

**HILLS.**

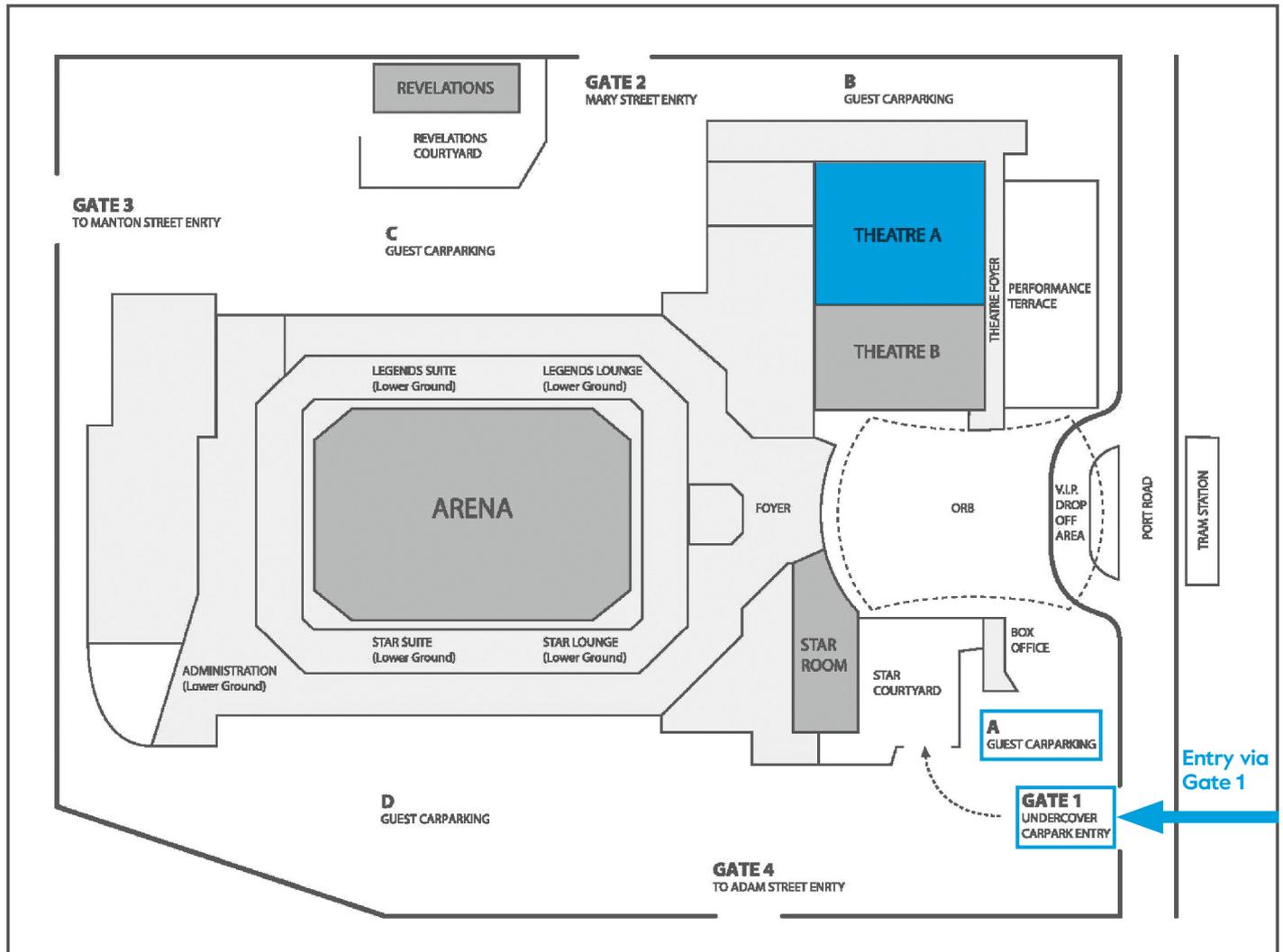
# Notice of 2014 Annual General Meeting

Hills Limited ABN 35 007 573 417

# Where it is and where to park

The AGM will be held at Theatre A, Adelaide Entertainment Centre, 98 Port Road, Hindmarsh South Australia on Friday 31 October 2014, commencing at 2:30pm.

## Adelaide Entertainment Centre



# Letter from the Chairman

Dear Shareholder

I am pleased to invite you to attend the 2014 Annual General Meeting (**AGM** or **meeting**) of Hills Limited (**Hills** or the **Company**).

The AGM will be held at Theatre A, Adelaide Entertainment Centre, 98 Port Road, Hindmarsh South Australia on Friday 31 October 2014, commencing at 2:30pm. A map with directions to the venue appears on the inside front cover of this booklet.

## Items of Business

The following pages contain details on the items of business that you have the opportunity to vote on, as well as the Explanatory Statement and voting procedures. At this year's AGM the following items will be voted on:

- the re-election of Mr Ian Elliot as a Director of the Company;
- the election of Mr Philip Bullock as a Director of the Company; and
- the allocation of performance rights to Mr Ted Pretty, Group Managing Director and CEO.

You will also be asked to cast a non-binding vote in respect of the adoption of the Remuneration Report as set out in pages 14 to 35 of the 2014 Annual Report.

## Remuneration Report and Board Spill Meeting

At the 2013 Hills Annual General Meeting the majority of shareholders voted in support of the financial year 2013 Remuneration Report, however, having received votes against the Remuneration Report totalling 26.5%, the Company recorded its 'first strike' for remuneration report purposes.

Since last year's AGM, your Board has taken steps to understand the concerns expressed by some shareholders that led to the 'first strike' by undertaking an extensive consultation process. The common themes from the consultation process are outlined in the Remuneration Report in pages 14 to 35 of the 2014 Annual Report.

The feedback received was considered in the design of the financial year 2015 remuneration strategy. The Board is committed to ensuring the remuneration framework is tied to delivering the high growth business strategy and creating enduring shareholder value over the long term. In doing so, the Board has made a number of decisions in support of this objective which includes the development of a new long term incentive plan, continuing to set challenging performance measures for the financial year 2014 Short Term Incentive plans and focusing on financial performance. **The Board encourages you to vote in favour of the adoption of the Remuneration Report.**

A board spill resolution is also included in the agenda, however, this resolution will only be put to the meeting if a 'second strike' is received for the adoption of the Remuneration Report or if there is uncertainty as to whether a 'second strike' has been received. If the spill resolution is put, it will only be effective if a 'second strike' is in fact received.

If a spill resolution is put to the meeting, **the Board unanimously recommends that shareholders vote against the Board Spill Meeting** on the basis that it will be disruptive to the ongoing operations of the business and the convening of a special meeting will be costly to the Company.

## Directors

During the year, I was pleased to announce the appointment of Mr Philip Bullock to the Board. Philip brings significant experience to the Board in the areas of technology, financial services, health and government.

Mr Ian Elliot will retire in accordance with the Company's Constitution and offers himself for re-election. Ian brings significant experience and value to the Board having over 40 years experience in marketing and brand building.

With over 11 years of service, Mr Peter Stancliffe will retire from the Board at the conclusion of the AGM. Peter has made a significant contribution to the Board and its committees during this period. On behalf of the Board, I thank Peter for the valuable contribution that he has made during his tenure and for his commitment and hard work.

All resolutions are explained in more detail in the Notice of Meeting and Explanatory Statement.

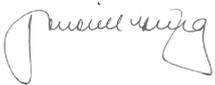
## Questions

We encourage you to submit questions for the Company (or the Company's external auditor) in advance of the AGM. We request that you use the enclosed question sheet to submit any questions that you would like answered at the AGM. Please return this using the reply paid envelope provided or by email to [info@hills.com.au](mailto:info@hills.com.au) by 2.30pm (Adelaide time) Friday 24 October 2014.

If you are unable to attend the AGM in person, you may vote directly or appoint a proxy to act on your behalf. You may register voting instructions electronically at [www.investorvote.com.au](http://www.investorvote.com.au) or complete and return the enclosed voting form by facsimile or by using the reply paid envelope provided.

I look forward to seeing you at the AGM.

Yours sincerely



**Jennifer Hill-Ling**

Chairman

# Items of Business

## Notice of meeting

Notice is hereby given that the 57th Annual General Meeting (**2014 AGM**) of shareholders (**Shareholders**) of Hills Limited (ABN 35 007 573 417) (**Hills** or the **Company**) will be held at Theatre A, Adelaide Entertainment Centre, 98 Port Road, Hindmarsh South Australia on Friday, 31 October 2014, commencing at 2:30pm, to conduct the following items of business:

## Ordinary Business

### 1. Receipt of Financial Statements and Reports

To receive and consider the Financial Report, the Directors' Report and the Auditor's Report for the Company for the financial year ended 30 June 2014.

### 2. Re-election of Mr Ian Elliot as a Director of the Company

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

"that, Mr Ian Elliot, being a Director of the Company who retires by rotation in accordance with Rule 10.3 of the Constitution and, being eligible for re-election, is re-elected as a Director of the Company."

### 3. Election of Mr Philip Bullock as a Director of the Company

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

"that, Mr Philip Bullock, being a Director of the Company appointed as an additional Director under Rule 10.7 of the Constitution, retires in accordance with Rule 10.3 and, being eligible of election, is elected as a Director of the Company."

### 4. Adoption of Remuneration Report

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

"that the Remuneration Report contained within the Annual Report of the Company, for the year ended 30 June 2014, be adopted."

## Notes

*Please note that although under the Corporations Act 2001 (Cth) (**Corporations Act**) this resolution is advisory only and does not bind the Directors or the Company, the Board will take the outcome and comments made by Shareholders into consideration when reviewing the remuneration practices and policies of the Company. See section 4 of the Explanatory Statement accompanying this Notice of Meeting for further information.*

## Voting Exclusion Statement

In accordance with sections 250R and 250BD of the Corporations Act:

1. Subject to paragraph 2, a vote must not be cast (in any capacity) on this resolution 4 by or on behalf of the Company's key management personnel (**KMP**) (including the Directors), details of whose remuneration are included in the Remuneration Report, or their closely related parties, whether as a Shareholder or as a proxy. However, a vote may be cast on this resolution 4 by a KMP, or a closely related party of a KMP, if:
  - (a) either
    - (i) the vote is cast as a proxy appointed in writing that specifies how the proxy is to vote on this resolution 4; or
    - (ii) the vote is cast by the Chairman of the 2014 AGM acting as proxy and their appointment expressly authorises the Chairman of the 2014 AGM to exercise the proxy even if that resolution is connected directly or indirectly with the remuneration of a KMP; and
  - (b) the vote is not cast on behalf of a KMP or a closely related party of a KMP.
2. If you appoint the Chairman of the 2014 AGM as your proxy, and you do not direct your proxy how to vote on this resolution 4 on the proxy form, you will be expressly authorising the Chairman of the 2014 AGM to exercise your proxy even if resolution 4 is connected directly or indirectly with the remuneration of a member of the KMP, which includes the Chairman of the 2014 AGM.

The Chairman of the 2014 AGM intends to vote undirected proxies in favour of resolution 4.

## 5. Approval of proposed issue of Performance Rights to Edward Noel Pretty, the Company's Managing Director, under the Hills Limited Long Term Incentive Share Plan

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

"that approval be given for all purposes under the Corporations Act and Listing Rules of ASX, including ASX Listing Rules 10.14 and 10.15A, for the participation of Edward Noel Pretty in the Hills Limited Long Term Incentive Share Plan (**Plan**), and for the issue to Mr Pretty of 160,555 Performance Rights under the Plan on the terms and conditions set out in the Explanatory Statement to this notice of Annual General Meeting."

### Voting Exclusion Statement

In accordance with the ASX Listing Rules, the Company will disregard any votes cast on resolution 5 by any Directors of the Company who are eligible to participate in any employee incentive scheme in relation to the Company, and any associates of those persons.

However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the Chairman of the 2014 AGM, as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Further, in accordance with section 250BD of the Corporations Act, a vote must not be cast on this resolution 5 by the Company's KMP (including the Directors), or a closely related party of a KMP, acting as a proxy, if their appointment does not specify the way the proxy is to vote on this resolution 5. However, this voting exclusion does not apply if the KMP is the Chairman of the 2014 AGM acting as proxy and their appointment expressly authorises the Chairman of the 2014 AGM to exercise the proxy even if that resolution is connected directly or indirectly with the remuneration of a KMP.

The Chairman of the 2014 AGM intends to vote undirected proxies in favour of resolution 5.

## Contingent Business

### 6. Board Spill Meeting

*This resolution will be considered at the 2014 AGM only if at least 25% of votes cast on resolution 4 are against the adoption of the Remuneration Report or if there is uncertainty as to whether at least 25% of votes cast on resolution 4 are cast against the adoption of the Remuneration Report. The Explanatory Statement further explains the circumstances in which this resolution will be put to the meeting.*

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

"that, subject to and conditional on at least 25% of the votes cast on resolution 4 being cast against that resolution:

- (a) a meeting of the Company's members be held within 90 days of the date of this Meeting (**Spill Meeting**);
- (b) all the Directors who were Directors when the resolution to approve the Remuneration Report for the year ended 30 June 2014 was passed (excluding the Managing Director) cease to hold office immediately before the end of the Spill Meeting; and
- (c) resolutions to appoint persons to offices that will be vacated immediately before the end of the Spill Meeting be put to the vote at the Spill Meeting."

### Voting Exclusion Statement

In accordance with Section 250V of the Corporations Act, the same voting exclusions that apply to resolution 4 apply to resolution 6. Items 4 and 6 (if put to the meeting) will be determined by poll.

By Order of the Board



### Gai Stephens

Company Secretary  
29 September 2014

## Voting and Proxy Instructions

- (a) Shareholders, who are unable to attend and vote at the 2014 AGM or any adjournment thereof, are entitled to appoint a proxy. Shareholders can appoint a body corporate or an individual as their proxy.
- (b) A Shareholder who is entitled to cast at least two or more votes at the 2014 AGM is entitled to appoint one or two proxies. Where a Shareholder is entitled to, and does, appoint more than one proxy, each proxy must be appointed to represent a specified portion of the Shareholder's voting rights. If a Shareholder appoints two proxies but does not specify how many votes each proxy may exercise, each proxy may exercise half the votes. A proxy need not be a Shareholder of the Company.
- (c) Should a Shareholder desire to direct the proxy how to vote, the Shareholder should place a mark in the appropriate box, otherwise the proxy form will be deemed to constitute a direction to vote as the proxy decides.
- (d) Proxies will only be valid and accepted by the Company if they are received by the Share Registry of the Company by electronic lodgement by visiting [www.investorvote.com.au](http://www.investorvote.com.au) or by forwarding a hard copy to Computershare, GPO Box 242, Melbourne, Victoria 3001 or faxing to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia) so as to be received not later than 48 hours before the 2014 AGM. For Intermediary Online subscribers only (custodians), please visit [www.intermediaryonline.com](http://www.intermediaryonline.com) to submit your voting intentions. Instructions in regard to lodging your proxy vote are provided on the enclosed proxy form.
- (e) If the proxy form is signed by an attorney, the original power of attorney under which the proxy form was signed (or a certified copy) must also be received by the Share Registry of the Company not less than 48 hours before the time of the 2014 AGM or at the time of any adjourned meeting, unless it has previously been provided to the Company's Share Registry.
- (f) If you appoint a proxy, you may still attend the 2014 AGM. However, your proxy's right to speak and vote are suspended while you are present. Accordingly, you will be asked to revoke your proxy if you register at the 2014 AGM.
- (g) If a representative of a corporation is to attend the 2014 AGM, an appropriate document appointing the representative should be produced prior to admission.
- (h) The Company has determined in accordance with regulation 7.11.37 of the Corporations Regulations 2001 and ASX Settlement and Operating Rule 5.6.1 that for the purpose of voting at the 2014 AGM, shares of the Company will be taken to be held by the persons who appear on the Company's share register as holding them at 7.00pm (Sydney time) on Wednesday, 29 October 2014.

## Explanatory Statement

The following Explanatory Statement explains the items of business to be considered at Hills' 2014 AGM and form part of the Notice of Meeting. The Explanatory Statement is set out in the order of items of business in the Notice of Meeting and should be read with the notice.

### Ordinary Business

#### 1. Consideration of Reports

Section 317(1) of the Corporations Act 2001 (Cth) (**Corporations Act**) requires a public company to lay before its Annual General Meeting the financial report, the Directors' report and the Auditor's Report for the financial year that ended before the Annual General Meeting.

Shareholders may access a copy of the Annual Report, which includes the Financial Report, the Directors' Report and the Auditor's Report, on the Company's website at <http://hills.com.au/investors>.

Shareholders will be given a reasonable opportunity to consider, comment on and ask questions of the Directors and the auditor of the Company about the management of the Company, the conduct of the audit and the preparation and content of the financial statements and reports for the financial year ended 30 June 2014.

There is no vote on this item.

#### 2. Re-election of Mr Ian Elliot as a Director of the Company

Under the provisions in the Company's Constitution for the rotation of Directors, Mr Ian Elliot will retire at the 2014 AGM and offers himself for re-election.

Mr Ian Elliot was appointed as a Director in August 2003 and was last re-elected as a Director of the Company at its 2011 Annual General Meeting. Mr Elliot is the Lead Independent Director. He is Chairman of the Nomination Committee and member of the Remuneration Committee.

Mr Elliot has over 40 years' experience in marketing. His expertise is in brand building, with extensive involvement in a number of iconic brands. Mr Elliot is a fellow of the Australian Institute of Company Directors and a graduate of the Harvard Business School Advanced Management Program. In addition to his listed company directorships, he was formerly a Director of Zenith Media Pty Ltd and Cordiant Communications Group and former Chairman of Allied Brands Limited, Promentum Limited and Artist & Entertainment Group Limited and Chairman and CEO of George Patterson Advertising. He is a current Director of the Australian Rugby League Commission, Salmat Limited and McMillan Shakespeare Limited.

#### **Recommendation**

The Board (with Mr Elliot abstaining) unanimously recommends that Shareholders vote in favour of Mr Elliot's re-election, either by attending the 2014 AGM in person or by ticking the box marked "**For**" and submitting your proxy form in accordance with the instructions in the note to the Notice of Meeting ("Voting and Proxy Instructions") (**Note**) and the instructions contained in the proxy form.

### **3. Election of Mr Philip Bullock as a Director of the Company**

Mr Philip Bullock was appointed by the Directors as a non-executive Director of the Company on 23 June 2014 pursuant to Rule 10.7 of the Constitution which allows the Board to appoint an additional Director, provided the total number of Directors does not exceed 10. Mr Bullock retires as a Director and offers himself for election in accordance with Rule 10.3. Mr Bullock is a member of the Audit Risk and Compliance Committee.

Mr Bullock brings to the Board experience as a senior executive and director in the areas of technology, financial services, health and government in both Australia and Asia.

Mr Bullock was formerly Vice President of the Systems and Technology Group, IBM Asia Pacific, based in Shanghai, China. Prior to that he was CEO and Managing Director of IBM Australia and New Zealand. Mr Bullock is a non-executive Director of Perpetual Limited, CSG Limited and formerly of Healthscope Limited. He has also provided advice to the Federal Government, through a number of organisations, most notably as Chair of Skills Australia.

#### **Recommendation**

The Board (with Mr Bullock abstaining) unanimously recommends that Shareholders vote in favour of Mr Bullock's election, either by attending the 2014 AGM in person or by ticking the box marked "**For**" and submitting your proxy form in accordance with the instructions in the Note to the Notice of Meeting and the instructions contained in the proxy form.

### **4. Adoption of Remuneration Report**

The Company's Remuneration Report for the 2014 financial year is set out in pages 14 to 35 of the 2014 Annual Report. The Remuneration Report explains the Company's approach to executive remuneration, performance and remuneration outcomes for the Company and its key management personnel (**KMP**) for the year ended 30 June 2014. The Remuneration Report has been audited as required by Section 308 (3C) of the Corporations Act.

#### **Response to 'First Strike' against 2013 Remuneration Report**

At the Hills Annual General Meeting in 2013 the majority of Shareholders voted in support of the financial year 2013 Remuneration Report, however, having received votes against the Remuneration Report totalling 26.5%, the Company recorded a 'first strike'. Since last year's AGM, the Board has undertaken a consultation process with Shareholders and Shareholder representatives who had raised issues with last year's Remuneration Report to seek their feedback on Hills' remuneration practices and reporting, and to understand how this can be best represented in the report.

In doing so, the Board recognised concerns raised by Shareholders and Shareholder representatives regarding the performance hurdles for the long term incentive for the Group Managing Director and CEO, the use of non-financial measures for the short term incentives and the weighting between fixed remuneration and both the long and short term incentives. This feedback has been incorporated in the design for the remuneration strategy for the 2015 financial year (**FY2015**) which includes the development of a new long term incentive plan for the Group Managing Director and senior executives to be granted in FY2015. The remuneration strategy will be strongly aligned to the improvement in returns to Shareholders and creating value over the long term and will include predominantly financial measures.

#### **2014 Year in Review**

In financial year 2014 (**FY2014**) the Company largely completed the restructuring activities, transforming Hills from a diversified holding company exposed to manufacturing and steel sectors, to an integrated provider of technology and communications solutions. The Board considers that the leadership team appointed in the 2013 financial year has been instrumental to the rapid and successful transformation of the Company which continued in to FY2014.

Many of the priorities set for management (around which the remuneration strategy was built) have been completed and have laid the foundation for the Company to focus on future growth. These include the sale of the steel assets, lowering debt and commencement of strategic acquisitions in technology and communications and healthcare.

The Board considers the remuneration strategy has provided incentive to senior executives to deliver consistent long term benefits to Shareholders, and truly aligns executive reward to Shareholder interests. In FY2014, challenging performance measures for the short term incentive plan were set for the senior management team which focused on both financial performance (80%) and non-financial measures (20%). This emphasis will continue for FY2015.

The Board has taken very seriously the feedback received from Shareholders following the 'first strike' which is more fully detailed in the Remuneration Report. Shareholders will be given a reasonable opportunity to ask questions about, and make comments on, the Remuneration Report at the 2014 AGM.

## Voting

In accordance with section 250R(2) of the Corporations Act, the Remuneration Report for the financial year ended 30 June 2014 is put to the vote of Shareholders for adoption.

The vote on this resolution is advisory only and does not bind the Directors of the Company.

As a result of receiving a 'first strike' at last year's AGM, under the Corporations Act, if 25% or more of votes that are cast on this resolution to adopt the Remuneration Report are again voted against the adoption of the Remuneration Report, the Company will receive a 'second strike' and Shareholders will be required to vote on resolution 6.

## Recommendation

The Board unanimously recommends that Shareholders **vote in favour of this resolution 4** to adopt the Remuneration Report, either by attending the 2014 AGM in person or by ticking the box marked "**For**" and submitting your proxy form in accordance with the instructions in the Note to the Notice of Meeting and the instructions contained in the proxy form.

## 5. Approval of proposed issue of Performance Rights to Edward Noel Pretty, the Company's Managing Director, under the Hills Limited Long Term Incentive Share Plan

ASX Listing Rule 10.14 requires the approval of the holders of ordinary securities of a listed entity for the acquisition of securities, by a Director, under an employee incentive scheme.

The Company is seeking Shareholder approval for the issue of 160,555 performance rights (**Performance Rights**) to Mr Pretty, the Company's Managing Director, under the Hills Limited Long Term Incentive Share Plan (**Plan**), for all purposes under the Corporations Act and the ASX Listing Rules, including ASX Listing Rule 10.14.

The number of Performance Rights to be issued to Mr Pretty has been determined by:

- calculating the "face value" of Hills' shares based on the volume-weighted average price 30 calendar days following the Company's profit announcement on 19 August 2014, being \$1.5571 per share (**face value**); and
- dividing \$250,000 (being the dollar value of the long term incentive grant) by the face value and rounding to the nearest whole figure.

## Background

The Company seeks the approval of Shareholders to the granting of the Performance Rights at this year's Annual General Meeting. The number of Performance Rights to be issued to Mr Pretty has been determined in conjunction with an analysis of his total target remuneration. The Directors consider the number of Performance Rights to be issued to Mr Pretty to be appropriate having regard to:

- Mr Pretty's role and responsibilities; and
- a benchmarking review undertaken by Godfrey Remuneration Group.

Each Performance Right entitles Mr Pretty to have one ordinary share in the Company allocated to Mr Pretty by the Plan trustee immediately following the vesting of the Performance Right on satisfaction of the applicable performance conditions or as otherwise described below. Shares allocated to Mr Pretty on vesting of his Performance Rights will be released to Mr Pretty on the first date on or after 1 July 2018 that he is able to deal with Hills shares under Hills' Share Trading Policy provided he remains an employee on that date unless otherwise released as described below.

The Company's remuneration strategy is designed to reward Mr Pretty for performance against business plans and longer term shareholder returns to a level that is appropriate for the results delivered. The Board believes that the issue and terms of Mr Pretty's Performance Rights are reasonable in the Company's circumstances and reflect the arm's length negotiations between the Board and the candidates for the role of Managing Director, prior to Mr Pretty's appointment.

## Summary of the Plan's Key Terms:

### Performance Conditions

The vesting of the Performance Rights will be subject to two performance conditions:

#### Tranche 1 - TSR Performance Conditions

Fifty percent (50%) of Performance Rights will be subject to the Company's TSR compared to the TSR over the Performance Period of the companies in Hills' Comparator Group. The table below shows how the vesting of Performance Rights will occur for this performance condition:

Company's TSR and Percentile	Percentage of Performance Rights that vest
Positive and equal to (or greater than) the 50th percentile	50% of Performance Rights
Negative or below the 50th percentile	Nil vesting

#### Tranche 2 - EPS CAGR Performance Conditions

Fifty percent (50%) of Performance Rights will be subject to the Company's EPS CAGR. The table below shows how the vesting of Performance Rights will occur for this performance condition:

EPS CAGR (per annum)	Percentage of Performance Rights that vest
Equal to 15%	33.33% of Performance Rights
Between 15% and 19.2%	Pro-rata (straight line) vesting of remaining 16.67% of Performance Rights
Below 15%	Nil vesting

For these purposes:

**"CAGR"** refers to the "compound annual growth rate" determined by the Board after a comprehensive budgeting process, taking in to account the delivery of the 'conviction growth' strategy.

**"EPS"** refers to underlying "earnings per share".

**"Hills' Comparator Group"** means the companies in the S&P/ASX Small Ordinaries Index (excluding companies identified by S&P as members of the materials, energy or financials sectors).

**"Performance Period"** means the period from 1 July 2014 to 30 June 2017.

**"TSR"** refers to "total shareholder return" and takes into account the growth in a company's share price and all dividends and other benefits paid or otherwise made available to shareholders during the Performance Period. TSR is determined disregarding the tax treatment of any changes in a company's share price and any dividends or benefits paid or made available during the Performance Period.

The maximum number of Performance Rights that can vest is 100% if both performance conditions are met.

### Treatment on termination of employment or corporate events

The rules of the Plan (**Plan Rules**) provide that all of an employee's unvested Performance Rights will lapse on the date they cease to be an employee unless the Board determines otherwise. In the case of Mr Pretty's Performance Rights, if he ceases to be an employee due to his death or total and permanent disablement, all of his unvested Performance Rights will remain outstanding and will vest or lapse as if he remained an employee, unless the Board determines that some or all of his unvested Performance Rights should vest immediately. In any other circumstances, Mr Pretty's unvested Performance Rights will lapse on the date he ceases to be an employee unless the Board determines otherwise.

If Mr Pretty ceases to be employed by Hills (or any member of the Hills group) on or before the end of the restriction period (being the first date on or after 1 July 2018 that Mr Pretty is able to deal with Hills shares under Hills' Share Trading Policy) (**Restriction Period**), any shares allocated to Mr Pretty by the trustee of the Plan trust on vesting of his Performance Rights will remain subject to the Restriction Period and will be released to Mr Pretty in the ordinary course at the end of the Restriction Period.

The Board has the discretion to determine that some, all or none of Mr Pretty's unvested Performance Rights will vest if the Company is the subject of a takeover, change of control or winding-up resolution. In such circumstances, unless the Board determines otherwise, the Restriction Period will be brought forward to the date such event occurs.

Under the Plan Rules, unless the Board determines otherwise, a participant's unvested Performance Rights will lapse immediately if the Board determines that the participant has brought the Hills group into serious disrepute or has acted fraudulently, dishonestly or has committed an act of harassment or discrimination.

The Plan Rules also provide the Board with discretion to determine that some or all Performance Rights will lapse or vest at the end of the Performance Period even if the relevant Performance Condition has or has not been satisfied. The Board only intends to exercise this discretion in extraordinary circumstances.

## Regulatory Requirements – ASX Listing Rule 10.15A

In accordance with ASX Listing Rule 10.15A, the following information is provided in relation to resolution 5:

- (a) the maximum number of Performance Rights to be granted to Mr Pretty by the Company is 160,555;
- (b) the Performance Rights will be issued for no monetary consideration;
- (c) since the last approval under ASX Listing Rule 10.14 Mr Pretty received 1,133,332 Performance Rights as approved by Shareholders at the 2013 Annual General Meeting;
- (d) Mr Pretty is the only person referred to in ASX Listing Rule 10.14 entitled to be issued Performance Rights under the Plan;
- (e) no loan will be provided by the Company in connection with the grant of Performance Rights to Mr Pretty;
- (f) details of any Performance Rights issued under the Plan will be published in each Annual Report of the Company relating to a period in which the Performance Rights have been issued and approval for the issue of securities was obtained under ASX Listing Rule 10.14;
- (g) any additional person to whom ASX Listing Rule 10.14 applies who becomes entitled to participate in the Plan after this resolution is approved and who is not named in this Notice of Meeting will not participate in the Plan until Shareholder approval is obtained under ASX Listing Rule 10.14; and
- (h) the Company will issue the Performance Rights to Mr Pretty as soon as practicable after the date of the 2014 AGM but in any event not later than three years following the date of the 2014 AGM.

### Recommendation

The Board (with Mr Pretty abstaining) recommends that Shareholders vote in favour of this resolution, either by attending the 2014 AGM in person or by ticking the box marked “**For**” and submitting your proxy form in accordance with the instructions in the Note to the Notice of Meeting and the instructions contained in the proxy form.

## Contingent Business

### 6. Board Spill Meeting

At last year’s AGM, more than 25% of the votes cast on the resolution to adopt the 2013 Remuneration Report were voted ‘against’ the resolution. Accordingly, Hills received a ‘first strike’ under the executive remuneration laws.

If less than 25% of the votes on resolution 4 are cast ‘against’ the adoption of the Remuneration Report at the 2014 AGM, then there will be no ‘second strike’ and it is intended that this resolution 6 will not be put to the meeting.

If the votes cast ‘against’ the 2014 Remuneration Report are again at least 25% of the votes cast, Hills will receive a ‘second strike’ and resolution 6 will be put to the meeting.

If at the meeting it is uncertain whether more or less than 25% of the votes on resolution 4 have been cast ‘against’ the adoption of the Remuneration Report then resolution 6 may be put to the meeting. In that case, resolution 6 will only be regarded as a spill resolution for the purposes of section 250V of the Corporations Act and will only be effective if, when the votes are finally counted on resolution 4:

- a ‘second strike’ was in fact received on resolution 4; and
- this resolution 6 is passed with 50% or more of the votes cast in favour.

This means that if a ‘second strike’ is not received on resolution 4, no Spill Meeting (as defined below) will be convened even if resolution 6 was put to the meeting and passed.

If the votes cast ‘against’ the 2014 Remuneration Report are at least 25% of the votes cast, and resolution 6 put to the meeting and passed, then:

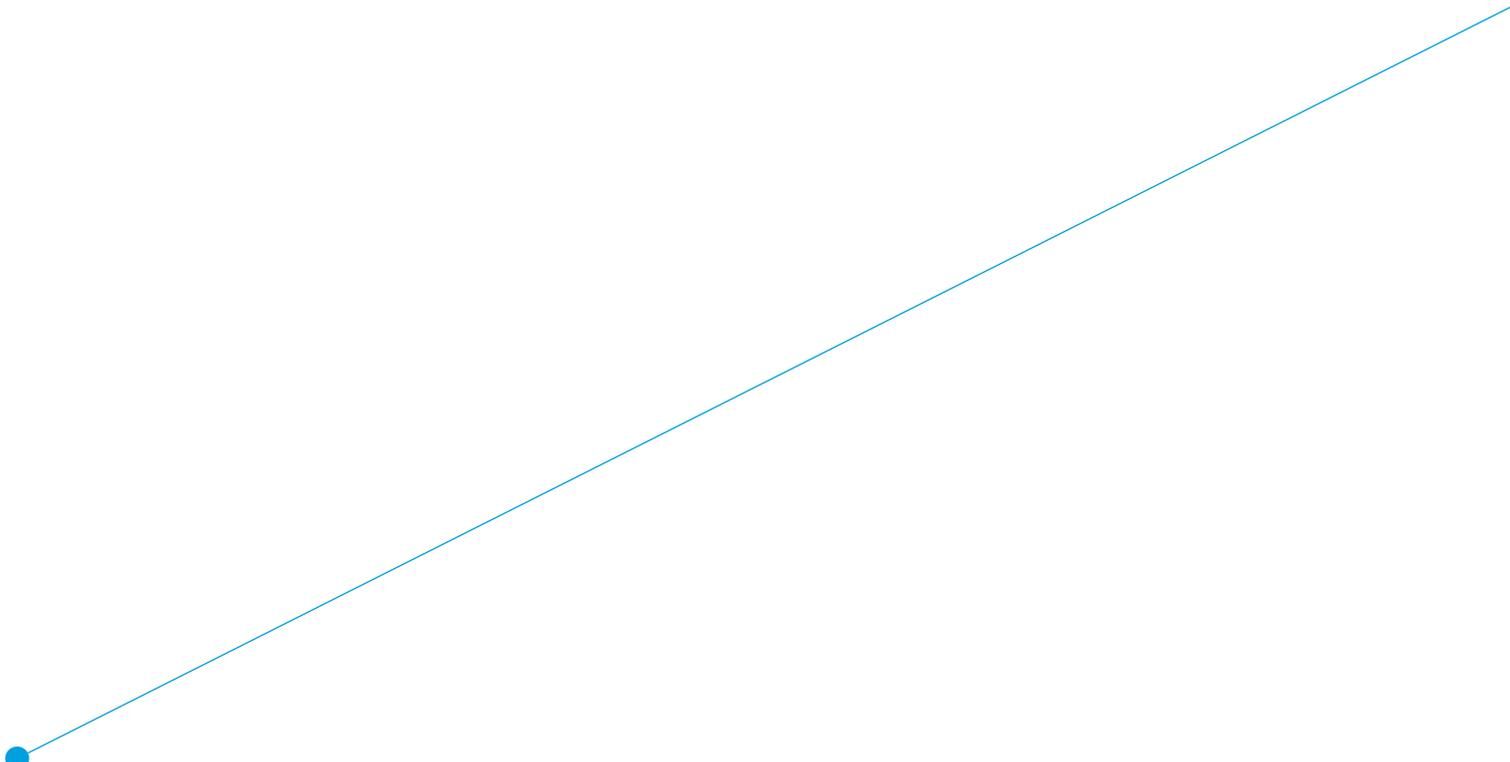
- (a) an extraordinary general meeting must be convened within 90 days of this AGM (**Spill Meeting**);
- (b) all of the current members of the Board other than Mr Pretty (or any replacement executive Director who may, in accordance with the ASX Listing Rules, continue to hold office indefinitely without being re-elected) will vacate their offices immediately before the end of the Spill Meeting; and
- (c) at the Spill Meeting, resolutions will be voted on to elect individuals to the vacated offices.

If this resolution is passed and becomes effective, all Directors will offer themselves for re-election. If, however, all of the current Directors (other than Mr Pretty or any replacement executive Director who may, in accordance with the ASX Listing Rules, continue to hold office indefinitely without being re-elected) cease to be Directors prior to the Spill Meeting, the meeting need not be held.

If resolution 6 is put to the meeting, it will be an ordinary resolution conducted by way of a poll.

### Recommendation

The Board unanimously recommends that Shareholders **vote against resolution 6** on the basis that it would be extremely disruptive to the Company and in the Board’s view, it would be inappropriate to remove all the non-executive Directors in the circumstances. However, the Board recognises that Shareholders can remove a Director by majority shareholder vote at any time and for any reason.



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w [hills.com.au](http://hills.com.au)  
ABN 35 007 573 417

[hills.com.au](http://hills.com.au)

# Questions from Shareholders

Your questions regarding any matter relating to the Company are important and we encourage you to raise them with us. We request that you use this question sheet to submit any questions that you would like answered at the 2014 AGM.

Please email this question sheet to [info@hills.com.au](mailto:info@hills.com.au) or return in the reply paid envelope by 2.30pm (Adelaide time) Friday 24 October 2014.

We will endeavour to answer as many of the frequently asked questions as possible at the 2014 AGM, both in the Chairman's and Managing Director's addresses.

Name: \_\_\_\_\_

Security Reference Number (SRN) or Holder Identification Number (HIN): \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## Questions

Matter subject: \_\_\_\_\_

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Hills Limited ABN 35 007 573 417



**Lodge your vote:**

**Online:**  
www.investorvote.com.au

**By Mail:**  
Computershare Investor Services Pty Limited  
GPO Box 242 Melbourne  
Victoria 3001 Australia

Alternatively you can fax your form to  
(within Australia) 1800 783 447  
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only  
(custodians) www.intermediaryonline.com

**For all enquiries call:**  
(within Australia) 1300 556 161  
(outside Australia) +61 3 9415 4000

## Proxy Form

<p><b>Vote and view the annual report online</b></p> <ul style="list-style-type: none"> <li>• Go to <a href="http://www.investorvote.com.au">www.investorvote.com.au</a> or scan the QR Code with your mobile device.</li> <li>• Follow the instructions on the secure website to vote.</li> </ul>	
<p><b>Your access information that you will need to vote:</b></p> <p><b>Control Number:</b></p> <p><b>SRN/HIN:</b></p> <p>PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.</p>	

**For your vote to be effective it must be received by 2:30pm (Adelaide time) Wednesday 29 October 2014**

### How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

#### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

### Signing Instructions for Postal Forms

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

### Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the help tab, "Printable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,  
or turn over to complete the form** ➔

**Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.

# Proxy Form

Please mark  to indicate your directions

## STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Hills Limited hereby appoint

the Chairman of the Meeting OR

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of Hills Limited to be held at Theatre A, Adelaide Entertainment Centre, 98 Port Road, Hindmarsh, South Australia on Friday, 31 October 2014 at 2:30pm (Adelaide time) and at any adjournment or postponement of that Meeting.

**Chairman authorised to exercise undirected proxies on remuneration related resolutions:** Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on **Items 4, 5 & 6** (except where I/we have indicated a different voting intention below) even though **Items 4, 5 & 6** are connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

**The Chairman of the Meeting intends to vote undirected proxies in favour of each Item of business with the exception of Item 6 where the Chairman of the Meeting intends to vote against.**

In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

**Important Note:** If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on **any item** by marking the appropriate box in step 2 below.

## STEP 2 Items of Business

**PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

**Please Note:** to fully inform shareholders in exercising their right to vote, please be aware that if the Chairman of the Meeting is appointed as your proxy (or becomes your proxy by default), the Chairman of the Meeting intends to vote available proxies in the manner set out beside each resolution:

Ordinary Business		For	Against	Abstain
FOR	2 Re-election of Mr Ian Elliot as a director of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
FOR	3 Election of Mr Philip Bullock as a director of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
FOR	4 Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
FOR	5 Approval of proposed issue of Performance Rights to Edward Noel Pretty, the Company's Managing Director, under the Hills Limited Long Term Incentive Share Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Contingent Business</b>				
<b>Note: Item 6 will only be considered at the meeting if the condition described in the Notice of Meeting is satisfied.</b>				
AGAINST	6 Board Spill Meeting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name \_\_\_\_\_

Contact Daytime Telephone \_\_\_\_\_

Date / / \_\_\_\_\_