration

Fees for non-executive directors are based on the nature of their work and responsibilities. Since the maximum level of directors' remuneration was last approved by shareholders in November 2004, the company has continued its progress towards becoming a truly global company with an increasing proportion of its stores in Australia and more recently Canada.

If Resolution 7 is passed, the total maximum amount of remuneration payable to non-executive directors will increase by \$145,000 from the last approved maximum level of \$250,000 to \$395,000. In seeking shareholders' approval to this increase the directors note that each New Zealand resident non-executive director is currently paid \$NZD60,000 per annum and our Australian resident director \$AUD60,000 per annum. It is proposed to increase the amount paid to New Zealand resident non-executive directors to \$NZD75,000 and the amount paid to our Australian non-executive director to \$AUD75,000.

The new total of \$395,000 makes provision for an extra non-executive director (five rather than four); general increases in the cost of living; continuing growth in the responsibilities of non-executive directors associated with the expansion of the company both within New Zealand and overseas, and an amount to allow for fluctuations in the \$NZD/\$AUD exchange rate.

Executive directors do not receive director's fees.

