

# michael hill

INTERNATIONAL LIMITED

## Minutes of the Annual Meeting of Shareholders

Held on Friday, 2 November 2012 at 10.30am at Stamford Plaza Hotel,  
28 Albert St, Auckland.

### **PRESENT: Sir Michael Hill, Chairman**

**E.J.Hill**

**M.R. Parsell**

**L.W. Peters**

**M.R. Doyle**

**G.J. Gwynne**

**Lady Christine Hill**

**D.W. McGeoch**

**G.W. Smith**

**P.R. Taylor - CFO**

**W.K. Butler - Company Secretary**

**and approximately 130 Shareholders**

#### **1. Chairman's Welcome**

Michael Hill welcomed all shareholders to the 25th annual meeting of the Company.

He introduced the members of the Board to the shareholders and thanked Murray Doyle for his services to the Board over 12 years. The notice of meeting sent to all shareholders was taken as read. The chairman advised that in accordance with the company's constitution voting on all resolutions, in the interests of transparency, would be carried out by a poll.

## **2. Annual Report**

The chairman tabled the annual report for the year ended 30<sup>th</sup> June 2012, that had been circulated to all shareholders who had requested a hard copy. The report was also available on the company's website.

## **3. CEO's Address**

Mike Parsell used a PowerPoint presentation to give a financial update on last year's results and the first quarter's sales figures. A copy of this presentation and the first quarter sales are posted on the Company's Investor website.

At the conclusion of the address, a number of questions were asked by shareholders relating to the annual report.

### **a) Please outline the strategy for North American operations in relation to progress against expectations and timeframes.**

Mike explained that the Company had already communicated our growth expectations in North America in terms of planned store openings. Canada is the main focus at the moment for organic growth. The company has built a good base in Canada and was now building on that base. We need more economies of scale to be effective in advertising and management. Our current earnings in Canada don't represent our potential there, but as we saturate our stores there in places like Ontario, our same store sales and profitability will begin to lift.

The US was a huge complicated market and the biggest in the world. We are still in test mode there and are learning, watching, observing and testing marketing strategies, merchandise etc. The Company is trying to determine what the optimal way is to grow in the US and we may have to take a different approach to the current method of rolling out stores. There may need to be 2 or 3 different strategies rolling hand in hand to maximise our potential in the market there. In summary we still have a long way to go in the US.

### **b) Are there any plans to expand into South America ?**

Mike explained there are no current plans to expand into South America.

### **c) In the statement of comprehensive income, the category "Other Expenses" of \$87,619,000 seems rather large. What are the main constituents of these "other expenses?"**

Other expenses are the balance of operating expenses that are not required to be separated in our accounts. They include items like payment plan commission, telecom charges, advertising, consultant fees etc.

### **d) In recent years there have been dramatic changes to retail arising from the Internet. How is the Internet affecting your market?**

What we have learnt is that the Internet has become the primary research tool for consumers, when considering a jewellery category, so consumers will definitely research for style, price etc and draw up a list of potential retailers or websites to engage with. We do not find at the moment that the Internet is affecting us in any of our markets, but our strategy is to build a solid combination of bricks and mortar store networks, backed up by a very strong online offer. We are just in the process of completely rebuilding our ecommerce platform. Jewellery is still a very emotional purchase and a large part of our sales strategy is the relationship formed between our customers and our sales associates. This relationship is the number 1 driver to closing sales. Some customers are quite happy to shop online, but there is still a lot who want to see the product, touch it etc so we see the combination of bricks and mortar stores and a strong online offer as the future.

**e) When will you be reinstating your Shareholder card ?**

At the moment, there are no plans to do this. We do have a couple of ideas in the pipeline to facilitate a good offer to shareholders, but we cannot talk about these yet.

**f) Why, when the Company is in expansion mode, did you close 3 stores ?**

What can happen in a mall environment is that the demographics of the mall can change, We are very loathe to close stores but when the financials indicate that you should cut your losses and go, we make that decision. There was one store closed last year in NZ and 2 in Australia.

**g) What progress has been made in resolving the disputes with the IRD and ATO?**

Phil Taylor replied that the Company had laid out in some detail in the Annual Report the numbers involved in the two disputes. He gave a recap of the current situation which had not changed.

The restructure that was performed in November 2008 was in relation to transferring Intellectual Property from our NZ business to Australia. It was done in conjunction with and in communication with both the IRD and ATO at the time. The Company also sought rulings from both the IRD and ATO before performing the transaction. However 2 years later both the IRD and ATO raised issues with aspects of the transaction, so the Company is working closely with them in answering their queries and providing information. The Company also sought further technical advice and the Company is satisfied that the transaction was performed correctly, and the structure that was put in place and the way it was funded was a legitimate way of doing it. The Company had a lot of advice at the time and also subsequent to the transaction that leads us to believe that there are no issues there. The Company had not provided for any liability in the accounts in relation to those two matters but cannot give any other update other than what was released with our end of year results in August. Both matters are still in discussion and the Company is progressing them as quickly as possible. It has been a very time consuming matter, with communication often slow coming back from the IRD and ATO, so there has been some frustration in getting this matter concluded. At this stage it is not known when the matters will be concluded, but the Company is doing all it can to bring the matters to an end.

**h) In the Annual Report, it mentioned that the Company would be introducing an in house credit facility rather than using third party providers. Is this temporary or permanent?**

Mike replied that in North America and in the US in particular, consumers had a bias to buying on credit. Since the GFC, third party credit providers have had very stringent criteria to approve credit customers. The most successful US jewellery operator is a company called "Signet". Their competitive advantage is that they run all their credit financing in house, and in that way they can leverage the difference between revenue margin and credit. Over a period of time they have been far more profitable than the second largest US jeweller "Zales", who on a same store basis underperform Signet. So our view is that to maximise our diamond business in particular in North America, we need to put a toe in the water and see if we can improve sales and overall margins by taking our credit facility in house.

#### **4. Chairman's Address**

Sir Michael Hill addressed the meeting and gave an account of the direction in which the company was headed.

The last financial year had been a very difficult and challenging year in all 4 countries but the company had performed very well in the circumstances. In particular, trading had been very tough in Australia but was now performing much better.

The Group seemed to survive on tough times. Sir Michael believed in the philosophy that if the going was really hard, the future comes easy, but if the going is easy, the future becomes hard. If things come too easy, most people tend to back off but this was not the case with this company.

The Company had made progress in a number of areas in the past year.

a) The biggest lessons had been learnt in the US retail environment. There were only 9 stores operating in Chicago but so much had been learnt in marketing, merchandising and other areas and this knowledge had been used to improve the retail skills and stores in Australasia.

b) We have opened flagship stores in Queen St Auckland and Queen St mall in Brisbane with plans to open one in Sydney.

c) We have expanded our diamond stocks in many stores, especially the flagship stores and are now targeting a different audience with our expanded ranges.

d) We have been experimenting with small boutique type "charm" stores in Brisbane with our "Captured Moments" range of charms and bracelets and experimented with many different ideas all emanating from the US.

In summary, Sir Michael felt that the future looked good. The Company would continue to look at opportunities in the US as they arise. He felt that with saturation point being reached in the next few years in Australasia, the future expansion opportunities would be in North America.

**5. Election of Directors – Resolutions put to the meeting.**

**1. Re-Elect Michael Robin Parsell**

<b>Votes for</b>	<b>Percentage</b>	<b>Votes Against</b>	<b>Percentage</b>
293,183,816	100%	0	0.0%

: Mike Parsell was re-elected.

**2. Re-Elect Ann Christine Lady Hill**

<b>Votes for</b>	<b>Percentage</b>	<b>Votes Against</b>	<b>Percentage</b>
292,861,734	99.91%	272,232	0.09%

Lady Hill was re-elected.

**3. Elect Gary Warwick Smith as a Director**

<b>Votes for</b>	<b>Percentage</b>	<b>Votes Against</b>	<b>Percentage</b>
292,582,976	99.8%	588,940	0.20%

Gary Smith was elected a Director.

**6. Auditors – Resolution put to the meeting**

“That the Directors be authorised to fix the fees of the Auditors for the ensuing year”

<b>Votes for</b>	<b>Percentage</b>	<b>Votes Against</b>	<b>Percentage</b>
292,450,858	99.76%	699,638	0.24%

The resolution was carried.

Confirmed as a true and correct record.



Sir Michael Hill

Chairman. 14/2/13

