



### **Michael Hill International announces settlement of tax issues with the Australian Tax Office**

The Company is pleased to announce that its previously disclosed issues with the Australian Tax Office (ATO) arising from the transfer of the intellectual property in its Michael Hill Jeweller System of retailing (IP) from a New Zealand subsidiary to an Australian subsidiary have been fully resolved by way of the execution by the ATO and the Company today of a formal Deed of Settlement.

Under the Deed, the Company will pay an aggregate of AUD6.0 million to the ATO. This amount is in accordance with the provision announced on 14 February 2014 and reflected in the income tax expense and current tax liabilities in the financial statements for the period ended 31 December 2013.

The settlement acknowledges the Company's valuation of the IP and leaves in place the full deferred tax asset of NZD50,197,000 and consequently (subject to the Company meeting its commitment as to minimum franchise fees referred to below) all of the associated Australian income tax deductions for future years. The background to, and further detail in respect of, this settlement is explained below.

In December 2008, the Company transferred the IP from a New Zealand subsidiary to an Australian subsidiary as part of the ongoing shift of the Company's management and support functions from New Zealand to Australia.

That transfer gave rise to various issues with the ATO and separately with the New Zealand Inland Revenue. With respect to the ATO, the issues were primarily concerned with the value attributed to the IP as a whole, and the values attributed to the IP's separate components, as these values determined the levels of income tax deductions permitted in Australia in respect of the IP.

The Company had determined an IP value of NZD274 million by reference to an independent valuation carried out by an internationally recognised firm and a deferred tax asset in respect of the deductible portion of the IP had been raised for NZD50,197,000. A major driver of the value attributed to the IP was the level of the franchise fee income streams which were projected to be generated within the MHI Group by the licensing of the IP to the retail subsidiaries in each country of operation.

The Company more recently received further valuation advice from another expert valuer which supported the values of the IP and its components as adopted by the Company. With the benefit of this advice the Company has always been confident of its position as to the IP's value.

The ATO had also obtained its own valuation of the IP, which was the basis for the ATO considering that significantly lower deductions were available in respect of the acquisition of the IP. The amount of tax benefit in dispute with respect to the deductible portion of the IP was approximately NZD40 million, which was reflected in the contingent liability note to the Company's 2013 Financial Statements.

The Company and the ATO both recognised that the valuation of IP is complex and would be both costly and time consuming to resolve through formal processes.

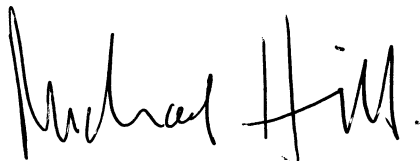
The Deed of Settlement which has been signed reflects the following basic principles:

- The ATO accepts the Company's IP valuation of NZD274 million and its relevant components as the basis for the calculation of IP and financing cost deductions.
- The Company will commit to returning franchise fee income from its non-Australian operations in the 2014 to 2018 tax years consistent with the assumptions underlying the Company's IP valuation.
- The Company will pay the ATO in the current financial year an aggregate of AUD6.0m in final settlement of this matter in relation to prior tax years (2008-09 through to 2012-13).

No further amounts will be payable by the Company in relation to this matter after the settlement terms have been met.

The directors welcome the conclusion of its discussions with the ATO. They believe this is a satisfactory and pragmatic outcome. It confirms and leaves in place the Company's original valuation (as revised by the Company in 2010) and also leaves in place the availability of the deferred tax asset of NZD50,197,000. In concluding this settlement the directors were mindful of the uncertainties, costs and management distractions over a lengthy period which might otherwise have arisen in the absence of a settlement.

It should be noted that the dispute and discussions with the NZ Inland Revenue also in relation to the 2008 restructure are still ongoing. The Company does not believe there has been any change of circumstances such that it should change the manner in which this is currently reflected as a contingent liability in the Company's Financial Statements.

A handwritten signature in black ink, appearing to read 'Michael Hill'.

Sir Michael Hill

Chairman 31/3/14