

HILLS HOLDINGS LIMITED
ABN 35 007 573 417

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of Shareholders of Hills Holdings Limited ABN 35 007 573 417 (**Company**) will be held at the Star Room, Adelaide Entertainment Centre, 98 Port Road, Hindmarsh, SA 5007 on 22 December 2011 at 2.00pm.

ITEMS OF BUSINESS

SPECIAL RESOLUTIONS

1. Adoption of new Constitution

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

“That the new Constitution tabled at the meeting, and signed by the Chairman of the meeting for the purposes of identification, be approved and adopted as the Constitution of the company, in place of the current Constitution, with effect from the close of the meeting.”

2. Approval of Proportional Takeover Provisions

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

“That, conditional upon the approval of Resolution 1 and with effect from the close of the meeting, the proportional takeover provisions set out in Annexure A to the Explanatory Statement be inserted into the Constitution as Articles 6.9 – 6.14.”

For further information, please refer to the Explanatory Statement which is included with, and forms part of, this Notice of Meeting.

By Order of the Board



David Lethbridge
Company Secretary

16 November 2011

NOTES

- (a) A member entitled to attend the meeting and vote is entitled to appoint not more than two proxies. Where more than one proxy is appointed, each proxy must be appointed to represent a specified portion of the member's voting rights. A proxy need not be a member.
- (b) Where a member has appointed an attorney, the form of proxy must be signed by the member's attorney duly authorised in writing or, if the member is a corporation, under its corporate seal or by its duly authorised attorney or representative.
If any attorney is to attend the meeting, please submit the relevant power of attorney for noting. If a representative of a corporation is to attend the meeting, the appropriate Letter of Representation should be produced prior to admission.
- (c) In the case of joint holders, the proxy form may be signed by any one holder.
- (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 or by forwarding a hard copy to GPO Box 242, Melbourne, Victoria 3001 or faxed 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 meeting. Instructions in regard to lodging your proxy vote are provided on the enclosed proxy form.
- (e) Should a member desire to direct the proxy how to vote, the member 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.
- (f) For Intermediary Online subscribers only (custodians) please visit www.intermediaryonline.com to submit your voting intentions.
- (g) The Company has determined in accordance with regulation 7.11.37 of the Corporations Regulations 2001 that for the purpose of voting at the meeting, shares of the Company will be taken to be held by the persons who hold them at 7.00pm on 20 December 2011.

Notice of General Meeting continued

Explanatory Statement

on the business to be conducted at the Hills Holdings Limited General Meeting (**Meeting**)

SPECIAL BUSINESS

What is the purpose of the Meeting?

The purpose of the Meeting is for shareholders of the Company to consider and, if thought fit, to pass the following special resolutions:

Resolution 1: Adoption of new Constitution (note: the adoption of the new Constitution will be implemented if Resolution 1 is approved, regardless of whether Resolution 2 is approved).

Resolution 2: Approval of Proportional Takeover Provisions (note: the insertion of these provisions into the new Constitution will only be implemented if Resolution 1 and Resolution 2 are approved).

1. Adoption of new Constitution

Approval Sought

Shareholder approval is being sought for the adoption of a new Constitution for the Company in place of its existing Constitution. If the resolution to approve the adoption of the new Constitution is passed, the new Constitution will be effective from the close of the meeting.

The resolution to adopt the new Constitution does not include the approval of proportional takeover provisions. A separate approval, proposed as Resolution 2, is being sought to insert proportional takeover provisions into the new Constitution with effect from the close of the meeting. The explanatory notes associated with that resolution are set out at section 2 below.

Background

The current Constitution was adopted at the 1999 Annual General Meeting. A review of the current Constitution has been conducted, as a result of which the Board considers that the Constitution should be brought up to date with the current provisions of the Corporations Act 2001 (Cth) (**Corporations Act**) and the Listing Rules of the ASX Limited (**ASX**). In addition, the Board considers that a number of provisions in the current Constitution should be amended to bring the Constitution into line with current market practice for ASX listed companies. The Board considers that it is preferable to repeal the current Constitution and replace it with a new Constitution rather than to propose a multitude of specific amendments to update each relevant provision of the current Constitution.

A copy of the new Constitution is available for inspection at the Company's registered office at 159 Port Road Hindmarsh SA 5007 or at www.hillsholdings.com.au or available upon request from the Company Secretary by email (info@hillsholdings.com.au).

Explanation of substantive changes

The structure of the new Constitution is not materially different from the current Constitution, and the Board do not consider that the differences between the new Constitution and the current Constitution materially alter the position of the Company's shareholders in general.

The principal substantive differences between the current Constitution and the new Constitution are summarised below. The summary is not exhaustive and does not identify all of the differences between the current Constitution and the new Constitution.

(a) **General regulatory amendments and updating**

Various legislative changes have occurred since the current Constitution was adopted in 1999. As a consequence a number of the provisions in the current Constitution are outdated or no longer fully reflect current legislation or market practice. Accordingly, the new Constitution reflects these changes and generally brings the Company's Constitution up to date with market practice. Some of the specific amendments relating to legislative amendments include:

- the new Constitution updates relevant definitions in the Constitution to reflect changes in terminology used in the Corporations Act, the ASX Listing Rules and the ASX Settlement Operating Rules;

- the unmarketable parcel provisions in the current Constitution have been replaced in the new Constitution by provisions relating to small holdings (which reflect the current position under ASX Listing Rule 15.13); and
- a number of provisions of the current Constitution have not been replicated in the new Constitution where they are covered by mandatory rules which apply to the Company under the Corporations Act, so as to avoid potential inconsistency between the position set out in the Constitution and the overarching position under the legislation. Such provisions include those in relation to associate directors, share certificates, registers, alteration of capital, proxies and representatives, minutes and accounts. In these areas, the nature of shareholders rights have not materially changed, as the position set out in the current Constitution is largely replicated by the corresponding mandatory rules under the Corporations Act.

(b) Provisions concerning Company administration

The new Constitution contains a number of amendments to update or simplify the manner in which the administrative provisions of the Constitution operate. These changes include:

- *Service of Documents* - amendments to the service of documents provisions which clarify the permitted methods of service and the timing at which documents are taken to be received;
- *Notice of Postponement of Annual General Meeting* - in line with current market practice, the new Constitution allows notice of a cancellation or postponement of a general meeting to be published in an Australian daily newspaper, given to the ASX or given in any other manner determined by the Directors; and
- *Access to records and disclosure of information* - the new Constitution contains provisions relating to rights to inspect Company records which are consistent with those set out in the current Constitution. However, the new Constitution does not replicate the provisions of the current Constitution which seek to impose direct obligations on various officers and representatives of the Company in relation to the non-disclosure of information. The Company has internal policies and procedures which it observes to protect the confidentiality of its information, and the Board considers that these policies and procedures are the appropriate mechanisms for dealing with disclosure obligations, rather than the provisions of the Constitution.

(c) Provisions relating to Directors

The new Constitution updates a number of provisions of the existing Constitution in relation to the Directors to bring the Company's procedures in line with current market practice. The material amendments include:

- *Numbers of Directors* - the new Constitution updates the existing Constitution for recent amendments to the Corporations Act, to clarify that any board limits set by the Directors in relation to the maximum number of Directors must be set in accordance with the provisions of the Corporations Act (which requires the approval of an ordinary resolution of the Company);
- *Retirement and election of Directors* - the new Constitution adopts the requirements of the ASX Listing Rules for the Company to have an election of Directors each year, and to require each Director (excluding the Managing Director) to retire at the third annual general meeting after the director was elected or last re-elected. Within the framework of the ASX Listing Rules, the provisions of the New Constitution provide greater flexibility than the corresponding provisions of the current Constitution, which had the practical effect that from time to time Directors could be required to retire by rotation at intervals of less than three years; and
- *Delegation of powers* - the new Constitution clarifies that the powers of delegation conferred on the Directors by the Constitution are conferred under the general law rather than the statutory provisions set out in the Corporations Act. Consistent with the general law, the new provisions have the effect that Directors will be liable for any wrongful or negligent omissions of their delegates only if it is proved that the Directors themselves have acted wrongfully or negligently.

(d) Provisions relating to Dividends

The new Constitution reflects recent amendments to the Corporations Act which replaced the former provisions restricting the payment of dividends by a company other than out of profits with more flexible provisions structured around a solvency-based test, which allow a company to pay dividends if:

- the company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the dividend payment;
- it is fair and reasonable to the company's shareholders as a whole; and

- it does not materially prejudice the company's ability to pay its creditors.

As well as incorporating changes to permit the payment of dividends otherwise than out of profits in accordance with the Corporations Act, the new Constitution also contains some minor amendments to the provisions of the current Constitution around the procedure for the determination and payment of dividends.

(e) Terms applying to Preference shares

The new Constitution satisfies the requirements of section 254A(2) of the Corporations Act by setting out the rights attached to any preference shares which may be issued by the Company under the Constitution with respect to repayment of capital, participation in surplus assets and profits, cumulative and non-cumulative dividends, voting and priority of payment of capital and dividends in relation to other shares or classes of preference shares.

Directors' recommendation

The Board unanimously recommends that shareholders vote in favour of this resolution, either by attending the meeting 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.

2. Approval of Proportional Takeover Provisions

Conditional upon the adoption of the new Constitution under Resolution 1, it is intended to insert Articles 6.9 – 6.14 (set out in Annexure A) into the new Constitution. These articles contain similar proportional takeover approval provisions to those set out in the Company's current Constitution.

Under the Corporations Act, a company may include provisions in its constitution which prohibit the registration of shares acquired under a proportional takeover bid unless a resolution approving the bid is passed by the shareholders of the company. A proportional takeover bid is a takeover bid under which the offer is made to each shareholder only for a proportion of that shareholder's shares.

The proportional takeover provisions contained in the Company's current Constitution are no longer operative as it has been more than three years since they were last approved by shareholders. If this resolution is passed, these new provisions will be inserted into the new Constitution adopted under Resolution 1 and will take effect from the close of the Meeting until 3 years from the date of the Meeting. They will then cease to apply unless renewed by special resolution of the Company.

Where the approval of shareholders is sought to include proportional takeover provisions in a constitution, the Corporations Act requires certain information to be provided to shareholders. That information is set out below.

Effect of the proposed provisions

If the proportional takeover provisions are adopted and a proportional takeover bid is made, the directors must ensure that a resolution of shareholders to approve the takeover bid is voted on at least 14 days before the last day of the bid period. The vote will be decided on a simple majority and each person (other than the bidder and their associates) who, as at the end of the day on which the first offer under the bid was made, held bid class securities, is entitled to vote, on the basis of one vote for each bid class security held at that time.

If the resolution to approve the bid is not passed, transfers resulting from acceptances for the proportional takeover bid will not be registered and the bid will be taken to have been withdrawn. If a resolution to approve the bid is not voted on by the required time, the bid will be taken to have been approved.

If the bid is approved (or taken to have been approved), the transfers resulting from acceptances for the proportional takeover bid must be registered by the Company (provided they comply with other provisions of the Corporations Act and the Constitution).

The proportional takeover approval provisions do not apply to full takeover bids and will only apply until 3 years after the date of their adoption under this resolution. The provisions may be renewed for a further term, but only by a special resolution of the Company's shareholders.

Reasons for proposing the provisions

The Corporations Act permits proportional takeover approval provisions to be contained in the Constitution if certain requirements are satisfied. The Board considers that shareholders should have the opportunity to have the proportional takeover approval provisions inserted into the new Constitution. Without these provisions, a bidder might be able to obtain control of the Company using a proportional takeover bid without shareholders having the opportunity to sell all their shares. Shareholders may then be exposed to the risk of being left as a minority in the Company with a bidder being able to acquire control of the Company without payment of an adequate premium for all of their shares.

The proportional takeover approval provisions lessen this risk because they give shareholders the opportunity to decide whether a proportional takeover bid should proceed. If it does proceed, individual shareholders can make a separate decision as to whether they wish to accept the proportional offer for their shares.

Knowledge of any acquisition proposals

As at the date of this Explanatory Statement, none of the Directors is aware of any proposal by a person to acquire, or to increase the extent of, a substantial interest in the Company.

Potential advantages and disadvantages of proposed provisions

Potential advantages

The proposed proportional takeover provisions will enable the Directors to ascertain the views of the shareholders on a proportional takeover bid. Apart from this, the Directors consider that the proposed proportional takeover provisions have no potential advantages or potential disadvantages for the Directors because they remain free to make a recommendation on whether a proportional takeover bid should be approved.

The Directors consider that the insertion of the proportional takeover provisions into the new Constitution will benefit all Shareholders in that the proposed provisions:

- will enable shareholders to have the right to determine by majority vote whether an offer under a proportional takeover bid should proceed;
- may help shareholders to avoid being locked in as a minority shareholder, or having less opportunity in the future to sell their shares in the Company at a price that is considered attractive to the shareholder, because of the presence of a majority shareholder;
- may assist in ensuring that any proportional takeover bid is adequately priced, that is preventing a bidder being able to acquire control of the Company without payment of an adequate premium for all of their shares; and
- increase shareholders' bargaining power and may assist in ensuring that any proportional takeover bid is structured to be attractive to a majority of independent shareholders.

Knowing the view of the majority of shareholders may help each individual shareholder assess the likely outcome of the proportional takeover bid and decide whether to accept or reject an offer under the bid.

Potential disadvantages

The potential disadvantages for shareholders of the proposed proportional takeover provisions include:

- proportional takeover approval provisions may make a proportional takeover bid more difficult to achieve which may have the effect of discouraging proportional takeover bids. This in turn may possibly reduce opportunities for shareholders to sell some of their shares at an attractive price to persons seeking to secure control of the Company and may reduce an element of takeover speculation from the Company's share price, although this effect may be negligible given the rarity of proportional takeover bids over the last decade; and
- the provisions may constitute a potential restriction on the ability of shareholders to deal freely with their shares.

Since the current Constitution was adopted, there have been no full or proportional takeover bids for the Company. Accordingly, there has been no example against which to review the advantages or disadvantages of the existing proportional takeover provisions. While it may be argued that during the period from 1999 to 2002 when the existing proportional takeover provisions were in effect, they had the

disadvantage of discouraging proportional takeover bids, the Board is not aware of any potential takeover bid that was discouraged by these provisions during that period.

Review of potential advantages and disadvantages

The Board does not believe the potential disadvantages outweigh the potential advantages of inserting the proportional takeover provisions in the new Constitution. Inserting the proportional takeover approval provisions into the new Constitution will not confer any particular advantages or disadvantages on the Directors in their capacity as directors of the Company. The Board considers that, on balance, it is in the best interests of shareholders of the Company to insert the proportional takeover provisions into the new Constitution.

Directors' Recommendation

The Board unanimously recommends that shareholders vote in favour of this resolution, either by attending the meeting 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.

PROPORTIONAL TAKEOVER PROVISIONS

6.9 Resolution required for proportional takeover provisions

Despite articles 6.1, 6.2 and 6.3, if offers are made under a proportional takeover bid for securities of the Company in accordance with the Corporations Act:

- (a) articles 6.9 to 6.13 apply;
- (b) the registration of a transfer giving effect to a takeover contract resulting from acceptance of an offer made under the takeover bid is prohibited unless and until a resolution (an “approving resolution”) to approve the bid is passed or taken to be passed in accordance with article 6.12 or article 6.13; and
- (c) the Directors must ensure that an approving resolution is voted on in accordance with articles 6.10 to 6.11 before the fourteenth day before the last day of the bid period.

6.10 Procedure for resolution

The Directors may determine whether the approving resolution is voted on:

- (a) at a meeting of persons entitled to vote on the resolution convened and conducted, subject to the provisions of article 6.11, as if it were a general meeting of the Company convened and conducted in accordance with this Constitution and the Corporations Act with such modifications as the Directors determine the circumstances require; or
- (b) by means of a postal ballot conducted in accordance with the following procedure:
 - (i) a notice of postal ballot and ballot paper must be sent to all persons entitled to vote on the resolution not less than 14 days before the date specified in the notice for closing of the postal ballot, or such lesser period as the Directors determine the circumstances require;
 - (ii) the non-receipt of a notice of postal ballot or ballot paper by, or the accidental omission to give a notice of postal ballot or ballot paper to, a person entitled to receive them does not invalidate the postal ballot or any resolution passed under the postal ballot;
 - (iii) the notice of postal ballot must contain the text of the resolution and the date for closing of the ballot and may contain any other information the Directors consider appropriate;
 - (iv) each ballot paper must specify the name of the person entitled to vote;
 - (v) a postal ballot is only valid if the ballot paper is duly completed and:
 - (A) if the person entitled to vote is an individual, signed by the individual or a duly authorised attorney; or
 - (B) if the person entitled to vote is a corporation, executed under seal or as permitted by the Corporations Act or under the hand of a duly authorised officer or duly authorised attorney;
 - (vi) a postal ballot is only valid if the ballot paper and the power of attorney or other authority, if any, under which the ballot paper is signed or a copy of that power or authority certified as a true copy by statutory declaration is or are received by the Company before close of business on the date specified in the notice of postal

ballot for closing of the postal ballot at the Registered Office or share registry of the Company or at such other place as is specified for that purpose in the notice of postal ballot; and

- (vii) a person may revoke a postal ballot vote by notice in writing which to be effective must be received by the Company before the close of business on the date for closing of the postal ballot.

6.11 Persons entitled to vote

The only persons entitled to vote on the approving resolution are those persons who, as at the end of the day on which the first offer under the bid was made, held bid class securities. Each person who is entitled to vote is entitled to one vote for each bid class security held by that person at that time.

Neither the bidder nor any associate of the bidder is entitled to vote on the resolution.

6.12 Resolution passed or rejected

If the resolution is voted on in accordance with articles 6.9 to 6.11, then it is taken to have been passed if the proportion that the number of votes in favour of the resolution bears to the total number of votes on the resolution is greater than one-half, and otherwise is to be taken to have been rejected.

6.13 Resolution taken as passed

If a resolution to approve the bid has not been voted on as at the end of the day before the fourteenth day before the last day of the offer period, then a resolution to approve the bid is taken to have been passed in accordance with articles 6.10 to 6.12.

6.14 Takeover articles cease to have effect

Articles 6.9 to 6.13 cease to have effect on the day three years after the later of their adoption or last renewal.