

Shareholder letter

October 2015



Dear Shareholder

At this year's AGM, Ms Jennifer Hill-Ling will retire in accordance with the Company's Constitution, and offers herself for re-election.

As Chairman, Jennifer has led the Board during the transformation of Hills, which was critical for the Company's long-term growth. In a relatively short period we have transformed from: a conglomerate dependent upon low margin, capital-intensive steel fabrication, to a higher margin value-added distributor of Security, AV and Health services and products.

To return our Company to the level of profitability expected, we need to stay the course and complete the transformation journey. This will require further patience, discipline and experience and we have appointed a new CEO, Grant Logan whose distribution management skills fits this task perfectly.

We regularly review the performance and composition of the Board to ensure we have the appropriate skill set. With the appointment of Mr Philip Bullock last year, your Board is confident that its current composition provides coverage of all the skills required to achieve profitable growth and future dividends.

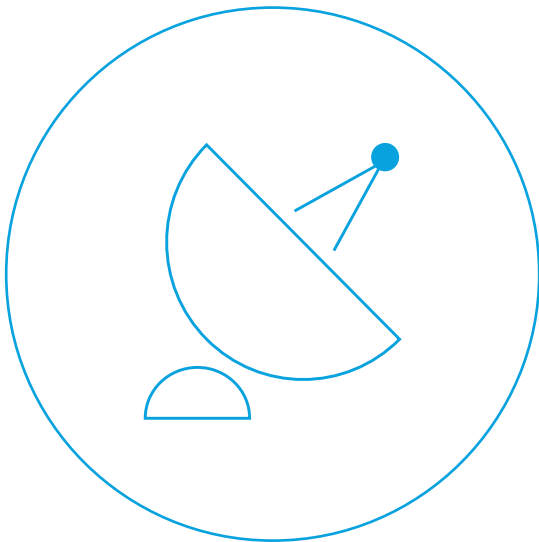
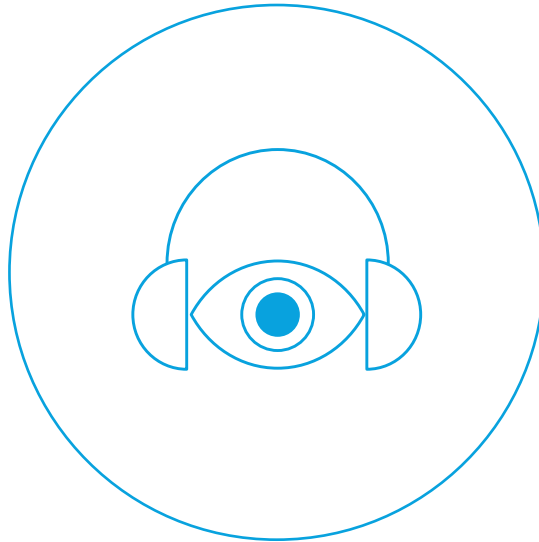
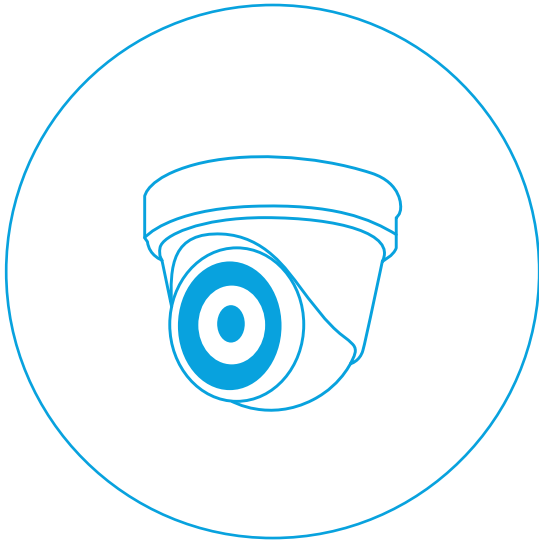
As the longest serving member of your Board, Jennifer provides continuity of corporate knowledge and demonstrates strong leadership to enhance the effectiveness of the Board and is committed to achieving and demonstrating the highest standards of corporate governance. In addition she has a significant private shareholding in the Company, aligning her interests with those of shareholders and is the safest pair of hands to consolidate the transformation. She brings more than 20 years' experience in corporate law with a special focus on mergers and acquisitions, a key attribute for consolidating our transformation.

The Board (with Ms Hill-Ling abstaining) unanimously recommends her re-appointment as a Director of your Company.

Yours sincerely

A handwritten signature in black ink, appearing to read "I. Elliot".

Ian Elliot
Lead Independent Non-Executive Director



Hills Limited 2015 Annual General Meeting

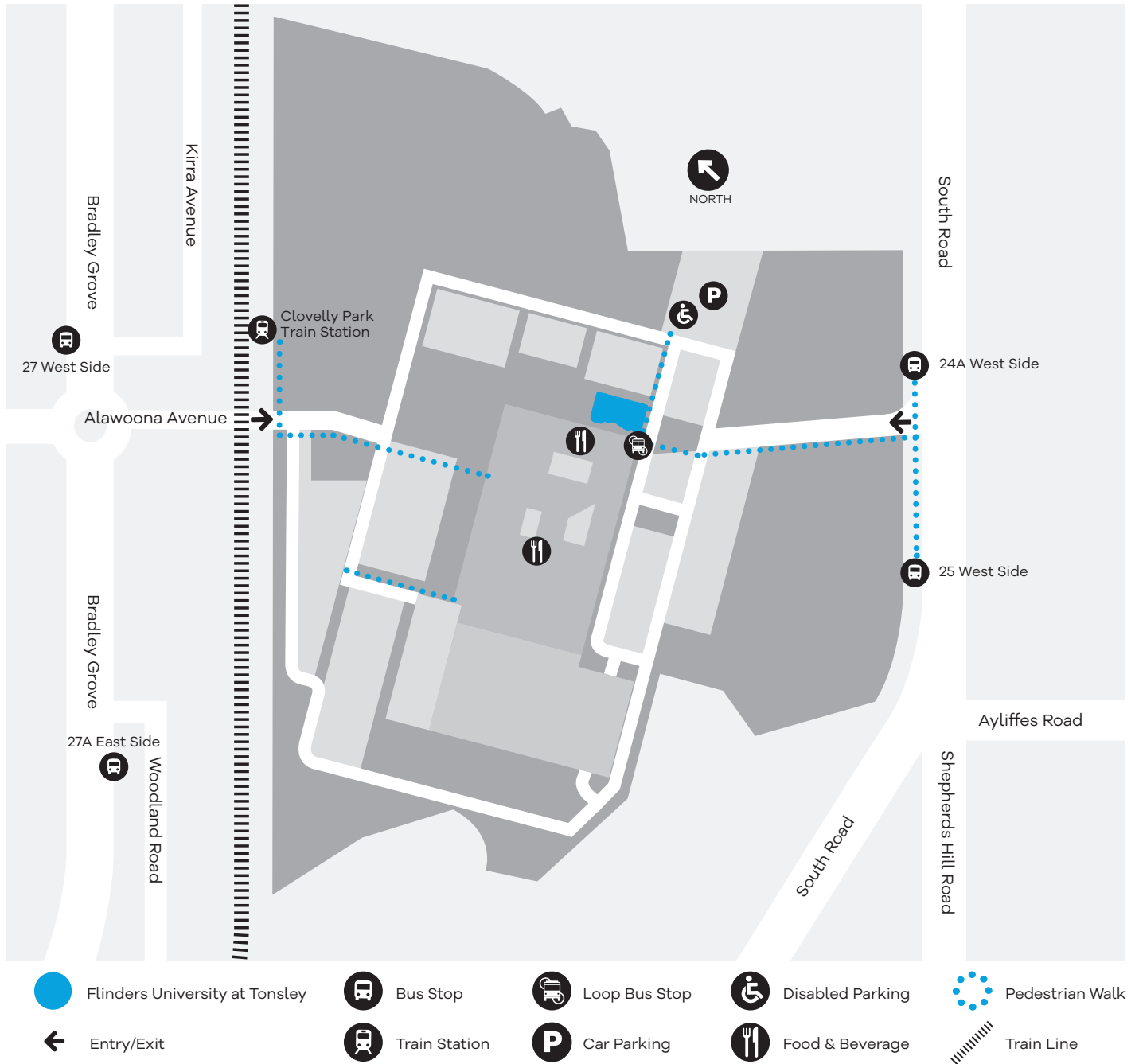
Hills Limited ABN 35 007 573 417



Where it is and where to park

The AGM will be held at Flinders University Building, Main Theatre, 1284 South Road, Clovelly Park, South Australia on Thursday, 26 November 2015, commencing at 2:30pm.

Tonsley precinct map



2015 Annual General Meeting

Dear Shareholder

I am pleased to invite you to attend the 2015 Annual General Meeting (**AGM** or **meeting**) of Hills Limited (**Hills** or the **Company**).

The AGM will be held on Thursday, 26 November 2015 at 2:30pm (Adelaide time) at:
Flinders University Building
Main Theatre
1284 South Road
Clovelly Park SA 5042

A map with directions to the venue appears on the opposite page.

Items of Business

The following pages contain details on the items of business that you have the opportunity to vote on, as well as explanatory notes and voting procedures.

At this year's AGM you will be asked to vote on the re-election of Ms Jennifer Hill-Ling as a Director of the Company. Enclosed with this Notice of Meeting is a letter to shareholders from Mr Ian Elliot (Lead Independent Non-Executive Director) in relation to this resolution which I encourage you to read.

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 19 to 38 of the 2015 Annual Report.

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

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 2015 AGM. Please return this question sheet in the reply paid envelope or email it to info@hills.com.au by 2.30pm (Adelaide time) Thursday 19 November 2015.

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 or complete and return the enclosed voting form by facsimile or by using the reply paid envelope provided.

We look forward to welcoming you to the 2015 AGM.

Yours sincerely



Gai Stephens
Company Secretary

Notice of Meeting

Notice is hereby given that the 58th Annual General Meeting (**2015 AGM**) of shareholders (**Shareholders**) of Hills Limited (ABN 35 007 573 417) (**Hills** or the **Company**) will be held in the Main Theatre at Flinders University Building, 1284 South Road, Clovelly Park SA 5062 on Thursday, 26 November 2015, commencing at 2:30pm, to conduct the following items of business:

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 2015.

2. Re-election of Ms Jennifer Hill-Ling as a Director of the Company

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

"that, Ms Jennifer Hill-Ling, 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. 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 2015, be adopted."

Voting Exclusion Statement

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

- subject to paragraph 2, a vote must not be cast (in any capacity) on this resolution 3 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 3 by a KMP, or a closely related party of a KMP, if:
 - the vote is cast as a proxy appointed in writing that specifies how the proxy is to vote on this resolution 3; and
 - the vote is not cast on behalf of a KMP or a closely related party of a KMP.
- if you appoint the Chairman of the 2015 AGM as your proxy, and you do not direct your proxy how to vote on this resolution 3 on the proxy form, you will be expressly authorising the Chairman of the 2015 AGM to exercise your proxy even if resolution 3 is connected directly or indirectly with the remuneration of a member of the KMP, which includes the Chairman of the 2015 AGM.

The Chairman of the 2015 AGM intends to vote undirected proxies in favour of resolution 3.

Please refer to the Explanatory Statement for further information on the items of business. The Explanatory Statement forms part of this Notice of Meeting.

By Order of the Board



Gai Stephens
Company Secretary
19th October 2015

Voting and Proxy Instructions

- (a) Shareholders, who are unable to attend and vote at the 2015 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 2015 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 or by forwarding a hard copy to Computershare, 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 2015 AGM. For Intermediary Online subscribers only (**custodians**), please visit 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 2015 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 2015 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 2015 AGM.
- (g) If a representative of a corporation is to attend the 2015 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 2015 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 Tuesday, 24 November 2015.

Explanatory Notes

The following Explanatory Notes explain the items of business to be considered at Hills 2015 AGM and form part of the Notice of Meeting. The Explanatory Notes are set out in the order of items 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://www.corporate.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 2015.

There is no vote on this item.

2. Re-election of Ms Jennifer Hill-Ling as a Director of the Company

Under the provisions in the Company's Constitution for the rotation of Directors, Ms Jennifer Hill-Ling will retire at the 2015 AGM and offers herself for re-election.

Ms Jennifer Hill-Ling was last re-elected as a director of the Company at its 2012 Annual General Meeting of the Company. She is the Chairman of the Company's Board and a member of the Remuneration Committee and the Nomination Committee.

As the longest serving member of your Board, Jennifer provides continuity of corporate knowledge and demonstrates strong leadership to enhance the effectiveness of the Board and is committed to achieving and demonstrating the highest standards of corporate governance. In addition she has a significant private shareholding in the Company, aligning her interests with those of shareholders and is the safest pair of hands to consolidate the transformation. She brings more than 20 years' experience in corporate law with a special focus on mergers and acquisitions, a key attribute for consolidating our transformation.

Further details of Ms Hill-Ling's experience is outlined on page 16 of the 2015 Annual Report.

Recommendation

The Board (with Ms Hill-Ling abstaining) unanimously recommends that Shareholders vote in favour of Ms Hill-Ling's re-election, either by attending the 2015 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. Adoption of Remuneration Report

The Company's Remuneration Report for the 2015 financial year is set out in pages 19 to 38 of the 2015 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 2015. The Remuneration Report has been audited as required by Section 308 (3C) of the Corporations Act.

During this item of business, Shareholders as a whole will be given a reasonable opportunity to ask questions about, and make comments on, the Remuneration Report.

Remuneration Policy and Practice

In response to feedback received from shareholders and corporate governance stakeholders, Hills has sought to continually improve the senior executive and director remuneration framework for the Company. On this basis, it was pleasing that approximately 97% of votes cast on the resolution to approve the 2014 Remuneration Report were cast in favour.

In response to shareholder feedback received since the 2014 AGM, key changes and outcomes applicable to the 2015 remuneration policy are summarised as follows:

- The fixed annual remuneration provided to the incoming Chief Executive Officer (CEO) Mr Grant Logan is set at \$825,000, which is approximately 10% lower than his predecessor's base salary of \$905,000 per annum.
- Consistent with group level performance for the period, none of the senior executives (including the former Managing Director and CEO) received an annual bonus in respect of financial performance measures, which comprised 80% of their FY2015 short term incentive (STI) opportunity.
- There were no one-off or ex-gratia cash payments provided to any of the senior executives during FY2015.
- For FY2015 long term incentive (LTI) awards, consistent with good governance practice the cliff vesting structure applicable to the portion of the grant that is tested against relative total shareholder return (TSR) has been replaced with a progressive vesting scale.

Whilst continuing to observe Australian corporate governance best practice principles, Hills has implemented some changes to its near term remuneration framework that is intended to support the current transformational journey that is being pursued, which is focused on growing the Company to profitability. In the context of this strategy, it is important that senior executives are properly incentivised to deliver against short term objectives and that remuneration levels reflect the size of the business. It is on this basis that:

- The LTI program has been deferred for FY2016 and will be reviewed in FY2017.
- The rationale for deferring the LTI program is predicated upon an emphasis towards achieving short to medium term milestones that are designed to stabilise and grow the core business. Such objectives include strong customer engagement, vendor relationship management, training and engaging our employees, tight capital management, margin improvement and growth.
- Mr Grant Logan has acted as both Chief Financial Officer and Chief Operating Officer for the Company prior to assuming the position of CEO on 27 May 2015. As the longest serving member of the executive team, it is critical that his services are retained through completion of Hills transformational strategy. It is on this basis that a retention payment of \$75,000 per annum, which formed part of his prior contractual arrangements, will continue to be honoured in FY2016.
- Non-Executive Director fees were voluntarily reduced by 20% per annum from 1 May 2015. This fee reduction has been implemented in recognition of the difficult trading environment within which the Company is currently operating.

Voting

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

Recommendation

The Board unanimously recommends that Shareholders vote in favour of this resolution, either by attending the 2015 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.

The Chairman of the meeting intends to vote all available proxies in favour of the adoption of the Remuneration Report.

Hills Limited

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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 2015 AGM.

Please email this question sheet to info@hills.com.au or return in the reply paid envelope by 2.30pm (Adelaide time) Thursday 19 November 2015.

We will endeavour to answer as many of the frequently asked questions as possible at the 2015 AGM, in the Chairman's and Chief Executive Officer's addresses.

Name: _____

Security Reference Number (SRN) or Holder Identification Number (HIN): _____

Address: _____

Questions

Matter subject: _____

Question: _____

Matter subject: _____

Question: _____

Matter subject: _____

Question: _____

Matter subject: _____

Question: _____



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

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 <p>Vote and view the annual report online</p> <ul style="list-style-type: none"> • Go to www.investorvote.com.au or scan the QR Code with your mobile device. • Follow the instructions on the secure website to vote. 	
<p>Your access information that you will need to vote:</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) Tuesday 24 November 2015

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 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

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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 **Flinders University Building, Main Theatre, 1284 South Road, Clovelly Park, South Australia on Thursday, 26 November 2015 at 2.30pm** 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 **Item 3** (except where I/we have indicated a different voting intention below) even though **Item 3** is connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

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 **Item 3** 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.

ORDINARY BUSINESS

	For	Against	Abstain
2. Re-election of Ms Jennifer Hill-Ling as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. 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.

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 ____ / ____ / ____