



GENERAL MEETING

Wednesday, 20 April 2022
10:00 am (Sydney time)

Hills Limited ABN 35 007 573 417

Letter from the Chairman

Dear Shareholder

I am pleased to invite you to participate in a general meeting (**Meeting**) of Hills Limited (**Hills**) on Wednesday, 20 April 2022 at 10:00am (Sydney time).

The Transaction

On 21 February 2022, Hills announced that it had entered into the Sale & Purchase Agreement under which Dicker Data Limited (**DDR**) has agreed to acquire from Hills the business and certain net assets of Hills's Security and Information Technology distribution division (**Transaction**).

The consideration payable to Hills under the Transaction is estimated at \$20 million in cash, payable in immediately available funds at completion of the sale, with a customary adjustment mechanism to occur after completion. There is no non-cash consideration or deferred consideration payable as part of the Transaction.

The purpose of the Meeting on 20 April 2022 is to seek your approval of the Resolution relating to the Transaction.

Benefits of the Transaction

The Directors believe that the benefits of the Transaction will include:

- enabling Hills to be more easily understood by prospective investors and financiers;
- improving Hills' ability to access capital and on terms more attractive to existing shareholders;
- increase Hills' re-rate potential as health businesses generally trade on higher earnings multiples than distribution businesses;
- significantly reduce Hills' ongoing working capital and debt servicing requirements;
- significantly increase Hills' profit after tax to cash flow conversion; and
- improve Hills' ability to use scrip as consideration in healthcare acquisitions as previous vendors of targets have advised that they have little interest in receiving Hills scrip whilst the SIT distribution division is owned by Hills.

Risks and potential disadvantages associated with the Transaction

It is important to note, as with the sale of any business division of substance, that there are inherent risks associated with the Transaction. The most significant risks and potential disadvantages are outlined in Section 5.3 and summarised in Section 9 of the Notice of Meeting. I encourage you to read these Sections of this Notice of Meeting thoughtfully and carefully.

Conditions of the Transaction

Shareholders are being asked to approve the Resolution set out in the Notice of Meeting that is necessary under the ASX Listing Rules in order for the Transaction to proceed.

Completion is conditional on, among other things:

- **Independent Expert Report:** The Independent Expert concluding the sale is fair and reasonable.
- **Shareholder Approval:** Approval by the Hills' shareholders at the Meeting.
- **Discharge of CBA Encumbrance:** Discharge by Commonwealth Bank of Australia (Hills' financier) of PPSR registrations over the Security and Information Technology distribution division assets;

- **CBA Consent:** Consent from Commonwealth Bank of Australia (Hills' financier) to the sale of the Security and Information Technology distribution division to DDR;
- **Novation of Key Contracts:** Novation of three key distribution contracts to DDR from Completion.
- **Assignment of Leases:** Landlord consent to the assignment of property leases to DDR from Completion.

Independent Expert

The Board has engaged RSM Corporate Australia Pty Ltd (**Independent Expert**) for the purposes of preparing an Independent Expert's Report with respect to the Transaction.

The Independent Expert's Report comments on the fairness and reasonableness of the Transaction. The Independent Expert has determined that the Transaction is fair and reasonable to Shareholders of Hills.

A copy of the Independent Expert's Report is attached to the Notice of Meeting at Section 13.

Conclusion

Further detailed information about the Resolution and the Transaction is set out in the Explanatory Statement annexed to the Notice of Meeting.

Consistent with the Independent Expert's finding that the Transaction is fair and reasonable to the Shareholders of Hills, the Directors believe that the benefits of the Transaction outweigh the disadvantages and that the Transaction is in the best interests of Hills and Shareholders, in the absence of a superior proposal.

Notice of Meeting

We will be releasing the Notice of Meeting electronically online and by email to shareholders on Monday, 21 March 2022.

The Notice of Meeting explains in detail the items of business you will be asked to consider at the Meeting. You should carefully read the Notice and Explanatory Statement before deciding how to vote on the resolutions.

To review and download the Notice of Meeting, Explanatory Statement and Virtual Meeting Online Guide, please go to <https://corporate.hills.com.au/investors/gm22>.

If you are unable to participate in the Meeting, you may vote directly or appoint a proxy to act on your behalf prior to the Meeting. You may register voting instructions or appoint a proxy electronically at www.linkmarketservices.com.au or complete and return a voting form by facsimile or by post so that it is received by Hills no later than 10.00am (Sydney time) on 18 April 2022.

Virtual Meeting

Having regard to the restrictions that have been introduced as a result of the COVID-19 pandemic, and to ensure the safety of all of our stakeholders, the Board has determined that the Meeting will be held virtually via Link Market Services online platform.

How to Participate

Shareholders will be able to participate in our Meeting online by:

- joining the Meeting in real time via the online platform at <https://meetings.linkgroup.com/HILGM22>;
- watching presentations given during the Meeting; and
- asking questions of the Board and voting on the resolutions to be considered at the Meeting.

Questions

Shareholders will be able to ask questions by telephone during the Meeting. Shareholders who wish to ask questions by telephone must contact Hills' Share Registry, Link Market Services on +61 1800 990 363 (Australia and International) from 11 to 18 April 2022 to request a personalised PIN and the

applicable telephone number which they will need in order to ask a question by telephone during the Meeting. More information about how to ask questions by telephone during the meeting is contained in the Virtual Meeting Online Guide <https://corporate.hills.com.au/investors/gm22>.

If your holding cannot be verified by the moderator, you will attend the Meeting as a visitor and will not be able to ask a question.

Shareholders who prefer to register questions in advance of the General Meeting are invited to do so at our share registry website: www.linkmarketservices.com.au

At the virtual meeting, once registered on the virtual Meeting platform, you can submit questions online by clicking on the "Ask a Question" box. You will need your SRN/HIN or proxy code to do this.

Please note that whilst we will do our best to answer shareholder questions not all questions are guaranteed to be answered during the meeting. To avoid disappointment, we encourage you to submit questions for the Board in advance of the Meeting and we will endeavour to respond to them during the meeting.

Using the online platform

We recommend logging on to the online platform at least 15 minutes prior to the scheduled start time for the Meeting using the instructions below:

1. Enter <https://meetings.linkgroup.com/HILGM22> into a web browser on your computer or online device.
2. Shareholders will need their Shareholder Reference Number (SRN) or Holder Identification Number (HIN) (available at the top of the voting form).
3. If you wish to ask questions orally, you will need your unique PIN No. which you should have obtained from Link Market Services by 18 April 2022.
4. Proxyholders will need their proxy code which Link Market Services will provide via email no later than 24 hours prior to the Meeting.

Online voting will be open between the commencement of the Meeting at 09:30 am (Sydney time) on 20 April 2022 and the time at which the Chairman announces voting closure.

More information about online participation in the Meeting is available in the Virtual Meeting Online Guide found on the Hills website.

We look forward to welcoming you at the Meeting.

Yours sincerely



David Chambers
Chairman

21 March 2022

Notice of meeting and explanatory statement

Hills Limited
ACN 007 573 417

Date: 20 April 2022
Time: 10.00am (Sydney time)
Location: This meeting will be conducted as a virtual meeting via an online platform at <https://meetings.linkgroup.com/HILGM22>

Information on participating in the Meeting is set out in the Virtual Meeting Online Guide which is available at <https://corporate.hills.com.au/investors/gm22>.

Shareholders will be able to submit questions in writing online during the Meeting by following the instructions set out in the Virtual Meeting Online Guide. Shareholders may also submit questions prior to the Meeting through Hills' Share Registry's website at www.linkmarketservices.com.

In addition, Shareholders who wish to ask questions by telephone during the Meeting must contact the Company's Share Registry, Link Market Services on +61 1800 990 363 (Australia and International) from 11 to 18 April 2022 to request a personalised PIN and the applicable telephone number which they will need in order to ask a question by telephone during the meeting. More information about how to ask questions by telephone during the meeting is contained in the Virtual Meeting Online Guide.

If your holding cannot be verified by the moderator, you will attend the Meeting as a visitor and will not be able to ask a question.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. YOU SHOULD READ THE DOCUMENT IN ITS ENTIRETY BEFORE YOU DECIDE WHETHER OR NOT TO VOTE IN FAVOUR OF THE RESOLUTIONS. IF YOU ARE IN DOUBT AS TO WHAT YOU SHOULD DO, YOU SHOULD CONSULT YOUR LEGAL, FINANCIAL OR OTHER PROFESSIONAL ADVISER.

All Shareholders should refer to the Independent Expert's Report attached to this Notice. The Independent Expert has concluded that the Transaction is fair and reasonable to Shareholders of Hills for the reasons set out in its report.

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1 Important Notices

1.1 General

This Notice of Meeting and Explanatory Statement is dated 21 March 2022.

This document is important. The Explanatory Statement provides additional information on matters to be considered at the Meeting and forms part of the Notice of Meeting. You should read this document in its entirety before making a decision on how to vote on the Resolutions to be considered at the Meeting.

A sample Proxy Form for the Meeting is also enclosed. If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser.

1.2 Interpretation

Capitalised terms used in the Notice of Meeting are defined in the Glossary at the end of this document, or where the relevant term is first used.

Any documents reproduced in this Notice of Meeting may have their own defined terms, which are sometimes different from those in the Glossary.

All numbers are rounded unless otherwise indicated. A reference to \$ and cents is to Australian currency, unless otherwise stated. All times referred to in this Notice of Meeting are references to the time in Sydney, Australia, unless otherwise stated.

A reference to a Section is to a section in the Notice of Meeting, unless otherwise stated.

1.3 Responsibility for information

Except as outlined below, the information contained in this Notice of Meeting has been prepared by Hills and is its responsibility. Except as outlined below, neither Hills nor any of its subsidiaries, directors, officers, employees or advisers assume any responsibility for the accuracy or completeness of such information.

RSM Corporate Australia Pty Ltd has prepared the Independent Expert's Report and takes responsibility for that report. Neither Hills nor any of its subsidiaries, directors, officers, employees or advisers assume any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report, except in relation to the information that they have provided to the Independent Expert. Shareholders should read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

Hills is responsible for the balance of this document but accepts no responsibility for any errors, omissions or misstatements in the Notice of Meeting that are attributable to errors, omissions or misstatements in publicly available information or third party sources or otherwise. Subject to the Corporations Act, Hills makes no representation or warranty, express or implied, as to the accuracy or completeness of such information.

1.4 ASIC and ASX

Neither ASIC, ASX nor any of their respective officers take any responsibility for the contents of this Notice of Meeting.

1.5 Forward looking statements

Some of the statements appearing in this document may be in the nature of forward looking statements. These are identified by words such as "believes", "considers", "could", "estimates", "expects", "intends", "may" and other similar words that involve risks and uncertainties. Actual

events or results may differ materially from the events or results expressed or implied in any forward looking statement and such deviations are both normal and to be expected.

None of Hills, its directors, officers, or any person named in this document or involved in the preparation of this document, make any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, and you are cautioned not to place undue reliance on those statements.

The forward looking statements in this document reflect views held only as at the date of this document. Hills has no obligation to disseminate after the date of this document any updates or revisions to any such statements to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any of those statements are based unless required under the Corporations Act to update or correct this document or pursuant to Hills's continuous disclosure obligations under the ASX Listing Rules and the Corporations Act.

1.6 Privacy and personal information

Hills is required to collect personal information about you in connection with the Transaction and the Meeting. That personal information may include your name, contact details and details of your holding, together with contact details of individuals appointed as proxies, representatives of bodies corporate or attorneys at the Meeting. The collection of some of this information is required or authorised to be collected under the Corporations Act.

Information may be disclosed to Hills and its related bodies corporate and advisers, print and mail service providers, share registries, securities brokers and any other service provider to the extent necessary to implement the Transaction. If the information outlined above is not collected, Hills may be hindered in, or prevented from, conducting the Meeting or implementing the Transaction effectively, or at all. If you appoint an individual as your proxy, corporate representative or attorney to vote at the Meeting you should inform that individual of the matters outlined above and that Hills has collected their personal information from you.

If you are an individual, you have certain rights to access or correct the personal information collected about you. You may also contact the Share Registry if you wish to exercise those rights to update your personal information held by the Share Registry. Hills will otherwise collect, hold, use and disclose your personal information in accordance with Hills's Privacy Policy, which sets out how you can access and correct the personal information that Hills holds about you and how to lodge a complaint relating to Hills's treatment of your personal information (and how Hills will deal with your complaint).

1.7 No financial product advice

This document is not financial product or investment advice nor is it a recommendation in respect of the Shares. It has been prepared without taking into account the objectives, financial situation or needs of Shareholders or other persons. Before deciding how to vote or act, Shareholders and other persons should consider the appropriateness of the information having regard to their own objectives, financial situation and needs, and seek legal, taxation, financial and other advice appropriate to their jurisdiction and circumstances. Hills is not licensed to provide financial product advice in respect of the Shares.

1.8 Financial information presentation

Shareholders and investors should be aware that certain financial data included in this Notice of Meeting is 'non-IFRS financial information' under *Regulatory Guide 230 Disclosing non-IFRS financial information*, published by ASIC. Hills believes this non-IFRS financial information provides useful information to users in measuring the financial performance and conditions of the Post-Transaction Hills. The non-IFRS measures do not have standardised meanings prescribed by Australian Accounting Standards and therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards.

1.9 **Director's recommendations**

The Directors unanimously recommend that Shareholders vote in favour of the Resolution.

2 Key dates

Date of this Notice of Meeting	21 March 2022
Deadline for receipt of Proxy Form by Hills	10.00am (Sydney time) on 18 April 2022
Record date for determining eligibility to vote at the Meeting	7.00pm (Sydney time) on 18 April 2022
Time and date of the Meeting	10.00am (Sydney time) on 20 April 2022
Completion of the Transaction	2 May 2022

The above dates are subject to change and are indicative only. Hills reserves the right to vary the dates and times. Any changes to the above timetable will be announced through the ASX company announcements platform.

3 What to do now and how to vote

3.1 What to do now

(a) Carefully read this document

Shareholders are being asked to consider, and if thought fit approve, the Resolution set out in this Notice of Meeting that is necessary under the ASX Listing Rules in order for the Transaction to proceed.

This document sets out information about the Transaction and provides Shareholders with the information to assist them in deciding how to vote on the Resolution to be considered at the Meeting. This information is important.

You should read this document carefully, and in its entirety, before making a decision as to how to vote at the Meeting.

(b) Seek further information if required

If you have any queries about any matter contained in this document please contact Hills for more information. Alternatively, seek independent professional advice on any aspects of which you are not certain.

3.2 How to vote

(a) Vote in person

To vote in person, attend the virtual meeting at <https://meetings.linkgroup.com/HILGM22>. Registration opens at 09.30 am and the meeting commences at 10.00am (Sydney time) on 20 April 2022.

(b) Vote by proxy

If you are not able to attend the Meeting, please complete and sign the Proxy Form enclosed with the Notice of Meeting as soon as possible.

To complete the Proxy Form, record your vote on the Proxy Form in relation to the Resolution to be considered at the Meeting as follows:

- if you wish to approve the Resolution, place a cross (X) in the space provided under the word 'FOR' in respect of that Resolution;
- if you do not wish to approve the Resolution, place a cross (X), in the space provided under the word 'AGAINST' in respect of that Resolution; and
- if you do not wish to vote in respect of the Resolution, place a cross (X) in the space provided under the word 'ABSTAIN' in respect of that Resolution.

The Proxy Form and the power of attorney or other authority (if any) under which it is signed (or a certified copy) must be received by the share registry, Link Market Services Limited at least 48 hours before the time for holding the Meeting (i.e. by no later than 10.00am (Sydney time) on 18 April 2022):

- (i) electronically at www.linkmarketservices.com.au;
- (ii) by mail to c/- Link Market Services, Locked Bag A14, Sydney South NSW 1235 Australia;
- (iii) by fax to +61 2 9287 0309 or
- (iv) by hand to:

- (A) Parramatta Square Level 22, Tower 6 10 Darcy Street Parramatta NSW 2150; or Level 12, 680 George Street, Sydney NSW 2000.

Proxies given by corporate Shareholders must be executed in accordance with their constitutions or under the hand of a duly authorised attorney.

A proxy may decide whether to vote on any motion, except where the proxy is required by law or Hills's constitution to vote, or abstain from voting, in their capacity as proxy. If a proxy is directed how to vote on an item of business, the proxy may vote on that item only in accordance with that direction. If a proxy is not directed how to vote on an item of business, the proxy may vote as they think fit.

If a Shareholder appoints the Chairman as the Shareholder's proxy and does not specify how the Chairman is to vote on an item of business, the Chairman will vote, as proxy for that Shareholder, in favour of the item on a poll.

(c) **Vote by corporate representatives**

Corporate Shareholders, or proxies wishing to vote by corporate representative, should obtain an appointment of corporate representative form from the Share Registry and complete and sign the form in accordance with the corporate Shareholder's constitution or by a duly authorised attorney.

The corporate representative form and the power of attorney or other authority (if any) under which it is signed (or a certified copy thereof) must be received by Hills before the start or resumption of the Meeting at which the representative is to vote, in person or by post in the reply paid envelope provided.

(d) **Vote through broker or nominees**

If you hold your Shares through a broker or nominee holder, you should contact them as soon as possible to instruct them to vote on your behalf.

(e) **Scrutineer**

Hills's registrar, Link Market Services Limited will act as scrutineer for any polls that may be required at the Meeting.

4 Important information about the Transaction

This Section provides a summary of important information about the Transaction, the Resolution and information on how to vote at the Meeting. This Section also highlights key information about Hills and explains where you can find more detailed information about the Transaction within the Notice of Meeting. This Section should be read in conjunction with the entire Notice of Meeting before you decide how to vote on the Resolutions.

Information about the Transaction

What is the Transaction?

On 21 February 2022, Hills announced that it had entered into the Sale & Purchase Agreement under which Hills has agreed to sell the business and certain net assets of Hills's Security and Information Technology (SIT) distribution division to DDR for cash consideration equal to the net asset value of the SIT distribution division (plus goodwill) calculated as at the completion date.

Completion of the Transaction is subject to a number of conditions precedent, including Shareholder approval.

What is the consideration Hills has agreed to receive under the Transaction?

Subject to Shareholder approval, Hills is selling the business and certain net assets of Hills's Security and Information Technology distribution division to DDR.

The consideration payable to Hills under the Transaction is cash consideration equal to the net asset value of the SIT distribution division (plus goodwill) calculated as at the completion date.

The consideration will be paid to Hills at completion based on estimated figures, with a reconciliation to occur after completion.

Consideration for the transaction is all cash and there are no deferred elements.

What are the conditions to the Transaction being completed?

Completion is conditional on, among other things:

- **Independent Expert Report:** The Independent Expert concluding the sale is fair and reasonable.
- **Shareholder Approval:** Approval by the Hills' shareholders at the Meeting.
- **Discharge of CBA Encumbrance:** Discharge by Commonwealth Bank of Australia (Hills' financier) of PPSR registrations over the Security and Information Technology distribution division assets;
- **CBA Consent:** Consent from Commonwealth Bank of Australia (Hills' financier) to the sale of the Security and Information Technology distribution division to DDR;
- **Novation of Key Contracts:** Novation of three key distribution contracts to DDR from Completion.
- **Assignment of Leases:** Landlord consent to the assignment of property leases to DDR from Completion.

See Section 10.1 for a summary of the key terms and conditions of the Sale & Purchase Agreement, including the conditions precedent to Completion occurring.

What will happen to my Shares if

Nothing will happen to the Shares held by existing Shareholders under the Transaction.

the Transaction proceeds?

How will the structure of Hills's ownership change if the Transaction proceeds?

There will be no change to the shareholding composition of Hills if the Transaction proceeds.

Will Hills remain listed on ASX if the Transaction proceeds?

Yes, Hills will remain listed on ASX after Completion.

What business divisions of Hills will remain owned by Hills if the Transaction proceeds?

- **Health Solutions**, which designs, supplies and installs healthcare technology solutions, with a focus on digital messaging, nurse call and patient engagement systems into the hospital and aged care sectors; and
- **Technical Services**, which provides technology installation and support services, technician management and NBN connection services in residential and commercial settings across telecommunications, broadcast and infrastructure markets in Australia and New Zealand.

What will happen if the Transaction does not proceed?

If the Resolution is not passed by Shareholders, or the other conditions are not satisfied or waived, the Transaction will not proceed.

If the Transaction does not proceed, DDR will not acquire Hills's Security and Information Technology distribution division.

In those circumstances, the Board intends to continue to focus on Hills's existing businesses.

Highlights of the Transaction

Reasons to vote in favour of the Transaction

The Directors believe that the benefits of the Transaction will include:

- enabling Hills to be more easily understood by prospective investors and financiers;
- improving Hills' ability to access capital and on terms more attractive to existing shareholders;
- significantly reduce Hills' ongoing working capital and debt servicing requirements;
- significantly increase Hills' profit after tax to cash flow conversion; and
- improve Hills' ability to use scrip as consideration in healthcare acquisitions as previous vendors of targets have advised that they have little interest in receiving Hills scrip whilst the SIT distribution division is owned by Hills.

The Board is of the opinion that the opportunity presented under the Transaction represents an opportunity that is in the best interests of current shareholders of Hills.

See Section 5.2 for more detailed information on potential benefits of the Transaction.

Potential reasons to vote against the Transaction	<p>As a Shareholder, you may form the view that the Transaction as currently proposed and structured is not in your best interests.</p> <p>You may want to maintain your current investment profile. The profile, capital structure and size of Hills if the Transaction is implemented will be different from that of Hills as it currently stands. Some Hills Shareholders may prefer to continue to invest in a listed company with the specific characteristics, operational focus and scale of the current Hills, and do not seek an increased exposure to the remaining businesses of Hills.</p> <p>As a Shareholder, you may not agree with the value attributed to Hills's Security and Information Technology distribution division by the Transaction.</p> <p>See Sections 5.3 and 9 for more information on significant risks and potential disadvantages associated with the Transaction.</p>
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What is the Independent Expert's recommendation?	<p>The Independent Expert's Report comments on the fairness and reasonableness of the Transaction. The Independent Expert has determined that the Transaction is fair and reasonable to the Shareholders of Hills.</p> <p>See Section 13 for a copy of the Independent Expert's Report.</p>
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What are the recommendations of the Directors?	<p>Consistent with the Independent Expert's finding that the Transaction is fair and reasonable to the Shareholders of Hills, the Directors believe that the benefits of the Transaction outweigh the disadvantages and that the Transaction is in the best interests of Hills and Shareholders, in the absence of a superior proposal.</p> <p>The Directors unanimously recommend that Shareholders vote in favour of the Resolution.</p>
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Key information about the Post-Transaction Hills

What is the Post-Transaction Hills?	<p>On Completion, the scale of Hills's existing operations will be materially simplified as a consequence of the implementation of the Transaction.</p> <p>The Post-Transaction Hills will consist of the following business divisions:</p> <ul style="list-style-type: none"> • Health Solutions, which designs, supplies and installs healthcare technology solutions, with a focus on digital messaging, nurse call and patient engagement systems into the hospital and aged care sectors; and • Technical Services, which provides technology installation and support services, technician management and NBN connection services in residential and commercial settings across telecommunications, broadcast and infrastructure markets in Australia and New Zealand.
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What will be the strategy of the Post-Transaction Hills?	<p>Following Completion, Hills will focus on operating and growing its Health Solutions and Technical Services divisions. This will include:</p> <ul style="list-style-type: none"> • accelerating product and market development with a focus on enhanced cloud capable technologies with increased recurring revenue across aged care, acute care and community care settings, including disability and mental health; • strengthening the division's leadership, technology and commercial capabilities; • effecting targeted healthcare related acquisitions and partnerships; • participating in the digitisation of clinical messaging, health record interoperability and virtual care through enhanced cross-platform integration; and • diversifying the customer base and geographic reach of the Technical Services business, building on its internal capabilities and technology.
What are the key risks for the Post-Transaction Hills?	<p>There are a number of risks associated with the Post-Transaction Hills that may affect its financial performance, financial position, cash flows, distributions, growth prospects and share price. The following are some of the specific key risks to which the Post-Transaction Hills is exposed:</p> <ul style="list-style-type: none"> • Implementation of business strategy risk; • Future capital requirement risk; • Key personnel risk; • Reduced scale of shared service capability risk; and • Regulatory, compliance and legislative change risk. <p>See Section 9 for more detailed information on key risks for the Post-Transaction Hills.</p>
What is the Post-Transaction Hills's aggregated historical performance?	<p>Section 8.3 contains a summary of financial information in relation to the Post-Transaction Hills.</p>
Where can I find more financial information about the Post-Transaction Hills?	<p>Section 8.3 contains a summary of financial information in relation to the Post-Transaction Hills.</p> <p>Significant accounting policies upon which that information is based are included in Sections 8.2 and 8.3.</p>
Who will sit on the board of the Post-Transaction Hills after the Transaction is completed?	<p>On Completion, the composition of the board of Hills will not change.</p>
What significant benefits are payable to the Directors and other persons	<p>No fees or benefits have been given or agreed to be given to the Directors or senior management of Hills in connection with the Transaction.</p>

connected to the Transaction?

Information about Shareholder approvals required for the Transaction

Why is Shareholder approval required for the Transaction?	<p>The Resolution seeks the approval of the Shareholders to the sale of the business and certain net assets of Hills's Security and Information Technology distribution division for the purposes of ASX Listing Rule 11.2.</p> <p>Pursuant to ASX Listing Rule 11.2, an ASX listed entity must obtain the approval of its shareholders before disposing of its main undertaking.</p> <p>ASX has determined that Hills's Security and Information Technology distribution division is its main undertaking and informed Hills that the approval of its Shareholders is needed in order to effect the Transaction. The Resolution is being put to Shareholders in order to seek and obtain the necessary approval.</p>
What am I being asked to vote on?	<p>Shareholders are being asked to vote on the Resolution, to approve the sale of the business and certain net assets of Hills's Security and Information Technology distribution division to DDR for the purposes of ASX Listing Rule 11.2.</p>
What are the voting intentions of the Chairman as proxy?	<p>The Hills Chairman, David Chambers, intends to vote all undirected proxies over which he has control in favour of the Resolution, in the absence of a superior proposal.</p>
When and where will the Meeting be held?	<p>The Meeting will take place as a virtual meeting at https://meetings.linkgroup.com/HILGM22 at 10.00am (Sydney time) on 20 April 2022.</p>
What is the voting approval threshold for the Resolution?	<p>The Resolution is an ordinary resolution, requiring simple majority approval. This means that more than 50% of the votes cast on the Resolution, by Shareholders who are eligible to vote on the Resolution, must be cast in favour of the Resolution in order for it to be passed.</p> <p>See the Notice of Meeting for further information.</p>
Who is eligible to vote on the Resolutions?	<p>In accordance with Regulation 7.11.37 of the <i>Corporations Regulations 2001</i> (Cth), the Board has determined that the Shareholders entitled to attend and vote at the Meeting shall be those persons who are recorded in Hills's share register at 7.00pm (Sydney time) on 18 April 2022.</p> <p>See the Notice of Meeting for further information.</p>
Is voting compulsory?	<p>Voting is not compulsory. However, your vote is important.</p> <p>If you cannot attend the Meeting you are strongly encouraged to complete and return the Proxy Form that is enclosed with the Notice of Meeting.</p> <p>If you hold your Shares through a broker or nominee holder, you should contact them as soon as possible to instruct them to vote on your behalf.</p>

If you require any assistance in completing or lodging your proxy form, please contact the Share Registry on +61 1300 554 474 or contact your legal, financial or other professional advisor.

Transaction timetable

What is the indicative timetable for the Transaction?	Date of this Notice of Meeting and Explanatory Statement	21 March 2022
	Deadline for receipt of Proxy Forms by Hills	10.00am (Sydney time) on 18 April 2022
	Record date for determining eligibility to vote at the Meeting	7.00pm (Sydney time) on 18 April 2022
	Time and date of the Meeting	10.00am (Sydney time) on 20 April 2022
	Completion of the Transaction	2 May 2022

Further information, including financial information

Where can I find more information about Hills and the Post-Transaction Hills, including financial information?	Please see Section 6 for information about Hills.
	Please see Section 8.3 for historical financial information about Hills and pro forma financial information about the Post-Transaction Hills.
What should I do if I have further questions about the Transaction?	If you have any queries about any matter contained in this document please contact Hills's Company Secretary David Fox at secretary@hills.com.au or +61 8 8275 8415 for more information or alternatively seek independent professional advice on any aspects of which you are not certain.

5 Rationale for and overview of the Transaction

This Section 5 sets out the recommendation of the Directors in respect of the Transaction. It also includes an overview of the Independent Expert's opinion on the fairness and reasonableness of the Transaction and Hills's strategic rationale for the Transaction. This Section 5 also sets out some potential disadvantages associated with the sale of Hills's Security and Information Technology distribution division and the Post-Transaction Hills.

5.1 Overview of Transaction

On 21 February 2022, Hills announced that it had entered into the Sale & Purchase Agreement under which Hills has agreed to sell the business and certain net assets of Hills's Security and Information Technology distribution division to Dicker Data Limited.

The consideration payable to Hills under the Transaction is cash consideration equal to the net asset value of the SIT distribution division (plus goodwill) calculated as at the completion date.

The consideration will be paid to Hills at completion based on estimated figures, with a customary adjustment mechanism to occur after completion. Hills has estimated the consideration will be in the region of \$20 million. Consideration for the transaction is all cash, and there are no deferred elements.

Completion of the Transaction is conditional on, among other things:

- (a) **Independent Expert Report:** The Independent Expert concluding the sale is fair and reasonable.
- (b) **Shareholder Approval:** Approval by the Hills' shareholders at the Meeting.
- (c) **Discharge of CBA Encumbrance:** Discharge by Commonwealth Bank of Australia (Hills' financier) of PPSR registrations over the Security and Information Technology distribution division assets;
- (d) **CBA Consent:** Consent from Commonwealth Bank of Australia (Hills' financier) to the sale of the Security and Information Technology distribution division to DDR;
- (e) **Novation of Key Contracts:** Novation of three key distribution contracts to DDR from Completion.
- (f) **Assignment of Leases:** Landlord consent to the assignment of property leases to DDR from Completion.

Refer to Section 10 for further information about the conditions to the Transaction being completed.

5.2 Benefits of the Transaction

The Directors believe that the benefits of the Transaction will include:

- (a) enabling Hills be more easily understood by prospective investors and financiers;
- (b) improving Hills' ability to access capital and on terms more attractive to existing shareholders;
- (c) significantly reduce Hills' ongoing working capital and debt servicing requirements;
- (d) significantly increase Hills' profit after tax to cash flow conversion; and
- (e) improve Hills' ability to use scrip as consideration in healthcare acquisitions as previous vendors of targets have advised that they have little interest in receiving Hills scrip whilst the SIT distribution division is owned by Hills.

The Board is of the opinion that the opportunity presented under the Transaction represents an opportunity that is in the best interests of current shareholders of Hills.

If the Resolution is not passed by Shareholders, or the other conditions are not satisfied or waived, the Transaction will not proceed. If the Transaction does not proceed, Hills will not sell the business and certain net assets of Hills's Security and Information Technology distribution division to Dicker Data Limited and will not receive the sales proceeds.

In this event, the Board's intention will be to continue to focus on Hills' existing businesses.

5.3 **Significant risks and potential disadvantages**

There are inherent risks associated with the Transaction and you may consider that these risks outweigh the potential benefits from the Transaction. The risks and potential disadvantages are set out in Section 9:

As a Shareholder, you may form the view that the Transaction as currently proposed and structured is not in your best interests.

You may want to maintain your current investment profile. The profile and size of the Post-Transaction Hills will be significantly different from that of Hills as it currently stands. Some Hills Shareholders may prefer to continue to invest in a listed company with the specific characteristics, operational focus and scale of the current Hills, and do not seek an increased exposure to the remaining businesses of Hills.

As a Shareholder, you may not agree with the value attributed to Hills's Security and Information Technology distribution division by the Transaction.

The Directors believe that the potential advantages of the Transaction outweighs the risks and potential disadvantages of the Transaction.

5.4 **Independent Expert's opinion**

Hills appointed the Independent Expert to prepare an independent assessment of the Transaction and to provide an opinion as to whether the Transaction is fair and reasonable for the Shareholders.

The Independent Expert is independent of Hills and has no interest in the outcome of the Transaction other than the preparation of the Independent Expert's Report.

The Independent Expert has concluded that the Transaction is fair and reasonable to the non-associated Shareholders of Hills. In forming this opinion, the Independent Expert assessed whether the proposal is "fair" by comparing the value of Hills's Security and Information Technology distribution division against the consideration to be paid for this division by DDR. As the consideration to be paid for Hills's Security and Information Technology distribution division is greater than the Independent Expert's assessment of the value of this division, the Independent Expert has assessed that the Transaction is "fair".

The Independent Expert has also noted that where a Transaction is "fair" to the non-associated Shareholders, it must also be "reasonable" for the Shareholders, and so the Independent Expert has made this determination.

Shareholders should read the Independent Expert's Report contained at Section 13 in its entirety before making a decision as to whether or not to vote in favour of the Resolutions.

5.5 **Director's recommendations**

The Directors believe the Transaction is likely to be beneficial to you as a Shareholder for a number of reasons. This Section 5 summarises the key potential benefits of the Transaction and the Post-Transaction Hills, and the significant risks and potential disadvantages associated with the Transaction and the Post-Transaction Hills. Risks are outlined in further detail in Section 9.

Consistent with the Independent Expert's finding that the Transaction is fair and reasonable to the Shareholders of Hills, the Directors believe that the benefits of the Transaction outweigh the disadvantages and that the Transaction is in the best interests of Hills and Shareholders, in the absence of a superior proposal.

The Directors unanimously recommend that you vote in favour of the Resolution.

6 Information about Hills

This Section provides information on Hills.

6.1 Overview of Hills

Hills was incorporated on 27 June 1957 and admitted to the official list of ASX on 30 June 1962.

Hills' principal activities are as a supplier of healthcare technology solutions and as a value-added distributor of technology products and services in the security, surveillance and information technology markets.

6.2 Overview of Hills's business model and growth strategy

Hills three business divisions are:

- (a) **Security and Information Technology distribution**, which imports and distributes products and solutions into the construction services, infrastructure services and technology sectors, with a range of solutions covering CCTV, video surveillance, physical security systems and information technology network systems;
- (b) **Health Solutions**, which designs, supplies and installs healthcare technology solutions, with a focus on digital messaging, nurse call and patient engagement systems into the hospital and aged care sectors; and
- (c) **Technical Services**, which provides technology installation and support services, technician management and NBN connection services in residential and commercial settings across telecommunications, broadcast and infrastructure markets in Australia and New Zealand.

After a strategic review, the Board has determined to divest the Security and Information Technology (**SIT**) distribution division based on the continued market challenges that has faced the division, the impact this has had on the financial performance and cash flows of the division, the reluctance of capital markets to invest due to the differing natures of the divisions and the Board's strategic decision to focus on growing its Health Solutions offering.

6.3 Directors

Following Completion, the current Directors of Hills will continue to act as directors of Hills.

6.4 Interests and benefits of Directors

(a) Directors' interests in Shares as at the date of this Notice of Meeting

As at the date of this Notice of Meeting, the number of Shares owned or controlled by the Directors is as follows:

Director	No. of Shares	% of all Shares on issue
David Chambers	315,000	0.13%
Ken Dwyer	900,000	0.38%
Janet Muir	0	0%
Peter Steel	409,000	0.17%

(b) Remuneration of Directors

There will be no change to the current remuneration of any Director as a result of the Transaction.

(c) Fees given or agreed to be given in connection with the Transaction

No fees will be payable to any of the Directors in connection with the Transaction.

(d) Securities on issue

As at the date of this Notice of Meeting:

- (i) there are a total of 231,985,526 Shares on issue held by approximately 11,300 Shareholders; and
- (ii) the top 20 Shareholders hold approximately 43% of all issued Shares.

Hills does not currently have any other type of securities on issue.

(e) Substantial holders

As at the date of this Notice of Meeting, Hills's substantial holders pursuant to substantial shareholder notices via the ASX are as follows:

Name	Number of Shares held	% of all Shares on issue
Ms Jennifer Hill-Ling, Ms Bronwyn Marie Veal and Mr Gregory Mark Hill-Ling,	46,175,613	19.90%
Poplar Pty Limited	17,739,763	7.65%
Hills Associates Limited	17,957,359	7.74%

6.5 Publicly available information

Shares are listed for quotation on ASX and Hills is obliged to comply with the continuous disclosure requirements of ASX and the Corporations Act.

Announcements made by Hills to the ASX company announcements platform are available from ASX's website at www.asx.com.au.

7 Information about the Post-Transaction Hills

This Section provides information about the Post-Transaction Hills.

The statements set out in this Section 7 are statements of current intentions only, which may change as new information becomes available or circumstances change. Any decisions will only be reached after implementation when all material facts and circumstances are known to the Board of the Post-Transaction Hills.

7.1 Overview of the Post-Transaction Hills

As a result of the Transaction, Hills's remaining businesses will comprise of the following:

- (a) **Health Solutions**, which designs, supplies and installs healthcare technology solutions, with a focus on digital messaging, nurse call and patient engagement systems into the hospital and aged care sectors; and
- (b) **Technical Services**, which provides technology installation and support services, technician management and NBN connection services in residential and commercial settings across telecommunications, broadcast and infrastructure markets in Australia and New Zealand.

7.2 What will the Post-Transaction Hills strategy be?

After the Transaction, Hills will continue to operate and grow its Health Solutions and Technical Services divisions. This will include:

- (a) accelerating product and market development with a focus on enhanced cloud capable technologies with increased recurring revenue across aged care, acute care and community care settings, including disability and mental health;
- (b) strengthening the division's leadership, technology and commercial capabilities;
- (c) effecting targeted healthcare related acquisitions and partnerships;
- (d) participating in the digitisation of clinical messaging, health record interoperability and virtual care through enhanced cross-platform integration; and
- (e) diversifying the customer base and geographic reach of the Technical Services business, building on their internal capabilities and technology.

7.3 What will the Post-Transaction Hills capital and ownership structure be?

There will be no change to the capital structure of Hills following implementation of the Transaction nor to the shareholding composition.

7.4 How will the Post-Transaction Hills be financed?

It is expected that the Post-Transaction Hills's operations in the short term will be financed out of cash balances, including from the net proceeds of sale of Hills's Security and Information Technology distribution division and a capital raise which is expected to be completed by May 2022.

(a) Pro forma net cash

The Post-Transaction Hills had pro forma (unaudited) cash of \$9.1 million as at 31 December 2021 which has been calculated as follows:

Item	\$'000
Cash as at 31 December 2021 (Audited)	5,395
Add: Net proceeds from the Proposed Transaction	12,692
Add: Expected cash flow impact from Net Assets of the SIT distribution division which are excluded from the Proposed Transaction (refer to clause 8.3 (b))*	5,442

Less: Reduction of debt facilities	(14,390)
Cash as at 31 December 2021 (Pro Forma)	9,139

Note, the above reflects the proceeds if the Transaction had occurred on 31 December 2021. Hills' estimates that the cash consideration from the Transaction will be approximately \$20 million at settlement.

(b) Transaction costs

Certain costs will be incurred by Hills in connection with the Transaction, which include adviser, legal, printing and other service provider costs which are estimated at \$0.5 million in total. These costs will be funded from the proceeds of the sale of Hills's Security and Information Technology distribution division.

(c) Pro forma equity and indebtedness

The table below sets out the expected equity and indebtedness of the Post-Transaction Hills at completion of the Transaction.

Item	31 December 2021 (\$'000)
Cash	9,139
Current Debt	5,246
Non-current Debt	667
Net Debt (Total Debt less Cash)	(3,226)
Total Equity (Net Assets)	14,084

7.5 Who will be the directors of the Post-Transaction Hills?

On completion of the Transaction, the board of Hills will continue to comprise the following Directors:

- (a) David Chambers – Chairman and Non-Executive Director;
- (b) Ken Dwyer – Non-Executive Director;
- (c) Janet Muir – Non-Executive Director;
- (d) Peter Steel – Non-executive Director.

7.6 Who will be the senior management of the Post-Transaction Hills?

On completion of the Transaction, the senior management of Hills will not change and will continue to comprise the following:

- (a) David Clarke – CEO;
- (b) Natalie Scott – CFO;
- (c) David Fox – General Counsel and Company Secretary.

7.7 Corporate governance of the Post-Transaction Hills

The Board is responsible for the corporate governance of Hills.

The Post-Transaction Hills intends to remain listed on ASX.

The ASX Corporate Governance Council has developed and released the Corporate Governance Principles and Recommendations, 4th edition (**ASX Recommendations**) for Australian listed entities in order to promote investor confidence and to assist companies to meet stakeholder expectations. The Post-Transaction Hills is required to provide a statement in its annual report disclosing the extent to which it has followed the ASX Recommendations in the reporting period.

The Board believes it is important that the Post-Transaction Hills is properly managed to protect and enhance Shareholder interests, and that the Post-Transaction Hills, its Directors, officers, employees and contractors operate in an appropriate environment.

The Post-Transaction Hills intends that Hills's existing charters, policies and procedures will remain effective immediately following completion of the Transaction. Those corporate governance charters and policies reflect the ASX Recommendations to the extent the Board considers it reasonable for Hills to comply with them.

7.8 Dividend policy of the Post-Transaction Hills

The Board will consider dividend levels from time to time, taking into account such factors including maintenance of a prudent level of working capital reserves and subject always to all relevant laws.

No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend.

8 Financial information

This Section 8 provides an overview of relevant financial information relating to Hills and the Post-Transaction Hills on Completion.

8.1 Introduction

This Section 8 comprises a summary of the financial information that the Directors consider is relevant for:

- (a) Hills for the half year ended 31 December 2021; and
- (b) the Post-Transaction Hills on Completion.

8.2 Overview and basis of preparation

(a) Financial Overview

Section 8.3 contains a summary of the financial information in relation to Hills and the Post-Transaction Hills including an extract of the historical Statement of Financial Position as at 31 December 2021 and a Pro Forma Statement of Financial Position as at 31 December 2021.

(Historical Financial Information).

The Historical Financial Information relating to Hills summarises selected financial data derived from Hills's latest financial statements for the half year ended 31 December 2021, which were reviewed by its external auditor. The information so derived is prepared on an underlying (post-AASB 16 Leases) basis and uses 'non-IFRS financial information' (refer to Section 1.8 for further explanation).

Hills is listed on ASX and is obligated to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act.

Announcements made by Hills to the ASX company announcements platform are available from the ASX website at www.asx.com.au.

(b) Basis of Preparation

The Historical Financial Information has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act. These have been prepared in accordance with the measurement and recognition requirements (but not all of the presentation and disclosure requirements) of Australian Accounting Standards. The Historical Financial Information is presented in an abbreviated form and does not include all of the disclosures usually provided in financial statements prepared in accordance with the Corporations Act.

The information set out in Section 8.3 should be read together with:

- (i) the information outlined in Section 6; and
- (ii) the risk factors described in Section 9.

The Pro Forma Historical Financial Information relating to the Post-Transaction Hills has been prepared in order to give investors a guide as to the financial position as if the Proposed Transaction had taken place at 31 December 2021 and in the circumstances noted in this Notice of Meeting, and does not purport to state the actual financial performance and position at the time the Transaction is effected and implemented.

Investors should be aware that past performance is not an indication of future performance.

8.3 Impact of the Proposed Transaction on the Financial Position of the Company

The Pro Forma Statement of Financial Position has been prepared in order to give investors a guide as to financial position, as if the Transaction had taken place at 31 December 2021 and in the circumstances noted in this Notice of Meeting, and does not purport to state the actual financial position

at the time the Transaction is effected and implemented, which will be largely determined with reference to inventory related balances at completion date.

The Pro Forma Statement of Financial Position has been prepared based on Hills' 31 December 2021 audited Statement of Financial Position and based on the following assumptions:

- (a) removal of Net Assets associated with the Security and Information Technology distribution division of \$11.9 million which are acquired by DDR plus estimated goodwill of \$1.3 million;
- (b) excludes certain Net Assets associated with the Security and Information Technology distribution division, including trade & other receivables owing to and trade & other payables owing by, which will be retained by Hills after Completion;
- (c) reduction of debt facilities of \$14.4 million which have been paid by the net proceeds from Proposed Transaction and the expected cash flow impact of the Net Assets as described in clause 8.3(b); and
- (d) the inclusion of net proceeds of \$12.7 million from the Proposed Transaction adjusted for legal and transaction costs directly associated with the sale of the Security and Information Technology distribution division, totalling approximately \$0.5 million.

	31 December 2021 (Audited)	Notes	31 December 2021 (Pro Forma)
	\$000		\$000
ASSETS			
Current Assets			
Cash and cash equivalents	5,395	1	9,139
Trade and other receivables	28,333		10,190
Inventory	16,533		2,623
Total current assets	50,261		21,952
Non-current Assets			
Investments	2		2
Property, plant, and equipment	9,172		8,030
Right-of-use asset	6,300		3,682
Intangible assets	1,876		1,876
Total non-current assets	17,350		13,590
Total assets	67,611		35,542
LIABILITIES			
Current Liabilities			
Trade and other payables	17,139		4,672
Lease liabilities	1,990		1,990
Borrowings	19,636		5,246
Provisions	5,129		2,345
Derivative financial instruments	9		9
Total current liabilities	43,903		14,262
Non-current Liabilities			
Lease liabilities	7,619		4,636
Borrowings	667		667
Provisions	2,282		1,893
Total non-current liabilities	10,568		7,195
Total liabilities	54,471		21,458
Net assets	13,140		14,084

Notes:

- 1 Cash and cash equivalents figure is based on the audited accounts as at 31 December 2021 adjusted for the items described in clause 7.4(a).
- 2 Hills has significant carried forward tax losses which is expected to result in the Company having no tax payable in the foreseeable future.

8.4 Transaction costs

Hills expects to incur transaction costs of approximately \$0.5 million if the Transaction completes.

9 Risk Factors

Before deciding how to vote on the Resolution, you should carefully consider the risk factors discussed in this Section 9 and other information contained in this document and seek independent professional advice.

This Section 9 provides a summary of risks only. It does not take into account the investment objectives, financial situation, taxation position or particular needs of Shareholders.

Additional risks and uncertainties not currently known to Hills, or which Hills considers to be immaterial, may also have an adverse effect on the value of Shares. The information set out below does not purport to be, nor should it be construed as representing, an exhaustive summary of all possible risks.

9.1 Introduction

This Section 9 outlines the key risks, but not all risks, associated with an investment in the Post-Transaction Hills and the value of the Shares and other risks of which Shareholders should be aware.

These risks include risks specific to the Transaction, risks to the Post-Transaction Hills, risks to the Company where the Transaction does not proceed and general risks.

9.2 Risks specific to the Transaction

(a) Contractual risk

Completion of the Transaction is subject to the fulfilment of certain conditions precedent, particularly those as set out in the Sale & Purchase Agreement, summarised within Section 10.1 of this Explanatory Statement. The ability of Hills to achieve its stated objectives will depend on the performance by the parties of their obligations under the Sale & Purchase Agreement. If any party defaults in the performance of their obligations, it may be necessary for Hills to approach a court to seek a legal remedy, which can be costly.

(b) Termination event risk

Completion of the Transaction is subject to Hills not triggering any of the following termination events that provide Dicker Data the ability to terminate the Sale & Purchase Agreement:

- (i) not breaching a material term of the Sale & Purchase Agreement,
- (ii) a Seller's warranty that results in or is likely to result in a liability exceeding \$2 million to Dicker Data, or
- (iii) a material adverse change that results in or is likely to result in a material adverse impact of the SIT Business as a whole, including its financial or trading position.

9.3 Risks specific to the Post-Transaction Hills where the Transaction proceeds

(a) Implementation of business strategy risk

There is a risk that Post-Transaction Hills is unable to execute its business strategy of organic (product and market development focusing on next generation cloud capable solutions with a focus on aged care, acute care and community settings, strengthening of leadership and commercial capabilities) and acquisitive growth (targeting businesses with complementary health solutions with an existing footprint in target growth markets or businesses with market-ready next generation cloud capable solutions). Any delay in implementation of, failure to successfully implement, or unintended consequences of implementing any or all of the Company's growth strategies may have an adverse effect on the Company's future financial performance and growth prospects.

(b) Future capital requirement risk

Post-Transaction Hills may require additional capital to fund growth of Health Solutions. Post-Transaction Hills ability to raise sufficient further capital within an acceptable time frame and on terms acceptable to it, will vary according to a number of factors including (without limitation)

the prospects of new product development and enhancements, new acquisition opportunities, the results of its operations and broader industry and stock market conditions.

(c) **Key personnel risk**

The responsibility of overseeing the day-to-day operations and the strategic management of the Post-Transaction Hills depends substantially on its ability to attract and retain qualified and experience staff.

There is no guarantee that Hills will be able to attract and retain its key personnel.

Any difficulty in so far as attracting or retaining staff could disrupt and materially affect the operations of Hills in the short to medium term. Such occurrences could reduce Hills's competitiveness, disrupt operations or adversely affect Hills's business and financial position.

(d) **Reduced scale of shared service capability risk**

The Company currently enjoys a shared services team structured for the larger organisation. These supporting employees provide services to the SIT Distribution business (subject to the Transaction), Health Solutions and Technical Services. If the Proposed Transaction proceeds, many of the shared services employees will transfer to DDR. Whilst Post-Transaction Hills intends to retain the relevant employees to support Health Solutions and Technical Services, the costs for these employees will no longer be shared across the broader business.

Additionally, in order to support the implementation of the strategy and business model that the Company believes is required to deliver sustained profitability in the future, the ratio of non-revenue-generating versus revenue-generating employees is higher than the current business, which means that overhead costs in the short to medium term are high in relation to the revenue that is currently being generated. Additionally shared service business technology is aging and requires replacement with modern technology and automation appropriate to the scale of the business. Such transformation is risky if not implemented effectively which may lead to additional costs and expected cost efficiencies not being realised.

(e) **Regulatory, compliance and legislative change risk**

A range of legislation and regulation in Australia and overseas govern Post-Transaction Hills business undertakings. Non-compliance with regulatory requirements may result in financial penalties or reputational damage to Post-Transaction Hills.

Regulatory changes which Post-Transaction Hills considers beneficial may cease to exist, which may impact on Post-Transaction Hills growth.

Post-Transaction Hills may also be impacted by the effects of international regulation.

(f) **Dividends**

There are a range of factors that determine and will determine the payment of dividends by the Post-Transaction Hills. These factors include the profitability of the Post-Transaction Hills, its cash reserves and future capital requirements.

There is no guarantee that any dividend will be declared and paid by the Post-Transaction Hills or any guarantee that future dividends will equal or exceed previous dividend payments.

9.4 **Risks specific to the Company if the Transaction does not proceed**

(a) **General trading conditions are uncertain in SIT Distribution**

There is no certainty about the general trading conditions in the SIT Distribution market, which may lead to a reduced ability to operate the business in a manner that supports historical levels of operational and financial performance.

(b) **Management time and attention may be reduced**

If the Company's management is required to focus on sustaining and protecting SIT Distribution as well as growing Hills Health Solutions and Technical Services, management time and focus may be reduced, leading to potential under-performance in one or multiple

segments. In the case of the SIT Distribution, this may mean a reduction in demand from key clients and therefore a reduction in both revenue and profit. In the case of Hills Health Solutions, this may mean a reduced ability to implement initiatives to further grow the segment and improve the productivity of existing clinics. This may lead to a reduction in both revenue and profit.

(c) **The Company will have incurred substantial costs and expended management time and resources for the Transaction**

If the Transaction does not proceed, the Company will have incurred substantial costs in respect of a transaction that does not eventuate. This includes a significant proportion of management's time for a period of multiple months as well as legal and other advisory fees.

(d) **Future capital requirement risk**

Where the Transaction does not proceed, the Company may require additional capital to fund growth of its health solutions business in addition to the working capital requirements of the broader Company (particularly SIT Distribution). The Company's ability to raise sufficient further capital within an acceptable time frame and on terms acceptable to it, will vary according to a number of factors including (without limitation) the prospects of new product development and enhancements, new acquisition opportunities, the results of its operations and broader industry, the performance of the SIT division specifically, the investor appetite to invest in the mix of businesses, and general stock market conditions.

9.5 General risks

(a) **General equity market risks**

The price at which Shares trade on ASX may be affected by a number of factors, including the financial and operating performance of Hills and external factors over which Hills and its Directors have no control.

These external factors include actual, expected and perceived general economic conditions, changes in government policy or regulation, significant events such as natural disasters or acts of terrorism, epidemics and pandemics, investor attitudes, changes in taxation, movements in interest rates, movements in stock markets, and general conditions in the markets in which Hills will operate.

In addition, investors should consider the historical volatility of Australian and overseas share markets.

(b) **Economic conditions**

The performance of Hills is likely to be affected by changes in economic conditions. Profitability of the business may be affected by some or all of the matters listed below, each of which is inherently uncertain:

- (i) general financial issues which may affect policies, exchange rates, inflation and interest rates;
- (ii) deterioration in economic conditions, possibly leading to reductions in business spending and other potential revenues which could be expected to have a corresponding adverse impact on Hills's operating and financial performance;
- (iii) the strength of the equity and share markets in Australia and throughout the world;
- (iv) financial failure or default by any entity with which a member of Hills is or may become involved in a contractual relationship; and
- (v) industrial disputes in Australia and overseas.

(c) **Geo-political factors**

Hills may be affected by the impact that geo-political factors have on the world or Australian economy or on financial markets and investments generally or specifically. This may include international wars, terrorist type activities and governmental responses to such activities.

(d) **Litigation**

Hills may in the ordinary course of business become involved in litigation and disputes. Any litigation or dispute could be costly and damaging to Hills's reputation and business relationships, which could have an adverse effect on its financial performance and industry standing.

(e) **Taxation**

Changes in tax laws including income tax, capital gains tax, GST or stamp duty legislation, case law, rulings and determinations issued by the Australian Commissioner of Taxation or other practices of tax authorities, or the way they are interpreted, may adversely affect Hills's financial position or performance.

(f) **Accounting standards**

Australian accounting standards are subject to change from time to time which could adversely affect Hills's reported earnings performance in any given period and its financial position or performance from time to time.

10 Additional Information

This Section provides you with additional information regarding the Transaction.

10.1 Sale & Purchase Agreement

On 21 February 2022, Hills announced that it had entered into the Sale & Purchase Agreement under which Hills has agreed to sell the business and certain net assets of Hills's Security and Information Technology distribution division to Dicker Data Limited for cash consideration equal to the net asset value of the SIT distribution division (including goodwill), calculated as at the completion date.

The key terms of the Sale & Purchase Agreement are set out below.

Topic	Summary
Outline of proposed transaction	Hills has entered into a Sale & Purchase Agreement dated 21 February 2022 to sell the business and certain net assets of Hills's Security and Information Technology distribution division to Dicker Data Limited, subject to customary conditions including Hills obtaining the required shareholder approvals.
Purchase price	<p>The consideration payable by DDR to Hills will comprise cash consideration equal to the net asset value of the SIT distribution division (including goodwill), calculated as at the completion date. The consideration will be paid to Hills at completion based on estimated figures, with a reconciliation to occur after completion.</p> <p>As per the announcement on 21 February 2022, Hills' estimates that the cash consideration will be approximately \$20 million.</p>
Conditions precedent	<p>Completion of the Sale & Purchase Agreement is conditional on, among other things:</p> <ul style="list-style-type: none"> • Independent Expert Report: The Independent Expert concluding the sale is fair and reasonable. • Shareholder Approval: Approval by the Hills' shareholders at the Meeting. • Discharge of CBA Encumbrance: Discharge by Commonwealth Bank of Australia (Hills' financier) of PPSR registrations over the Security and Information Technology distribution division assets; • CBA Consent: Consent from Commonwealth Bank of Australia (Hills' financier) to the sale of the Security and Information Technology distribution division to DDR; • Novation of Key Contracts: Novation of three key distribution contracts to DDR from Completion. • Assignment of Leases: Landlord consent to the assignment of property leases to DDR from Completion.
Break Fee	\$200,000 if Hills has received a superior proposal to the Transaction that causes any of its directors to withdraw their in favour recommendation or voting intention in connection with the Shareholder approval.
Warranties and indemnities	Hills give warranties and indemnities to DDR that would be typical for a seller of all of the assets of a significant business division.
Period before Completion	Hills must carry on the Security and Information Technology distribution division in the ordinary and normal course and, in particular, Hills must not agree or commit to do certain specified actions, except as expressly permitted by the Sale & Purchase Agreement or as consented to by DDR.

10.2 Independent Expert's Report

Hills engaged the Independent Expert to prepare and provide the Independent Expert's Report, which contains an analysis of whether the Transaction is fair and reasonable to the Shareholders.

The Independent Expert's Report compares the likely advantages and disadvantages for the Shareholders if the Transaction is agreed to, with the advantages and disadvantages to the Shareholders if it is not implemented.

The Independent Expert has concluded that the Transaction is fair and reasonable to Shareholders of Hills. For a summary of the Independent Expert's findings, please refer to the Independent Expert's Report.

The Independent Expert has given, and has not before the date of this Notice of Meeting withdrawn, its consent to the inclusion of the Independent Expert's Report in this Notice of Meeting and to the references to the Independent Expert's Report in this Notice of Meeting being made in the form and context in which each such reference is included.

10.3 No requirement to satisfy ASX admission requirements

Hills has consulted ASX with respect to the Transaction. While ASX has confirmed that the sale of the Security and Information Technology distribution division constitutes the sale of Hills's main undertaking and requires Shareholder approval of the purposes of ASX Listing Rule 11.2, ASX has also provided in-principle advice that it will not require Hills to re-comply with Chapters 1 and 2 of the ASX Listing Rules.

10.4 Further information about the Resolution

(a) Resolution – Approval of the sale of Hills's main undertaking

The Resolution seeks the approval of the Shareholders to the sale of Hills's main undertaking for the purposes of ASX Listing Rule 11.2.

ASX Listing Rule 11.2

Pursuant to ASX Listing Rule 11.2, an ASX listed entity must obtain the approval of its shareholders before disposing of its main undertaking.

ASX has determined that Hills's Security and Information Technology distribution division is its main undertaking and informed Hills that the approval of its Shareholders is needed in order to effect the Transaction. The Resolution is being put to Shareholders in order to seek and obtain the necessary approval.

Recommendation

The Board unanimously recommends that Shareholders vote in favour of this Resolution.

10.5 Documents available

You can view or download an electronic version of this Notice of Meeting at Hills's website at <https://corporate.hills.com.au/investors/gm22>.

10.6 No other material information

Except as set out in this Notice of Meeting, in the opinion of the Directors, there is no other information material to the making of a decision on how to vote in relation to the Resolutions, being information that is within the knowledge of any Director which has not been previously disclosed to Shareholders.

11 Notice of Meeting

Notice is given that a general meeting of Shareholders will be held as a virtual meeting <https://meetings.linkgroup.com/HILGM22> at 10.00am (Sydney time) on 20 April 2022.

The business to be considered at the Meeting is set out below. Information on the Resolutions to which the business relates is contained in the Explanatory Statement.

This Notice of Meeting should be read in conjunction with the Explanatory Statement. This Notice of Meeting and Explanatory Statement is not investment advice. You should seek your own financial and professional advice before making any decision on how to vote at the Meeting.

Terms used in this Notice of Meeting will, unless the context otherwise requires, have the same meaning given to them in the Glossary at the end of this document.

11.1 Dependent Resolution

The Resolution is required for the Transaction (as defined in the Explanatory Statement) to proceed.

If the Resolution is not passed, the Transaction will not proceed.

11.2 Business

RESOLUTION – APPROVAL OF THE DISPOSAL OF MAIN UNDERTAKING

To consider and, if thought fit, to pass with or without amendment, the following resolution as an **ordinary resolution**:

'The shareholders of Hills approve and agree to the sale of Hills's interest in its Security and Information Technology distribution division, being the main undertaking of Hills, on the terms and conditions described in the explanatory statement accompanying the Notice of Meeting, for the purposes of ASX Listing Rule 11.2 and for all other purposes.'

Voting Exclusion: Hills will disregard any votes cast in favour of this Resolution by or on behalf of Dicker Data Limited, the acquirer of Hills's main undertaking, and any other person will obtain a material benefit as a result of the disposal by Hills of its main undertaking (except a benefit solely by reason of being a holder of ordinary securities in Hills), or an Associate of that person or those persons. However, this does not apply to a vote cast in favour of this Resolution by:

- (a) a person as a proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with the directions given to the proxy or attorney to vote on this Resolution in that way; or
- (b) the Chairman as proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with a direction given to the Chairman to vote on the Resolution as the Chairman decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on this Resolution; and
 - (ii) the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

11.3 Independent Expert's Report

Shareholders should carefully consider the Independent's Expert Report prepared for the purpose of the Shareholder approval required. The Independent Expert's Report, a copy of which appears at Section 13, comments on the fairness and reasonableness of the Transaction to Shareholders. The Independent Expert has determined the Transaction is fair and reasonable to Shareholders of Hills.

11.4 Majority required for the Resolution to be passed

The Resolution will be passed if more than 50% of the votes cast on the Resolution (either in person, proxy, attorney or by corporate representative) are in favour of the Resolution. In order for the Transaction to proceed, the Shareholders must approve the Resolution.

11.5 Entitlement to vote

Hills has determined, in accordance with section 1074E(2)(g)(i) of the Corporations Act and regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), that the Shareholders entitled to attend and vote at the Meeting shall be those persons who are recorded on the register of members at 7.00pm (Sydney time) on 18 April 2022. Accordingly, transfers registered after that time will be disregarded in determining entitlements to vote at the Meeting.

11.6 Voting

You may vote in person by attending the Meeting or by proxy.

To vote in person, you must attend the virtual meeting at <https://meetings.linkgroup.com/HILGM22> at 10.00am (Sydney time) on 20 April 2022.

To vote by proxy, a completed proxy form must be delivered to and received by the Share Registry on or before 10.00am (Sydney time) on 18 April 2022. The attached Proxy Form sets out the instructions for the return of that Proxy Form.

11.7 Proxies

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- (a) each Shareholder entitled to vote at the Meeting has a right to appoint a proxy;
- (b) the proxy need not be a Shareholder;
- (c) a Shareholder who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportional number is specified, each proxy may exercise half of the Shareholder's votes; and
- (d) a Shareholder may specify the way in which the proxy is to vote on the Resolutions or may allow the proxy to vote at its discretion. If the way in which a proxy is to vote on the Resolutions are specified by a Shareholder, the proxy may not vote on that Resolution except as specified by the Shareholder.

11.8 Voting of proxies

A proxy may decide whether to vote on any motion, except where the proxy is required by law or under the constitution of Hills to vote, or abstain from voting, in their capacity as proxy. If a proxy is directed how to vote on an item of business, the proxy may vote on that item only in accordance with that direction. If a proxy is not directed how to vote on an item of business, a proxy may vote as he or she thinks fit.

The Proxy Form and the power of attorney or other authority (if any) under which it is signed (or a certified copy) must be received by Hills, at least 48 hours before the time for holding the Meeting (ie, by no later than 10.00am (Sydney time) on 18 April 2022:

- (a) electronically at www.linkmarketservices.com.au;
- (b) by mail to c/- Link Market Services, Locked Bag A14, Sydney South NSW 1235 Australia;
- (c) by fax to +61 2 9287 0309; or
- (d) by hand to:
 - (i) Parramatta Square Level 22, Tower 6 10 Darcy Street Parramatta NSW 2150; or
 - (ii) Level 12, 680 George Street, Sydney NSW 2000.

11.9 Voting by corporate representatives

Corporate Shareholders or proxies wishing to vote by corporate representative should obtain an appointment of corporate representative form from the Share Registry and complete and sign the form in accordance with the corporate Shareholder's constitution or by a duly authorised attorney.

The corporate representative form and the power of attorney or other authority (if any) under which it is signed (or a certified copy thereof) must be received by before the start or resumption of the meeting at which the representative is to vote, by post in the reply paid envelope provided.

11.10 How the Chairman will vote undirected proxies

If you return your Proxy Form but do not nominate a proxy, the Chairman will be your proxy and will vote on your behalf as you direct on the Proxy Form. If your nominated representative does not attend the meeting then your proxy will revert to the Chairman and he will vote on your behalf as you direct on the Proxy Form.

If a proxy is not directed how to vote on an item of business or Resolutions, the proxy (including, if applicable, the Chairman) may vote, or abstain from voting, as they think fit.

If you appoint the Chairman as your proxy (or if the Chairman is appointed by default) and you do not direct the Chairman how to vote on the Resolutions, the Chairman will vote your proxy in favour of that item of business, even if the Chairman has an interest in the outcome of the Resolutions and votes cast by the Chairman, other than as proxy holder, would be disregarded because of that interest.

Dated: 21 March 2022

By order of the Board.

A handwritten signature in black ink, appearing to read 'David Chambers', with a stylized flourish at the end.

**David Chambers
Chairman
Hills Limited**

12 Glossary

Unless the context otherwise requires, the singular includes the plural and vice versa, and the following terms will have the following meaning:

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691 or the financial market operated by it, as the context requires.

ASX Listing Rules means the official listing rules of ASX.

Board means the board of directors of Hills at the date of this Notice of Meeting.

Chairman means David Chambers, the chairman of Hills.

Completion means completion of the sale and purchase under the Transaction.

Corporations Act means the *Corporations Act 2001* (Cth), as amended from time to time.

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

DDR means Dicker Data Limited.

Directors means the directors of Hills at the date of this Notice of Meeting (excluding alternate directors).

Independent Expert means RSM Corporate Australia Pty Ltd .

Independent Expert's Report means the report of the Independent Expert, attached at Section 13.

Meeting means the general meeting of the members of Hills to which this Notice of Meeting relates, which has been convened to be held as a virtual meeting at <https://meetings.linkgroup.com/HILGM22> at 10.00am (Sydney time) on 20 April 2022.

Hills means Hills Limited ACN 007 573 417.

Notice of Meeting means this notice of general meeting and explanatory statement.

Post-Transaction Hills means Hills following completion of the Transaction.

Proxy Form means the proxy form that accompanies the Notice of Meeting, attached at Section 14.

Resolution means the resolution that is set out and explained in the Notice of Meeting.

Sale & Purchase Agreement means the sale and purchase agreement entered into on 21 February 2022 between Hills and DDR with respect to the Transaction.

Share means a fully paid ordinary share in the capital of Hills.

Shareholder means a holder of one or more Hills Shares.

Share Registry means Link Market Services Limited.

Transaction means the sale by Hills of its Security and Information Technology distribution division to DDR for cash consideration equal to the net asset value of the SIT distribution division (including goodwill), calculated as at the completion date.

13 Independent Expert's Report

Independent Expert's Report prepared by RSM Corporate Australia Pty Ltd dated 15 March 2022, **attached**.



HILLS LIMITED

Financial Services Guide and Independent Expert's Report

15 March 2022

Financial Services Guide

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 (“RSM Corporate Australia Pty Ltd” or “we” or “us” or “ours” as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (“FSG”). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our Australian Financial Services Licence, Licence No. 255847;
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

Financial services we are licensed to provide

For the purposes of our report and this FSG, the financial services we will be providing to you is the provision of general financial advice in relation to securities.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge various fees for providing different financial services. However, in respect of the financial service being provided to you by us, fees will be agreed, and paid by, the person who engages us to provide the report and such fees will be agreed on either a fixed fee or time cost basis. You will not pay to us any fees for our services; the Company will pay our fees. These fees are disclosed in the Report.

Except for the fees referred to above, neither RSM Corporate Australia Pty Ltd, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Australia Partners.

From time to time, RSM Corporate Australia Pty Ltd, RSM Australia Partners, RSM Australia and / or RSM Australia related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints Resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints should be directed to The Complaints Officer, RSM Corporate Australia Pty Ltd, P O Box R1253, Perth, WA, 6844.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Australian Financial Complaints Authority ("AFCA"). AFCA is an independent dispute resolution scheme that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about AFCA are available at the AFCA website www.afca.org.au. You may contact AFCA directly by email, telephone or in writing at the address set out below.

Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001
Toll Free: 1800 931 678
Email: info@afca.org.au

Time limits may apply to make a complaint to AFCA, so you should act promptly or consult the AFCA website to determine if or when the time limit relevant to your circumstances expires.

Contact Details

You may contact us using the details set out at the top of our letterhead on page 5 of this report.

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15 March 2022

The Directors
Hills Limited
Unit 1, Building F, 3-29 Birnie Avenue
Lidcombe NSW 2141

Dear Directors

1. Introduction

- 1.1 This Independent Expert's Report ("the Report" or "IER") has been prepared to accompany the Notice of General Meeting and Explanatory Statement ("Notice" to be provided to shareholders for a General Meeting of Hills Limited ("Hills" or "the Company") expected to be held in April 2022, at which shareholder approval will be sought for the following resolution relating to the sale of the business and certain assets and the assumption of the responsibility for the payment and performance of certain liabilities of the Company's Security and Information Technology distribution division ("SIT Business") to Dicker Data Limited (ASX:DDR) ("Dicker Data") ("the Proposed Transaction").

Resolution

"To consider and, if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

The shareholders of Hills approve and agree to the sale of Hills' interest in its Security and Information Technology distribution division, being one of the main undertakings of Hills, on the terms and conditions described in the explanatory statement accompanying the Notice of Meeting, for the purposes of ASX Listing Rule 11.2 and for all other purposes".

- 1.2 The Directors of the Company have requested that RSM Corporate Australia Pty Ltd ("RSM"), being independent and qualified for the purpose, express an opinion as to whether the Proposed Transaction is fair and reasonable to shareholders of Hills not associated with the Proposed Transaction ("Shareholders").
- 1.3 The ultimate decision whether to approve the Proposed Transaction should be based on each Shareholder's assessment of their circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt as to the action they should take with regard to the Proposed Transaction, or the matters dealt with in this Report, Shareholders should seek independent professional advice.

2. Summary and Conclusion

Opinion

2.1 In our opinion, and for the reasons set out in Sections 8 and 9 of this Report, the Proposed Transaction is **fair and reasonable** to Shareholders.

Approach

2.2 In assessing whether the Proposed Transaction is fair and reasonable to Shareholders, we have considered Australian Securities and Investment Commission (“ASIC”) Regulatory Guide 111 – Content of Expert Reports (“RG 111”), which provides specific guidance as to how an expert is to appraise transactions.

2.3 We have considered whether or not the Proposed Transaction is “fair” to Shareholders by assessing and comparing:

- the Fair Value of the business and assets of the SIT Business that form part of the Proposed Transaction; with
- the cash consideration (“Purchase Price”).

2.4 We have also considered whether the Proposed Transaction is “reasonable” to Shareholders by undertaking an analysis of the other factors relating to the Proposed Transaction which are likely to be relevant to the Shareholders in their decision of whether or not to approve the Proposed Transaction.

2.5 Further information on the approach we have employed in assessing whether the Proposed Transaction is “fair” and “reasonable” is set out at Section 4 of this Report.

Fairness

2.6 The table below sets out the value of the consideration payable for the SIT Business as compared to our assessment of the Market Value of the SIT Business.

	Low \$'000	High \$'000	Preferred \$'000
Fair Value of SIT Business (controlling basis)	11,917	11,917	11,917
Purchase Price	11,917	13,217	12,567

RSM analysis

Table 1: Valuation summary

2.7 The Purchase Price as set out above reflects the Purchase Price if the Proposed Transaction had occurred on 31 December 2021, with the Company estimating a Purchase Price of approximately \$20m at the completion of the Proposed Transaction (“Completion”).

2.8 We have summarised the values included in the previous table in the chart below.

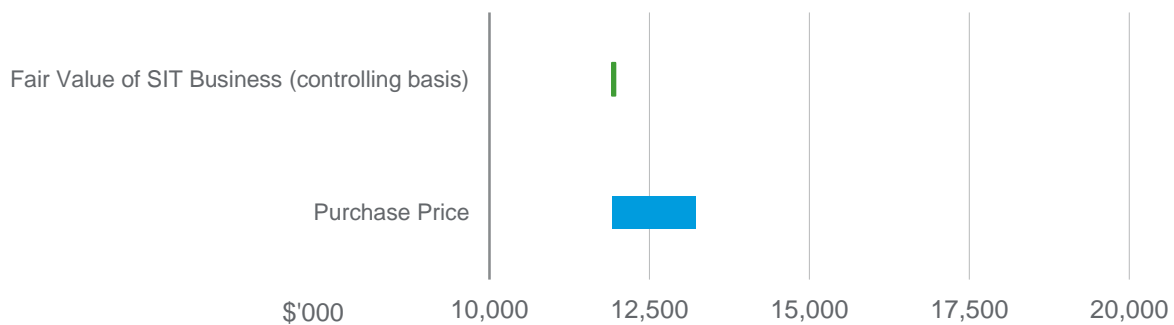


Chart 1: Valuation summary graphical representation

- 2.9 The Purchase Price will be calculated based on the Actual Net Assets Amount, to be calculated based on the principles set out in the Business Sale and Purchase Agreement between Hills and Dicker Data (“BSA”).
- 2.10 In the absence of further information at the date of this Report, we have assumed the Purchase Price to be in the range of \$11.9m to \$13.2m, with a preferred value at the midpoint of \$12.6m based on the consideration that would have been payable if the Proposed Transaction had occurred on 31 December 2021 based on the net asset position of the SIT Business as at 31 December 2021.
- 2.11 The low range of \$11.9m assumes that no goodwill will be payable, and the high range assumes that goodwill of \$1.3m will be payable as part of the Purchase Price.
- 2.12 As the Purchase Price is equal to or greater than the Fair Value of the SIT Business (on a control basis), in accordance with the guidance set out in RG 111, and in the absence of any other relevant information, we consider the Proposed Transaction to be **fair** to the Shareholders of Hills.
- 2.13 Whilst the final Purchase Price will be adjusted to reflect the net asset position at Completion, we consider that any such adjustments would also be applicable to our assessed Fair Value of the SIT Business such that the Proposed Transaction would remain **fair** to the Shareholders of Hills.

Reasonableness

- 2.14 RG 111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the offer closes. As such, we have also considered the following factors in relation to the reasonableness aspects of the Proposed Transaction:
- the future prospects of the Company if the Proposed Transaction does not proceed; and
 - any other commercial advantages and disadvantages to Shareholders as a consequence of the Proposed Transaction proceeding.

Future Prospects of Hills if the Proposed Transaction Does Not Proceed

- 2.15 If the Proposed Transaction does not proceed, the Board intends to continue to focus on the Company's existing businesses. Whilst the Hills Group ("the Group") is expecting an improvement in underlying performance for the second half of the 2022 financial year ("2HY22"), the ongoing effects of the COVID-19 pandemic, which has resulted in disrupted economic activity and restricted product availability due to global component supply shortages, are likely to hamper strong operational growth in the short-term.
- 2.16 The Company disclosed net losses after tax of \$20.0m and generated cash of \$1.6m from operating activities for the half-year ended 31 December 2021 ("1HY22"). Subsequent to 31 December 2021, the Company was in breach of an undertaking in relation to its loan facility with the Commonwealth Bank of Australia ("CBA"). The Group has obtained a waiver for the breach from the bank and entered into a revised agreement which expires on 30 June 2022.
- 2.17 The approval of the Proposed Transaction will enable Hills to repay a significant portion of the loan facility. However, if the Proposed Transaction is not approved, the Group will need to secure alternative funding either through alternative borrowing arrangements or an equity capital raise or a combination of the two.
- 2.18 The reviewed financial statements for 1HY22 included an emphasis of matter in the independent auditor's report issued by KPMG that stated that a material uncertainty existed that may cast significant doubt on the Company's ability to continue as a going concern and realise its assets and discharge its liabilities in the ordinary course of business and at the amounts stated in the financial statements. Whilst the auditor's opinion was not modified in respect of this matter, the auditor drew attention to the disclosure in Note 1.2 of the financial statements that Hills' ability to continue as a going concern was dependent upon a combination of some or all of a number of factors, including sustaining improved financial results, undertaking a capital raise in April 2022, and the completion of the Proposed Transaction.

Response of the Market to the Proposed Transaction

- 2.19 Hills' VWAP of \$0.113 post the announcement of the Proposed Transaction to the date of this Report was higher than the 5, 10, 30 and 60-day VWAP ranging from \$0.099 to \$0.110.
- 2.20 Notwithstanding the relatively low liquidity of the Company's shares, we consider the market has reacted favourably to the announcement of the Proposed Transaction.

Advantages of approving the Proposed Transaction

2.21 The advantages of approving the Proposed Transaction are:

Advantage	Details
The Proposed Transaction is fair	As set out above, as the Purchase Price is equal to or greater than the Fair Value of the SIT Business (on a control basis), in accordance with the guidance set out in RG 111, and in the absence of any other relevant information, we consider the Proposed Transaction to be fair to the Shareholders of Hills.
Focus on Health Solutions and Technical Services divisions	The Directors of the Company have spent significant time considering the strategic direction of Hills and consider the divestment of the SIT Business to be the most appropriate course of action as it will allow the Company to focus on the Health Solutions and Technical Services divisions.
Repayment of borrowings	Management considers that the approval of the Proposed Transaction will enable the Company to repay a significant portion of the Company's loan facility with the CBA.
Improvement in working capital and debt servicing requirements	The divestment of the SIT Business will reduce the Company's ongoing working capital and debt serving requirements.
Avoid incurring restructuring costs of the SIT Business	The Company will avoid incurring restructuring costs if the SIT Business is divested.
Better understanding of the Company's operations by prospective investors and financiers	The Directors consider that the focus on the Company's Health Solutions and Technical Services divisions will enable a better understanding of the Company's operations by prospective investors and financiers, with the potential for better access to debt and equity funding.
No dilution to Shareholders' interests	The Purchase Price for the SIT Business is cash consideration and accordingly, Shareholders' interest in Hills would not be diluted if the Proposed Transaction was approved.

Table 2: Advantages of the Proposed Transaction

Disadvantages of approving the Proposed Transaction

2.22 The disadvantages of approving the Proposed Transaction are:

Disadvantage	Details
Loss of access to the SIT Business's earning potential	The SIT Business (after the divestment of loss making operations in New Zealand) was profitable at the EBITDA level and offers potential revenue growth opportunities that the Shareholders will not have access to if the Proposed Transaction is approved.
No guarantee that the Company's restructuring strategy will result in increased profitability	Whilst the Health Solutions and Technical Services divisions have generated higher profit margins, there is no guarantee that the Company's restructuring strategy will result in increased profitability and returns for Shareholders.

Table 3: Disadvantages of the Proposed Transaction

Alternative proposals

- 2.23 Hills has undertaken a formal sale process to divest the SIT Business and engaged BDO as corporate advisors in relation to the sale process. The Directors consider that the Proposed Transaction is the best offer received as a result of the sale process.
- 2.24 As set out in in Section 5, if the Proposed Transaction is not approved, the Board considers that significant costs would need to be incurred over a time period, estimated at 18 to 24 months to improve the current operations of the SIT Business.
- 2.25 In the absence of the divestment of the SIT Business, the Board considers that restructuring/remedial costs would likely need to be funded through a capital raising.
- 2.26 The Board considers that a failure to undertake remedial action will place significant stress on the operating cash flows of the Company.
- 2.27 We are not aware of any alternative proposals which may provide a greater benefit to Shareholders at this time.

Conclusion on Reasonableness

- 2.28 In our opinion, the position of Shareholders if the Proposed Transaction is approved is more advantageous than if the Proposed Transaction is not approved. Therefore, in the absence of any other relevant information and/or a superior offer, we consider that the Proposed Transaction is **reasonable** for Shareholders.

3. Summary of Proposed Transaction

Overview

- 3.1 On 21 February 2022, the Company announced that Hills had signed a conditional BSA to divest the SIT Business to Dicker Data (Proposed Transaction).
- 3.2 Under the terms of the BSA, Dicker Data will acquire the SIT Business for cash consideration. Upon completion of the Proposed Transaction, Dicker Data will acquire the SIT Business, inventory, customer and vendor relationships, employees and their entitlement obligations, and certain other net assets of the SIT Business.
- 3.3 The Company will retain the Hills brands, and the SIT Business's trade receivables and payables existing at the Completion Date.
- 3.4 Under the terms of the BSA, the cash purchase price ("Purchase Price") payable to Hills for the acquisition of the SIT Business will be calculated as the Estimated Net Assets Amount plus or minus the Adjustment Amount; with
- the Estimated Net Assets Amount payable on the Completion Date calculated with reference to the expected assets to be acquired and the expected liabilities to be assumed as agreed between the parties five Business Days prior to Completion; and
 - the Adjustment Amount, calculated as the difference between the Estimated Net Assets Amount and the Actual Net Assets Amount, being the actual assets acquired and the actual liabilities assumed upon the completion of the Proposed Transaction, payable on the Adjustment Date as agreed between the parties in accordance with the terms of the relevant acceptance and/or dispute resolution process as outlined in the BSA.

Key conditions of the Proposed Transaction

- 3.5 Completion of the Proposed Transaction is subject to certain conditions precedent, comprising:
- **Independent Expert Report:** the Independent Expert (RSM) concluding the Proposed Transaction is fair and reasonable to Shareholders;
 - **Shareholder Approval:** Hills' Shareholders approving the Proposed Transaction;
 - **Discharge of CBA Encumbrance:** the discharge by the CBA of PPSR registrations over a number of SIT Business assets that form part of the Proposed Transaction;
 - **CBA Consent:** the Company obtaining consent from the CBA to the sale of the SIT Business to Dicker Data;
 - **Discharge of other Encumbrances:** the discharge of other encumbrances over SIT Business assets that form part of the Proposed Transaction;
 - **Novation of Key Contracts:** the Company obtaining consent to the assignment of three key contracts (comprising three key supplier distributor agreements) of the SIT Business to Dicker Data; and
 - **Assignment of Leases:** the Company obtaining consent from each relevant lessor for the assignment of leases to Dicker Data on the same terms or in a form acceptable to Dicker Data.

4. Scope of the Report

Basis of evaluation

- 4.1 In assessing the fairness and reasonableness of the Proposed Transaction to Shareholders, we have considered RG 111, which provides specific guidance as to how an expert is to appraise transactions.
- 4.2 RG 111 provides ASIC's views on how an expert can help security holders make informed decisions about transactions. Specifically it gives guidance to experts on how to evaluate whether or not a proposed transaction is fair and reasonable.
- 4.3 RG 111 states that the expert report should focus on:
- the issues facing the security holders for whom the report is being prepared; and
 - the substance of the transaction rather than the legal mechanism used to achieve it.
- 4.4 RG 111 provides specific guidance on how a transaction should be analysed if the transaction is a control transaction, whereby a person acquires, or increases a controlling stake in a company, achieved by a number of different legal mechanisms, or involves a related party transaction requiring shareholder approval under Chapter 2E of the Corporations Act or under ASX Listing Rule 10.
- 4.5 RG 111 applies the "fair and reasonable" test as two distinct criteria in the circumstance of a takeover bid, stating:
- a takeover offer is considered "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer; and
 - a takeover offer is considered "reasonable" if it is fair or, where the offer is "not fair", it may still be "reasonable" if the expert believes that there are sufficient reasons for security holders to accept the offer.
- 4.6 Whilst the Proposed Transaction comprises the sale of the business and certain assets and the assumption of the responsibility for the payment and performance of certain liabilities of the SIT Business, the sale of the SIT Business would result in Dicker Data acquiring a 100% interest in a significant division of Hills.
- 4.7 Consistent with the guidelines in RG 111, we have considered whether the Proposed Transaction is "fair and reasonable" to Shareholders by undertaking:
- a comparison of the fair value of the SIT Business (on a controlling basis) and the Purchase Price payable under the terms of the Proposed Transaction in our assessment of fairness; and
 - a review of other significant factors which Shareholders might consider prior to approving the Proposed Transaction, in our assessment of reasonableness.
- 4.8 The other significant factors considered also include:
- the future prospects of the Company if the Proposed Transaction does not proceed; and
 - any other commercial advantages and disadvantages to Shareholders as a consequence of the Proposed Transaction proceeding.
- 4.9 Our assessment of the Proposed Transaction is based on economic, market and other conditions prevailing at the date of this report.

5. Profile of Hills Limited and the SIT Business

Company Background

- 5.1 Hills is a supplier of healthcare technology solutions and a distributor of technology products and services in the security, surveillance and information technology markets.
- 5.2 The Company's three business divisions are:
- the SIT Business, which imports and distributes products and solutions to the construction services, infrastructure services and technology sectors, with a range of solutions including CCTV, video surveillance, physical security systems and information technology network systems;
 - Health Solutions, which designs, supplies and installs healthcare technology solutions, with a focus on digital messaging, nurse call and patient engagement systems to the hospital and aged care sectors; and
 - Technical Services which provides technology installation and support services, technician management and NBN connection services in residential and commercial settings across telecommunications, broadcast and infrastructure markets in Australia and New Zealand.
- 5.3 The Proposed Transaction comprises the proposed sale of the business and certain assets and the assumption of the responsibility for the payment and performance of certain liabilities of the SIT Business.
- 5.4 Hills is retaining the Technical Services business that is currently part of the broader Distribution division and, if the Proposed Transaction is approved, will continue to pursue its existing customer and geographic diversification growth strategy for this division.

Financial information

- 5.5 The information in the following section provides a summary of the statutory consolidated financial performance and financial position of Hills for the years ended 30 June 2019 ("FY19"), 30 June 2020 ("FY20"), 30 June 2021 ("FY21"), and the half-year ended 31 December 2021 (1HY22), extracted from the audited and reviewed financial statements.

Financial Performance

5.6 The financial performance of the Company for FY19, FY20, FY21 and 1HY22 (collectively, “Historical Period”) is set out in the table below. The income and expenses disclosed in the table below have been extracted from the audited and reviewed financial statements of the Company and have not been adjusted for any one-off or non-recurring items.

Hills Limited Financial performance (\$'000)	Restated*		FY21 Audited	1HY22 Reviewed
	FY19 Audited	FY20 Audited		
Revenue	267,362	220,083	180,151	79,979
Cost of sales	(183,488)	(153,919)	(126,572)	(56,309)
Gross margin	83,874	66,164	53,579	23,670
<i>Gross margin %</i>	31%	30%	30%	30%
Operating expenses				
Labour and related expenses	(52,733)	(39,239)	(30,977)	(15,486)
Operational and equipment expenses	(6,322)	(3,664)	(1,610)	(920)
Property expenses	(7,596)	(1,427)	(495)	(232)
Other expenses	(22,306)	(16,338)	(15,945)	(7,885)
Total operating expenses	(88,957)	(60,668)	(49,027)	(24,523)
Other income	551	115	219	180
EBITDA	(4,532)	5,611	4,771	(673)
<i>EBITDA margin %</i>	-2%	3%	3%	-1%
Depreciation and amortisation	(6,617)	(8,554)	(9,831)	(4,789)
EBIT	(11,149)	(2,943)	(5,060)	(5,462)
<i>EBIT margin %</i>	-4%	-1%	-3%	-7%
Finance income	121	51	44	4
Finance expenses	(3,386)	(3,638)	(2,376)	(668)
Loss before income tax	(14,414)	(6,530)	(7,392)	(6,126)
Income tax benefit/(expense)	5,588	-	(2,832)	(13,916)
Loss for the year/period attributable to the members of the Company	(8,826)	(6,530)	(10,224)	(20,042)

Source: Audited and reviewed financial statements

* Restated FY20 financial performance extracted from the audited financial statements for FY21

Table 4: Hills historical financial performance

5.7 As set out in the table above, the Company disclosed losses before tax for the Historical Period, with operations impacted by the COVID-19 pandemic during FY20, FY21 and 1HY22. Prior to FY20, the Company had been focused on the divestment of non-core businesses and focusing on growing the Health Solutions and the Distribution businesses.

5.8 The Company reported profits at the EBITDA level for FY20 and FY21. However, it should be noted that property expenses for FY19 of \$7.6m primarily comprised operating lease expense rental expenses, as well as other related occupancy expenses. Prior to the adoption of AASB 16, leases were accounted for by applying the principles of AASB 117 Leases (“AASB 117”), which classified arrangements as either finance leases or operating leases.

5.9 On 1 July 2019, the Group transitioned to AASB 16 using the modified retrospective approach where the comparative information for FY19 was not restated. AASB 16 requires the recognition of lease liabilities and right-of-use (“ROU”) assets in relation to leases which had previously been classified as operating leases under AASB 117. Short term leases (less than 12 months) and leases of low value assets (such as personal computers) are exempt from the lease accounting requirements. Accordingly, the Company’s leased premises are now recognised as ROU assets, with corresponding lease liabilities, with lease payments split between interest and principal payments (finance costs) and ROU asset depreciation for FY20, FY21 and 1HY22, resulting in corresponding decreases in property expenses recognised for FY20, FY21 and 1HY22.

Financial Position

- 5.10 The table below sets out a summary of the Company's statement of financial position as at 30 June 2020, 30 June 2021 and 31 December 2021.

Hills Limited Financial Position (\$'000)	Restated* FY20 Audited	FY21 Audited	1HY22 Reviewed
Current assets			
Cash and cash equivalents	12,236	6,835	5,395
Trade and other receivables	39,575	31,517	28,335
Inventories	25,099	22,001	16,533
Total current assets	76,910	60,353	50,263
Non-current assets			
Property, plant and equipment	12,276	10,797	9,172
Intangible assets	3,749	3,077	1,876
Deferred tax assets	16,744	13,916	-
Right-of-use asset	10,821	7,256	6,300
Investments	2	2	1
Total non-current assets	43,592	35,048	17,349
Total assets	120,502	95,401	67,612
Current liabilities			
Trade and other payables	30,173	24,333	17,139
Lease liabilities	4,258	4,162	4,122
Borrowings	6,113	533	946
Provisions	5,627	5,120	5,129
Derivative financial instruments	4,578	-	9
Total current liabilities	50,749	34,148	27,345
Non-current liabilities			
Borrowings	14,300	19,475	19,357
Provisions	2,719	2,228	2,281
Lease liabilities	9,645	6,318	5,487
Total non-current liabilities	26,664	28,021	27,125
Total liabilities	77,413	62,169	54,470
Net assets	43,089	33,232	13,142
Equity			
Contributed equity	278,439	278,439	278,439
Reserves	10,527	10,894	10,958
Accumulated losses	(245,877)	(256,101)	(276,143)
Non-controlling interests	-	-	(112)
Total equity	43,089	33,232	13,142

Source: Audited and reviewed financial statements

- 5.11 * Restated FY20 financial performance extracted from the audited financial statements for FY21

Table 5: Hills historical financial position

- 5.12 At 31 December 2021, the Company disclosed net assets of \$13.1m compared to \$33.2m and \$43.1m at 30 June 2021 and 30 June 2020, respectively. The decline in net assets was due primarily to net losses incurred in each reporting period, as well as the divestment of a business, closure of the New Zealand security distribution operations, write-down of distribution related assets and de-recognition of tax losses.
- 5.13 At 31 December 2021, the Company disclosed net debt of \$14.9m (calculated as cash and cash equivalents, less current and non-current borrowings of \$20.3m).

-
- 5.14 The Company has a \$20.0m secured facility with the CBA. At 31 December 2021, the facility expiry was 3 December 2023. However, subsequent to 31 December 2021, the Company was in breach of an undertaking in the facility. The Group has obtained a waiver for the breach and entered into a revised agreement which expires on 30 June 2022.
- 5.15 Management considers that the approval of the Proposed Transaction will enable the Company to repay a significant portion of the debt.
- 5.16 The facility is secured on the Group's accounts receivable and inventory balances, with a second mortgage over the other assets of the Group. Interest is charged at prevailing market rates plus a fixed margin.
- 5.17 In addition to the above facility, Hills also has the following loan facilities:
- a bank guarantee facility agreement with the CBA, with a limit of \$2.6m. An issuance fee is payable in respect of bank guarantees issued;
 - the Company has entered into chattel mortgage agreements with DLL Financing for the provision of finance for the supply to, and installation of, equipment at hospitals through its the Health Solutions business. At 31 December 2021, the Company had drawn down \$1.3m in relation to these agreements; and
 - the Company has entered into an agreement for the provision of finance in respect of its general insurance premiums repayable via its Amex facility. At 31 December 2021, \$0.9m was outstanding on this agreement.

Directors and management

- 5.18 The key directors and officers of Hills are summarised below:
- | | |
|---------------------|--|
| ▪ Mr David Chambers | Independent Non-Executive Chairman |
| ▪ Mr David Clarke | Chief Executive Officer |
| ▪ Mr Kenneth Dwyer | Independent Non-Executive Director |
| ▪ Mr Peter Steel | Non-Independent Non-Executive Director |
| ▪ Ms Janet Muir | Independent Non-Executive Director |
| ▪ Mr David Fox | General Counsel & Company Secretary |
| ▪ Ms Natalie Scott | Chief Financial Officer |

Hills Share price performance

5.19 The chart below sets out a summary of Hills' daily closing share price and traded volumes on the ASX from the period 1 November 2020 to 9 March 2022.

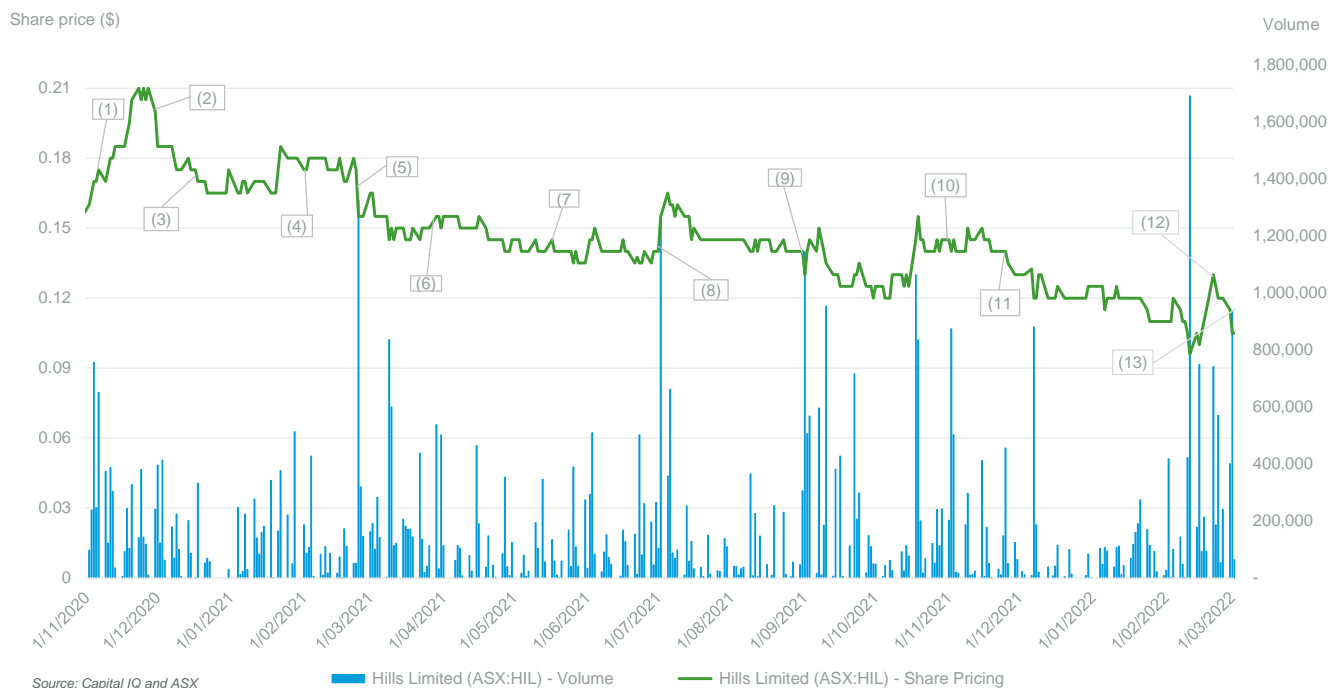


Chart 2: Historical share price and traded volumes of Hills

5.20 We make the following comments with regard to Hills' recent share price performance and ASX announcements:

Ref	Date	Announcement details
(1)	6 Nov 2020	The Company released the Chairman's address and CEO and Managing Director's presentation at the 2020 Annual General Meeting, along with a market update that the Company was well positioned to achieve a full-year net profit in FY21.
(2)	30 Nov 2020	The Company announced that it secured a \$25 million debt facility with the CBA.
(3)	18 Dec 2020	The Company announced that follow-up assessments of the carrying value of the Group's assets and liabilities were undertaken following the completion of the external foreign exchange review, leading to the adjustments of \$4.9 million of predominantly non-cash one-off items. These adjustments related to asset write-offs relating to exited businesses and vendor arrangements, reassessment of valuation of aged, slow-moving and demonstration stock, reassessment of asset lives and property settlements, and the write-off of deferred tax assets arising from poor trading conditions in New Zealand.
(4)	2 Feb 2021	The Company announced the intention of retirement of David Lenz as Chief Executive Officer and Managing Director. The Company also announced that David Lenz would remain in position until the appointment of a new CEO in the next financial year.
(5)	24 Feb 2021	The Company announced its half year report, including a 26.5% decrease in revenue.
(6)	29 Mar 2021	The Company announced the signing of a three-year exclusive distribution agreement with GetWellNetwork Inc and the expansion of its Hills Health Solutions executive and sales team to pursue growth opportunities.
(7)	17 May 2021	The Company announced the appointment of David Clarke as Chief Executive Officer.

Ref	Date	Announcement details
(8)	1 Jul 2021	The Company announced the appointment of David Chambers, Lead Independent Director, as Chairman following the Chairperson's (Jennifer Hill-Ling) decision to retire.
(9)	31 Aug 2021	The Company disclosed FY21 results, including a 33% growth in underlying EBITDA for Hills Health Solutions and a 16.2% decline in underlying EBITDA for Hills Distribution.
(10)	1 Nov 2021	The Company announced the decision to exit its loss-making New Zealand security distribution operations.
(11)	24 Nov 2021	The Company released the Chairman's address and CEO's presentation at the 2021 Annual General Meeting.
(12)	21 Feb 2022	Announcement of the Proposed Transaction.
(13)	28 Feb 2022	The Company disclosed its 1HY22 results, including a statutory loss after tax of \$20.0m including \$2.9m in non-operating expenses plus a \$13.9m reduction in non-cash deferred tax assets, primarily in relation to the SIT Business.

Table 6: Summary of ASX Announcements

5.21 Over the period 1 November 2020 to 9 March 2022, the Company's share price declined from a high of \$0.21 in late November 2020 to a low of \$0.096 on 11 February 2022.

Financial Performance – SIT Business

5.22 The financial performance of the SIT Business for FY19, FY20, FY21, and 1HY22 is set out in the table below.

SIT Business Financial performance	FY19 Mgmt	FY20 Mgmt	FY21 Mgmt	1HY22 Mgmt
Revenue	144,848	138,420	123,046	53,908
Cost of sales	(113,495)	(109,207)	(97,216)	(42,876)
Gross margin	31,353	29,213	25,830	11,032
Gross margin %	21.6%	21.1%	21.0%	20.5%
Operating expenses				
Labour and related expenses	(21,806)	(17,925)	(12,386)	(5,801)
Operational and equipment expenses	(2,757)	(1,791)	(1,354)	(721)
Property expenses	(3,304)	(213)	(5)	0
Other expenses	(9)	106	(456)	(899)
Total operating expenses	(27,875)	(19,824)	(14,201)	(7,421)
Other income	377	219	33	28
Allocated corporate costs	(4,901)	(4,484)	(3,879)	(2,510)
Reported EBITDA	(1,046)	5,124	7,782	1,129
Reported EBITDA margin %	-0.7%	3.7%	6.3%	2.1%
ROU adjustments	-	(3,471)	(3,146)	(1,704)
EBITDA (pre adoption of AASB-16 basis)	(1,046)	1,653	4,636	(575)
EBITDA (pre-AASB-16) margin %	-0.7%	1.2%	3.8%	-1.1%

Source: Management accounts for FY19, FY20, FY21 and 1HY22

Table 7: SIT Business historical and forecast financial performance

5.23 The SIT Business's revenue is derived from the distribution of products and solutions to the construction services, infrastructure services and technology sectors, with a range of solutions including CCTV, video surveillance, physical security systems and information technology network systems.

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- 5.24 Total revenue has declined over the Historical Period, decreasing from \$144.8m in FY19 to \$138.4m and \$123.0m in FY20 and FY21, respectively. The SIT Business disclosed total revenue of \$53.9m for 1HY22, compared to budgeted revenue of \$67.2m for the same period.
- 5.25 Gross profit margins have remained relatively consistent at circa 21% over the Historical Period.
- 5.26 The decline in revenue has been attributed to the ongoing challenging trading conditions, including:
- delays and cancellation of key projects during staged restrictions on physical movement and the implementation of physical distancing measures;
 - a worldwide semiconductor shortage adversely impacting product availability and lead times resulting in the delay of project completion;
 - exiting underperforming vendor distribution agreements and the divestment of businesses including the Company's communications and Audio Visual (AV) businesses;
 - underperforming security distribution operations in New Zealand; and
 - temporarily reduced competitiveness arising from foreign currency fluctuations.
- 5.27 Total operating expenses primarily comprise labour and related on-costs, operational and equipment expenses, and, prior to Hills' adoption of Accounting Standard AABS 16 *Leases* ("AASB 16"), property expenses.
- 5.28 Operational and equipment expenses primarily comprise consumables and freight expenses, and other expenses primarily include marketing, advertising and insurance costs.
- 5.29 Property expenses totalled \$3.3m for FY19 and primarily comprised operating lease rental expenses, as well as other related occupancy expenses. Property expenses were allocated by division at the head office level based on each division's use of the relevant properties.
- 5.30 As set out in paragraphs 5.8 and 5.9, prior to the adoption of AASB 16, leases were accounted for by applying the principles of AASB 117, which classified arrangements as either finance leases or operating leases.
- 5.31 On 1 July 2019, the Group transitioned to AASB 16, and accordingly, the Company's leased premises are now recognised as ROU assets, with corresponding lease liabilities, with lease payments split between interest and principal payments (finance costs) and ROU asset depreciation for FY20, FY21 and 1HY22.
- 5.32 Corporate overhead expenses represent the allocation of head office expenses to the SIT Business and primarily comprise business technologies, finance, administrative and Human Resource overhead costs.
- 5.33 The SIT Business disclosed losses at the EBITDA level of \$1.0m for FY19, and profits at the EBITDA level of \$5.1m, \$7.8m and \$1.1m for FY20, FY21 and 1HY22, respectively. However, as outlined above, EBITDA for FY20 onwards recognised ROU asset depreciation in relation to leased premises in accordance with AASB 16.
- 5.34 Table 7 also sets out adjustments to compare earnings at the EBITDA level for the SIT Business on a pre-adoption of AASB 16 basis for consistency across the Historical Period, and the forecast period for FY22.
- 5.35 Based on the above, the SIT Business disclosed EBITDA on a pre-adoption of AASB 16 basis of \$1.7m and \$4.6m for FY20 and FY21, respectively, and losses at the EBITDA level of \$575k for 1HY22.
- 5.36 We have had regard to forecast financial performance for FY22 prepared by Management. Management has advised that the Company has significant levels of committed orders due to supply chain constraints and project delays caused by the COVID-19 pandemic. These orders are expected to be fulfilled during the 2022 calendar year and are, accordingly, in part driving an expected stronger forecast performance for 2HY22.

- 5.37 After a strategic review, the Hills Board, with the assistance of Management, considers that, if the Proposed Transaction is not approved, significant costs would need to be incurred over a time period, estimated at 18 to 24 months to improve the current operations of the SIT Business.
- 5.38 In the absence of the divestment of the SIT Business, the Board considers that the above restructuring/remedial costs would likely need to be funded through a capital raising.
- 5.39 The Board considers that a failure to undertake remedial action will place significant stress on the operating cash flows of the Company.

Estimated Net Assets Amount – SIT Business

- 5.40 As set out in paragraph 3.4, the Purchase Price to acquire the SIT Business will initially be based on the Estimated Net Assets Amount, with the Estimated Net Assets Amount to be calculated by the Company, based on the principles set out in the BSA five Business Days before Completion.
- 5.41 Thereafter, subject to agreement between the parties, the final Purchase Price will comprise the Estimated Net Assets Amount plus or minus the Adjustment Amount, with the Adjustment Amount being the difference between the Estimated Net Assets Amount and the Actual Net Assets Amount.

SIT Business Net Assets (\$'000)	As at 31-Dec-21 Mgmt
Assets	
Inventory, gross	15,937
Inventory provision	(2,200)
Inventory, net	13,737
Prepayments	408
Plant and equipment, net	945
Goodwill	1,300
Total assets	16,390
Liabilities	
Employee entitlements provision	1,851
Other provisions	1,322
Total liabilities	3,173
Net assets	13,217

Source: Management

Table 8: SIT Business Estimated Net Assets Amount

- 5.42 The Estimated Net Assets Amount calculation as set out above is based on the management accounts of the SIT Business as at 31 December 2021.

5.43 We make the following comments in relation to the Estimated Net Assets Amount of \$13.2m below:

- assets to be acquired by Dicker Data primarily comprise inventory, net of provisions for aged or slow moving inventory of \$13.7m;
- prepayments of \$408k primarily comprise prepaid rent, land taxes, council rates, and property insurance;
- net plant and equipment of \$945k relating to the SIT Business, primarily comprises of leasehold improvements, plant and machinery office machinery, and office furniture and fittings;
- provisions for employee entitlements of \$1.9m relate to annual leave and long service leave provisions for the transition of 130 employees to Dicker Data as part of the Proposed Transaction;
- other provisions totalling \$1.3m relate to make good provisions for leased property and warranty provisions for specific products;
- provisions of \$900k related to make good provisions for fixed assets. The fixed assets, including leasehold improvements and other plant and equipment for the corresponding leased properties, also form part of the Proposed Transaction and have been included in net plant and equipment;
- 9 property leases will be assigned to Dicker Data on the same terms or in a form acceptable to Dicker Data; and
- the calculation of goodwill in line with the principles of the BSA.

6. Valuation Approach

Basis of Valuation

- 6.1 The valuation of the SIT Business has been prepared on the basis of Fair Value (or Market Value), being the value that should be agreed in a hypothetical transaction between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, acting at arm's length.

Valuation Methodologies

- 6.2 In assessing the Fair Value of the SIT Business, we have considered a range of valuation methodologies. RG 111 proposes that it is generally appropriate for an expert to consider using the following methodologies:
- the discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets;
 - the application of earnings multiples to the estimated future maintainable earnings or cash flows added to the estimated realisable value of any surplus assets;
 - the amount which would be available for distribution on an orderly realisation of assets;
 - the quoted price for listed securities; and
 - any recent genuine offers received.
- 6.3 We consider that the valuation methodologies proposed by RG 111 can be split into three valuation methodology categories, as follows.

Market based methods

- 6.4 Market based methods estimate the Market Value by considering the market value of a company's securities or the market value of comparable companies. Market based methods include:
- the quoted price for listed securities; and
 - industry specific methods.
- 6.5 The recent quoted price for listed securities method provides evidence of the fair market value of a company's securities where they are publicly traded in an informed and liquid market.
- 6.6 Industry specific methods usually involve the use of industry rules of thumb to estimate the fair market value of a company and its securities. Generally, rules of thumb provide less persuasive evidence of the fair market value of a company than other market-based valuation methods because they may not account for company specific risks and factors.

Income based methods

- 6.7 Income based methods estimate value by calculating the present value of a company's estimated future stream of earnings or cash flows. Income based methods include:
- discounted cash flow;
 - capitalisation of future maintainable earnings.
- 6.8 The DCF technique has a strong theoretical basis, valuing a business on the net present value of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value or the terminal value of the company's cash flows at the end of the forecast period. This method of valuation is appropriate when valuing companies where future cash flow projections can be made with a reasonable degree of confidence.

-
- 6.9 The capitalisation of future maintainable earnings is generally considered a short form DCF, where an estimation of the Future Maintainable Earnings (“FME”) of the business, rather than a stream of cash flows is capitalised based on an appropriate capitalisation multiple. Multiples are derived from the analysis of transactions involving comparable companies and the trading multiples of comparable companies.

Asset based methods

- 6.10 Asset based methodologies estimate the Market Value of a company’s securities based on the realisable value of its identifiable net assets. Asset based methods include:
- orderly realisation of assets method;
 - liquidation of assets method; and
 - net tangible assets on a going concern basis.
- 6.11 The value achievable in an orderly realisation of assets is estimated by determining the net realisable value of the assets of a company which would be distributed to security holders after payment of all liabilities, including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. This technique is particularly appropriate for businesses with high asset values compared to earnings and cash flows.
- 6.12 The liquidation of assets method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a shorter time frame. The liquidation of assets method will result in a value that is lower than the orderly realisation of assets method and is appropriate for companies in financial distress or where a company is not valued on a going concern basis.
- 6.13 The net tangible assets on a going concern method estimates the market values of the net tangible assets of a company but unlike the orderly realisation of assets method it does not take into account realisation costs. Asset based methods are appropriate when companies are not profitable, a significant proportion of the company’s assets are liquid, or for asset holding companies.

Selection of valuation methodologies

Valuation of the SIT Business

- 6.14 We have utilised both the Capitalisation of FME methodology and the net tangible assets on a going concern basis methodology in our assessment of the Market Value of the SIT Business.

7. Valuation of the SIT Business

Capitalisation of FME methodology

7.1 Paragraphs 7.2 to 7.38 set out our assessment of the Fair Value of the SIT Business on a controlling basis using the Capitalisation of FME methodology.

7.2 The table below sets out our assessment of the Fair Value of the SIT Business using the Capitalisation of FME methodology.

SIT Business	Low	High	Preferred
Valuation Summary - Capitalisation of FME	\$'000	\$'000	\$'000
FME (assessed at EBITDA level)	2,500	2,500	2,500
Assessed EBITDA multiple (controlling basis)	4.00	5.00	4.50
Enterprise Value (100% interest)	10,000	12,500	11,250
<i>Less:</i>			
Adjustment for capital expenditure requirements	(3,500)	(2,000)	(2,750)
Adjustment for working capital that does not form part of the Proposed Transaction	(6,200)	(6,200)	(6,200)
Fair Value (100% interest)	300	4,300	2,300

Source: RSM calculations

Table 9: Assessed Fair Value of SIT Business (Capitalisation of FME methodology)

7.3 We have assessed the Enterprise Value of the SIT Business utilising the Capitalisation of FME methodology to be in the range of \$10.0m to \$12.5m, with a preferred value of \$11.3m.

7.4 The assessment of the SIT Business's Enterprise Value utilising the Capitalisation of FME method assumes normal ongoing operations. Accordingly, as set out in further detail at paragraphs 7.34 to 7.38, we have adjusted the Enterprise Value for estimated capital expenditure, as well as additional net working capital that an acquirer would be required to fund as part of the SIT Business's ongoing operations under the terms of the Proposed Transaction.

7.5 Based on the above, we have assessed the Fair Value of the SIT Business to be in the range of \$300k to \$4.3m, with a preferred value of \$2.3m.

7.6 We have considered and determined the following variables when assessing the Fair Value of the SIT Business:

- future maintainable earnings;
- appropriate capitalisation multiple;
- comparable transaction multiples;
- adjustment for future capital expenditure requirements;
- working capital requirements;
- value of surplus assets; and
- appropriate premium for control.

Future maintainable earnings

7.7 We have adopted EBITDA as an appropriate measure of FME because multiples based on the EBITDA are less sensitive to different financing structures, depreciation and amortisation accounting policies and effective tax rates than multiples based on other earnings measures such as EBIT or NPAT. In our opinion, this approach allows a better comparison with earnings multiples of other companies.

7.8 Further, as set out in Table 7, we have adjusted EBITDA to compare earnings at the EBITDA level for the SIT Business on a pre-adoption of AASB 16 basis for consistency across the Historical Period.

7.9 The SIT Business disclosed EBITDA on a pre-adoption of AASB 16 basis of \$1.7m and \$4.6m for FY20 and FY21, respectively, and losses at the EBITDA level of \$575k for 1HY22.

7.10 In assessing the SIT Business's FME, we have considered the following:

- the SIT Business's financial performance for FY19, FY20, FY21 and 1HY22, with the financial performance for FY19, FY20 and FY21 based on the Group's statutory financial performance;
- the SIT Business's forecast financial performance for FY22, including expected improved financial performance for 2HY22 based on the division's committed and unfulfilled sales orders as of 31 December 2021;
- our review of abnormal or non-recurring income statement items and other normalisation adjustments;
- our review of the historical performance and trend of the SIT Business's revenue and earnings;
- our review of forecast financial information;
- the market conditions and outlook of the industry the SIT Business operates in; and
- our discussions with Management.

7.11 On the above basis, and also having regard to our analysis of financial performance set out in paragraphs 5.22 to 5.36, we have adopted a future maintainable EBITDA of \$2.5m.

Capitalisation Multiple

7.12 We have considered the trading multiples of listed entities in our assessment of an appropriate capitalisation multiple.

7.13 In selecting an appropriate EBITDA multiple to value the SIT Business, we have considered the EBITDA multiples of publicly listed comparable companies whose operations are reasonably comparable to the SIT Business.

7.14 The table below summarises the historical and forecast EBITDA multiples of publicly listed comparable companies. A brief description of each of the companies is set out in Appendix E.

SIT Business	Country	Net assets	LTM revenue	Forecast revenue	LTM EBITDA	Forecast EBITDA	Market Cap (M)	Net debt	EV	Multiples			
										LTM Revenue	EV / NTM Revenue	EV / LTM EBITDA	EV / NTM EBITDA
Comparable companies		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	(times)	(times)	(times)	(times)
Dicker Data Limited*	Australia	178	2,484	2,712	115	141	2,537	226	2,763	1.1	1.0	24.0	19.7
Hills Limited*	Australia	13	167	-	(0.2)	-	24	25	49	0.3	NA	NM	NA
Napco Security Technologies, Inc.*	United States	142	176	209	25	34	1,038	(65)	972	5.5	4.7	38.9	28.2
CDW Corporation	United States	971	28,635	33,371	2,289	2,886	31,502	9,694	41,196	1.4	1.2	18.0	14.3
ScanSource, Inc.	United States	1,057	4,544	4,768	188	204	1,112	229	1,341	0.3	0.3	7.2	6.6
George Risk Industries, Inc.	United States	66	27	-	8	-	96	(54)	42	1.6	NA	5.2	NA
Croma Security Solutions Group plc	United Kingdom	23	60	-	2	-	24	(8)	16	0.3	NA	9.8	NA
Senstar Technologies Ltd.	Israel	87	115	-	10	-	81	(33)	48	0.4	NA	4.6	NA
Average										1.4	2.1	13.9	17.2
Median										0.4	1.2	8.5	17.0
Min										0.3	0.3	4.6	6.6
Max										5.5	4.7	38.9	28.2
Average (excluding outliers)												9.0	10.4
Median (excluding outliers)												7.2	10.4

Source: S&P Capital IQ

* Excluded from both historical and forecast multiples as outliers

** NA - Not available

*** NM - Not meaningful

Table 10: SIT Business summary of comparable companies' EBITDA multiples

-
- 7.15 In relation to the trading multiples above, we note that share prices of listed companies represent the market value of a non-controlling interest in those companies. As such, any earnings multiple derived from those share prices are consequently non-controlling multiples and do not reflect a premium for control.
- 7.16 Consistent with our assessment of future maintainable EBITDA on a pre-adoption of AASB 16 basis, the above multiples have also been derived from historical and forecast EBITDA and Enterprise Values on a pre-AASB 16 basis.
- 7.17 However, we note that there was limited information on forecast EBITDA multiples for comparable companies, and we considered the forecast multiples for Dicker Data and Napco Security Technologies, Inc. of 19.7 and 28.2 times, respectively, to be abnormally high.
- 7.18 Having particular regard to the average and median forecast EBITDA (excluding outliers) multiple of 10.4 times, we consider the appropriate non-controlling comparable EBITDA multiple is 10.0 times.

Control premium

- 7.19 Earnings multiples of listed companies do not reflect the market value of a controlling interest in the company as they are derived from market prices which usually represent the buying and selling of non-controlling portfolio holdings (small parcels of shares).
- 7.20 Obtaining control of an entity usually provides the acquirer with a number of advantages including the following:
- access to potential synergies;
 - control over decision making and strategic direction;
 - access to underlying cash flows; and
 - control over dividend policies.
- 7.21 In the case of publicly traded securities, given the advantages control of an entity provides an acquirer, they are usually expected to pay a premium to the quoted market price to achieve control, which is often referred to as a control premium. A control premium is the amount or a percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise, to reflect the premium a buyer will pay to acquire control in a business enterprise. Consequently, earnings multiples for listed companies do not reflect the market value of a controlling interest in the company as they are derived from market prices which usually represent the buying and selling of non-controlling portfolio holdings (small parcels of shares).
- 7.22 RSM has conducted a study on 605 takeovers and schemes of arrangements involving companies listed on ASX over the 15.5 years ended 31 December 2020 ("RSM Control Premium Study 2021"). In determining the control premium, RSM compared the offer price to the closing trading price of the target company 20, 5 and 2 trading days pre the date of the announcement of the offer. Where the consideration included shares in the acquiring company, RSM used the closing share price of the acquiring company on the day prior to the date of the offer.
- 7.23 RSM's study concluded on average control premiums in takeovers and schemes of arrangements involving Australian companies was in the range of circa 27% to 35% at the equity level.
- 7.24 In considering an appropriate control premium, we have also taken into account that we are assessing the Fair Value of the SIT Business at the Enterprise Value level (i.e. on a debt-free cash free basis) which will generally result in a lower control premium (as a percentage) than is calculated at the equity level.
- 7.25 On the above basis, we have adopted a control premium of 20% for the SIT Business at the Enterprise Value level.

Discount for size and business specific risk

- 7.26 In calculating the appropriate EBITDA multiple for the SIT Business, we considered the following:
- the SIT Business is significantly smaller than the majority of publicly listed comparable companies with respect to revenue and EBITDA; and
 - as a smaller business, the SIT Business inherently carries greater risk as it has less diversified revenue streams, less geographic diversifications, lack economies of scale, less efficient processes and systems, and limited access to debt and equity markets.
- 7.27 On the above basis, we have assessed SIT Business's discount for size and other risk factors to be in the range of 60% to 65%.
- 7.28 The table below sets out our assessment of the appropriate EBITDA multiple to be applied to the SIT Business.

SIT Business			
Capitalisation multiple	Low	High	Preferred
Comparable listed EBITDA multiple	10.00	10.00	10.00
Discount for size and business specific risk	(65.0%)	(60.0%)	(62.5%)
Assessed EBITDA multiple basis	3.50	4.00	3.75
Premium for control	20.0%	20.0%	20.0%
Assessed EBITDA multiple	4.20	4.80	4.50
Say	4.00	5.00	4.50

Source: Capital IQ and RSM calculations

Table 11: SIT Business assessed EBITDA multiple (controlling basis)

- 7.29 On the above basis, we have determined the valuation multiple of the SIT Business to be in the range of 4.0 to 5.0 times, with a preferred multiple of 4.5 times FME.

Comparable transactions

- 7.30 To cross-check our valuation of the SIT Business using the EBITDA multiples of publicly listed comparable companies, we have considered the implied EBITDA multiples of recent transactions involving companies whose operations and activities are reasonably comparable to the SIT Business.
- 7.31 All of these transactions involved the acquisition of a majority stake and are therefore reflective of an appropriate multiple inclusive of a control premium.
- 7.32 The table below summarises the EBITDA multiples of recent comparable transactions.

Completion date	Target/ Issuer	Buyer/Investor	Description of Target	Country	Total transaction value (AUD'm)	Implied EV/EBIT x	Implied EV/EBITDA x
06-Aug-21	Exeed Limited	Dicker Data Limited	Exeed Ltd. engages in the distribution of IT products. It offers desktops and monitors, notebooks and tablets, printers, servers, storage products, networking and security products, cameras, home entertainment products, computer accessories, and software products. The company also provides software solutions through placation stores. It offers products through resellers and retailers. The company was incorporated in 2010 and is based in Parnell, New Zealand.	New Zealand	64.6	NA	4.5
01-Sep-21	Tiger Parent (AP) Corporation	SYNNEX Corporation (nka:TD SYNNEX Corporation)	Tiger Parent (AP) Corporation operates as an IT distribution and solutions company.	United States	9,292.3	16.3	10.3
30-Jun-20	Tiger Parent (AP) Corporation	Apollo Global Management, Inc.	Tiger Parent (AP) Corporation operates as an IT distribution and solutions company.	United States	10,201.4	9.7	7.3
22-Jun-20	Anixter International Inc.	WESCO International, Inc.	Anixter International Inc., through its subsidiary, Anixter Inc., distributes enterprise cabling and security solutions, electrical and electronic wire and cable solutions, and utility power solutions worldwide.	United States	7,654.5	13.5	9.3
21-Jan-19	Trinity Protection Systems Ltd	Premier Technical Services Group Plc (nka:Premier Technical Services Group Limited)	Trinity Protection Systems Ltd, trading as Trinity Fire & Security Systems, supplies and integrates security and life safety systems for the safety of people, properties, and businesses in the United Kingdom.	United Kingdom	34.1	NA	10.5
Average							8.4
Median							9.3
Min							4.5
Max							10.5

Source: S&P Capital IQ and RSM analysis

Table 12: SIT Business comparable transaction multiples (control basis)

- 7.33 We note that the majority of the comparable transactions set out above related to target companies with operations significantly larger than the SIT Business. We consider the recent acquisition of Exceed Limited by Dicker Data in August 2021 to be most comparable and consider the implied transaction multiple of 4.5 times EBITDA to be supportive of our assessed EBITDA multiple of 4.0 to 5.0 times.

Adjustment for capital expenditure requirements

- 7.34 As set out in paragraphs 5.37 to 5.39, if the Proposed Transaction is not approved, the Board considers that significant remedial costs would need to be incurred to improve the current operations of the SIT Business. Included in the estimated costs were capital expenditure costs to replace IT systems, with assessed costs in the range of \$2.0m to \$3.5m.
- 7.35 The assessment of the SIT Business's FME of \$2.5m contemplates ongoing operations of the business, and accordingly, we have adjusted the Enterprise Value for the estimated capital expenditure required to maintain the ongoing operations of the SIT Business in the range of \$2.0m to \$3.5m, in our assessment of the Fair Value of the SIT Business.
- 7.36 We have not included adjustments for further remedial costs on the basis that these measures may also impact ongoing earnings, and we are not in a position to assess the impact of these measures on ongoing earnings.

Assessment of normal working capital levels

- 7.37 The assessment of the SIT Business's Enterprise Value assumes a normal level of working capital to maintain the ongoing operations of the SIT Business.
- 7.38 As set out in paragraph 3.3, the SIT Business's trade receivables and trade payables do not form part of the Proposed Transaction. We have been provided with balance sheets of the SIT Business on a standalone basis as at 30 June 2020, 30 June 2021 and 31 December 2021. Based on our review of the historical balance sheets, net trade receivables (calculated as trade receivables less trade payables) was reasonably consistent, averaging \$6.2m over the period under review. Accordingly, we have adjusted the Enterprise Value for estimated working capital of \$6.2m, representing the level of working capital that an acquirer would be required to fund as part of the SIT Business's ongoing operations under the terms of the Proposed Transaction.

Net Tangible Assets on a going concern basis methodology

- 7.39 As set out in paragraph 7.3 above, we have assessed the Fair Value of the SIT Business to range from \$300k to \$4.3m, with a preferred value of \$2.3m.
- 7.40 However, as set out in the table below, the Proposed Transaction comprises the sale of the business and assets of the SIT Business with identified net tangible assets ("NTA") set out below.

SIT Business Net Tangible Assets (NTA)	As at 31-Dec-21 Mgmt
Assets	
Inventory, gross	15,937
Inventory provision	(2,200)
Inventory, net	13,737
Prepayments	408
Plant and equipment, net	945
Total assets	15,090
Liabilities	
Employee entitlements provision	1,851
Other provisions	1,322
Total liabilities	3,173
Net Tangible Assets	11,917

Source: Management

Table 13: Assessed Fair Value of the SIT Business (NTA method)

- 7.41 In our assessment of the SIT Business on an NTA basis, we have utilised the Estimated Net Assets Amount, based on management accounts and information at 31 December 2021, included at Table 8 but excluded assessed goodwill calculated under the terms of the Proposed Transaction of \$1.3m.
- 7.42 Based on the above, our assessed value of the SIT Business on an NTA basis is \$11.9m. The NTA methodology represents the value of a controlling interest in the SIT Business. Accordingly, we consider the value on an NTA basis to incorporate a premium for control and no further premium is considered necessary to assess the value of the SIT Business prior to the Proposed Transaction.

Valuation summary and conclusion

7.43 A summary of our assessed Fair Value of the SIT Business on a control basis prior to the Proposed Transaction, derived under the two methodologies, is set out in the table below.

	Ref	Low \$'000	High \$'000	Preferred \$'000
Net tangible assets - primary methodology	Table 13	11,917	11,917	11,917
Capitalisation of FME - secondary methodology	Table 9	300	4,300	2,300

RSM analysis

Table 14: Summary of SIT Business valuation

7.44 Having regard to the SIT Business's historical earnings and listed comparable multiples and transactions in similar industries, our valuation of the SIT Business utilising the Capitalisation of FME methodology has resulted in a value that does not exceed the SIT Business's net tangible assets which form part of the Proposed Transaction. Accordingly, we consider the Fair Value of the SIT Business using the NTA on a going concern method to be representative of Fair Value.

7.45 Therefore, in our opinion, the Fair Value of the SIT Business on a control basis is \$11.9m.

8. Is the Proposed Transaction Fair to Shareholders?

8.1 In assessing whether we consider the Proposed Transaction to be fair to Shareholders, we have compared our assessment of the Fair Value of the SIT Business to the Purchase Price to determine whether the Shareholders would be better or worse off should the Proposed Transaction be approved. Our assessed values are summarised in the table below.

	Low \$'000	High \$'000	Preferred \$'000
Fair Value of SIT Business (controlling basis)	11,917	11,917	11,917
Purchase Price	11,917	13,217	12,567

RSM analysis

Table 15: Valuation summary

8.2 The above comparison is depicted graphically in the chart below.

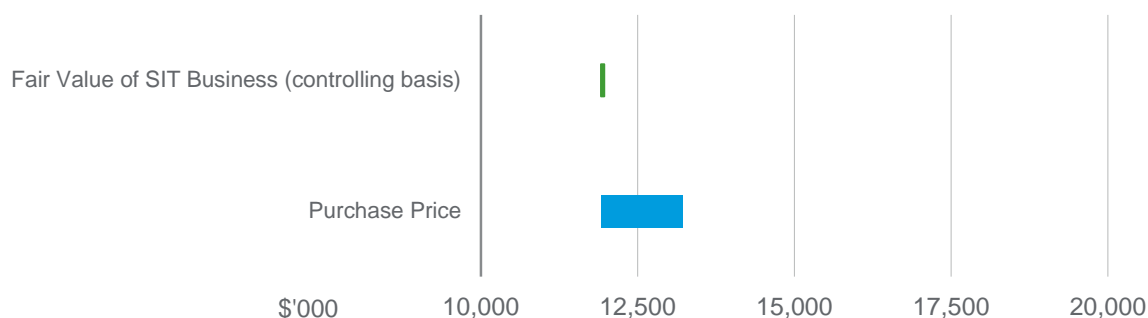


Chart 3: Valuation summary graphical representation

8.3 The Purchase Price will be calculated based on the Actual Net Assets Amount, to be calculated based on the principles set out in the BSA. Accordingly, the Purchase Price is estimated to total \$13.2m as set out in further detail in Table 8.

8.4 In the absence of further information at the date of this Report, we have assumed the Purchase Price to be in the range of \$11.9m to \$13.2m, with a preferred value at the midpoint of \$12.6m based on the consideration that would have been payable if the Proposed Transaction had occurred on 31 December 2021 based on the net asset position of the SIT Business as at 31 December 2021.

8.5 The low range of \$11.9m assumes that no goodwill will be payable, and the high range assumes that goodwill of \$1.3m (included in the \$13.2m worked example of the Estimated Net Assets Amount and to be calculated in line with the principles of the BSA), will be payable as part of the Purchase Price.

8.6 In our opinion, as the Purchase Price is equal to or greater than the Fair Value of the SIT Business (on a control basis), in accordance with the guidance set out in RG 111, and in the absence of any other relevant information, we consider the Proposed Transaction to be **fair** to the Shareholders of Hills.

8.7 Whilst the final Purchase Price will be adjusted to reflect the net asset position at Completion, we consider that any such adjustments would also be applicable to our assessed Fair Value of the SIT Business such that the Proposed Transaction would remain fair to the Shareholders of Hills.

9. Is the Proposed Transaction Reasonable to Shareholders?

- 9.1 RG111 establishes that an offer is reasonable if it is fair. If an offer is not fair it may still be reasonable after considering the specific circumstances applicable to the offer. In our assessment of the reasonableness of the Proposed Transaction, we have given consideration to:
- the future prospects of Hills if the Proposed Transaction does not proceed;
 - the trading of Hills shares following the announcement of the Proposed Transaction;
 - other commercial advantages and disadvantages to the Shareholders as a consequence of the Proposed Transaction proceeding; and
 - alternative proposals to the Proposed Transaction.

Future Prospects of Hills if the Proposed Transaction Does Not Proceed

- 9.2 If the Proposed Transaction does not proceed, the Board intends to continue to focus on the Company's existing businesses. Whilst the Group is expecting an improvement in underlying performance for 2HY22, the ongoing effects of the COVID-19 pandemic, which has resulted in disrupted economic activity and restricted product availability due to global component supply shortages, are likely to hamper strong operational growth in the short-term.
- 9.3 The Company disclosed net losses after tax of \$20.0m and generated cash of \$1.6m from operating activities for 1HY22. Subsequent to 31 December 2021, the Company was in breach of an undertaking in relation to its loan facility with the CBA. The Group has obtained a waiver for the breach from the bank and entered into a revised agreement which expires on 30 June 2022.
- 9.4 Management considers that the approval of the Proposed Transaction will enable Hills to repay a significant portion of the loan facility. However, if the Proposed Transaction is not approved, the Group will need to secure alternative funding either through alternative borrowing arrangements or an equity capital raise or a combination of the two.
- 9.5 The reviewed financial statements for 1HY22 included an emphasis of matter in the independent auditor's report issued by KPMG that stated that a material uncertainty existed that may cast significant doubt on the Company's ability to continue as a going concern and realise its assets and discharge its liabilities in the ordinary course of business and at the amounts stated in the financial statements. Whilst the auditor's opinion was not modified in respect of this matter, the auditor drew attention to the disclosure in Note 1.2 of the financial statements that Hills' ability to continue as a going concern was dependent upon a combination of some or all of a number of factors, including sustaining improved financial results, undertaking a capital raise in April 2022, and the completion of the Proposed Transaction.

Response of the Market to the Announcement of the Proposed Transaction

9.6 The table below sets out the VWAP of Hills' shares from the date of the announcement of the Proposed Transaction to 9 March 2022, together with the comparison of traded shares in the period leading up to the date of the announcement of the Proposed Transaction on 21 February 2022.

	Share price Low \$	Share price High \$	No. of days traded	Volume traded	Value traded \$	VWAP \$	Percentage of issued capital %
<i>Calendar days prior to 21 February 2022</i>							
5 days	0.105	0.115	3	400,810	44,091	0.110	0.17%
10 days	0.096	0.115	6	3,017,980	299,933	0.099	1.30%
30 days	0.096	0.120	19	4,586,030	472,875	0.103	1.98%
60 days	0.096	0.125	36	6,166,190	663,672	0.108	2.66%
<i>Calendar days from 21 February 2022</i>							
17 days	0.105	0.130	13	5,085,310	573,444	0.113	2.19%

Source: Capital IQ and RSM analysis

Table 16: Hills VWAP post the announcement of Proposed Transaction

9.7 Hills' VWAP of \$0.113 post the announcement of the Proposed Transaction was higher than the 5, 10, 30 and 60-day VWAP prior to the announcement of the Proposed Transaction which ranges from \$0.099 to \$0.110.

9.8 Notwithstanding the relatively low liquidity of the Company's shares, we consider the market has reacted favourably to the announcement of the Proposed Transaction.

Advantages of approving the Proposed Transaction

9.9 The advantages of approving the Proposed Transaction are:

Advantage	Details
The Proposed Transaction is fair	As set out above, as the Purchase Price is equal to or greater than the Fair Value of the SIT Business (on a control basis), in accordance with the guidance set out in RG 111, and in the absence of any other relevant information, we consider the Proposed Transaction to be fair to the Shareholders of Hills.
Focus on Health Solutions and Technical Services divisions	The Directors of the Company have spent significant time considering the strategic direction of Hills and consider the divestment of the SIT Business to be the most appropriate course of action as it will allow the Company to focus on the Health Solutions and Technical Services divisions.
Repayment of borrowings	Management considers that the approval of the Proposed Transaction will enable the Company to repay a significant portion of the Company's borrowing facility with the CBA.
Improvement in working capital and debt servicing requirements	The divestment of the SIT Business will significantly reduce the Company's ongoing working capital and debt serving requirements.
Avoid incurring restructuring costs of the SIT Business	The Company will avoid incurring restructuring costs if the SIT Business is divested.
Better understanding of the Company's operations by prospective investors and financiers	The Directors consider that the focus on the Company's Health Solutions and Technical Services divisions will enable a better understanding of the Company's operations by prospective investors and financiers, with the potential for better access to debt and equity funding

Advantage	Details
No dilution to Shareholders' interests	The Purchase Price for the SIT Business is cash consideration and accordingly, Shareholders' interest in Hills would not be diluted if the Proposed Transaction was approved.
Potential for improvement in trading liquidity	There may be improvement in the liquidity of the Company's shares if the Proposed Transaction creates increased interest in Hills and hence a more efficient market for shareholders to dispose of their shareholdings.

Table 17: Advantages of the Proposed Transaction

Disadvantages of approving the Proposed Transaction

9.10 The disadvantages of approving the Proposed Transaction are:

Disadvantage	Details
Loss of access to the SIT Business's earning potential	The SIT Business (after the divestment of loss making operations in New Zealand) was profitable at the EBITDA level and offers potential revenue growth opportunities that the Shareholders will not have access to if the Proposed Transaction is approved.
No guarantee that the Company's restructuring strategy will result in increased profitability	Whilst the Health Solutions and Technical Services divisions have generated higher profit margins, there is no guarantee that the Company's restructuring strategy will result in increased profitability and returns for Shareholders.

Table 18: Disadvantages of the Proposed Transaction

Alternative proposals

- 9.11 Hills has undertaken a formal sale process to divest the SIT Business and engaged BDO as corporate advisors in relation to the sale process. The Directors consider that the Proposed Transaction is the best offer received as a result of the sale process.
- 9.12 As set out in in Section 5, if the Proposed Transaction is not approved, the Board considers that significant costs would need to be incurred over a time period, estimated at 18 to 24 months to improve the current operations of the SIT Business.
- 9.13 In the absence of the divestment of the SIT Business, the Board considers that restructuring/remedial costs would likely need to be funded through a capital raising.
- 9.14 The Board considers that a failure to undertake remedial action will place significant stress on the operating cash flows of the Company.
- 9.15 We are not aware of any alternative proposal at the current time which might offer Shareholders a greater benefit than the Proposed Transaction.

Conclusion on Reasonableness

- 9.16 In our opinion, the position of the Shareholders if the Proposed Transaction is approved is more advantageous than the position if it is not approved. Therefore, in the absence of any other relevant information and/or a superior offer, we consider that the Proposed Transaction is **reasonable** for the Shareholders.
- 9.17 An individual shareholder's decision in relation to the Proposed Transaction may be influenced by their individual circumstances. If in doubt, shareholders should consult an independent advisor.

Yours faithfully

RSM CORPORATE AUSTRALIA PTY LTD



Andrew Clifford
Director



Glyn Yates
Director



APPENDICES

APPENDIX A - DECLARATIONS AND DISCLOSURES

Declarations and Disclosures

RSM Corporate Australia Pty Ltd holds Australian Financial Services Licence 255847 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

Qualifications

Our report has been prepared in accordance with professional standard APES 225 “Valuation Services” issued by the Accounting Professional & Ethical Standards Board.

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia Pty Ltd (RSM) a large national firm of chartered accountants and business advisors.

Andrew Clifford and Glyn Yates are directors of RSM Corporate Australia Pty Ltd. Both Andrew Clifford and Glyn Yates are Chartered Accountants with extensive experience in the field of corporate valuations and the provision of independent expert’s reports for transactions involving publicly listed and unlisted companies in Australia.

Reliance on this Report

This report has been prepared solely for the purpose of assisting Shareholders of the Company in considering the Proposed Transaction. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose.

Reliance on Information

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by the Directors and management of Hills, and we have no reason to believe that this information was inaccurate, misleading or incomplete. RSM Corporate Australia Pty Ltd does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

The opinion of RSM Corporate Australia Pty Ltd is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

Disclosure of Interest

At the date of this report, none of RSM Corporate Australia Pty Ltd, RSM, Andrew Clifford, Glyn Yates, nor any other member, director, partner or employee of RSM Corporate Australia Pty Ltd and RSM has any interest in the outcome of the Proposed Transaction, except that RSM Corporate Australia Pty Ltd are expected to receive a fee of approximately \$35,000 based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of whether Hills receives Shareholder approval for the Proposed Transaction, or otherwise.

Consents

RSM Corporate Australia Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Notice of General Meeting and Explanatory Memorandum to be issued to Shareholders. Other than this report, none of RSM Corporate Australia Pty Ltd or RSM Australia Pty Ltd or has been involved in the preparation of the Notice of General Meeting and Explanatory Memorandum. Accordingly, we take no responsibility for the content of the Notice of General Meeting and Explanatory Statement.

APPENDIX B - SOURCES OF INFORMATION

In preparing this report we have relied upon the following principal sources of information:

- Draft and final copies of the Notice of Meeting;
- Draft and final copies of the Business Sale and Purchase Agreement between Hills Limited and Dicker Data Limited;
- The SIT Business's management accounts for the three years ended 30 June 2021, the half-year ended 31 December 2021, and the forecast financial performance for FY22;
- The audited and reviewed financial statements of Hills Limited for the three years ended 30 June 2021, and the reviewed financial statements for the half-year ended 31 December 2021;
- Information provided to us during meetings and correspondence with management and BDO, the Company's sales advisors;
- Information provided to us via a virtual data room;
- ASX announcements on Hills and Dicker Data;
- IBISWorld; and
- S&P Capital IQ database.

APPENDIX C - GLOSSARY OF TERMS AND ABBREVIATIONS

Term or Abbreviation	Definition
\$	Australian dollar
Act	Corporations Act 2001 (Cth)
AFCA	Australian Financial Complaints Authority
APES	Accounting Professional & Ethical Standards Board
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ASX Listing Rules	The listing rules of ASX as amended from time to time
BSA	Business Sale and Purchase Agreement between Hills Limited and Dicker Data Limited
Business Day	A day on which banks are open for business excluding Saturdays, Sundays and public holidays in Sydney, New South Wales
CBA	Commonwealth Bank of Australia
Company or Hills	Hills Limited
Completion	The completion of the Proposed Transaction in accordance with the terms of the BSA
Control or controlling basis	Assessment of the Fair Value on an equity interest, which assumes the holder or holders have control of the entity in which the equity is held
Control premium	An amount or percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise, to reflect the power of control
Discounted Cash Flow (DCF)	A method within the income approach which values a business as the present value of future cash flows and is discounted to present value utilising a discount rate
Dicker Data	Dicker Data Limited
Directors	Directors of the Company
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBIT	Earnings before interest and tax
Enterprise Value	The value of a business on a cash free, debt free basis
Equity Value	The owners' interest in a company after the deduction of all liabilities
Explanatory Statement	The explanatory statement accompanying the Notice
Fair Value or Market Value	The amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer, both acting at arm's length
Going concern	An ongoing operating business enterprise

Term or Abbreviation	Definition
Gross margin/gross profit margin	Gross profit divided by revenue
Future Maintainable Earnings (FME)	The normal maintainable earnings expected to be achieved in the future
FSG	Financial Services Guide
FYXX	Financial Year ended/ending 20XX
Group	The Hills Group
Historical Period	FY19, FY20, FY21 and 1HY22
1HY22	The half-year ended 31 December 2021
2HY22	The half-year ending 30 June 2022
IER or Report	This Independent Expert Report
k	Thousands
m	Millions
Management	The management of Hills Limited and the SIT Business, as applicable
Notice or Notice of Meeting	The notice of meeting to vote on, inter alia, the Proposed Transaction
Proposed Transaction or Transaction	The Resolution, as set out in the Notice
Purchase Price	The cash consideration payable by Dicker Data to Hills Limited under the terms of the Proposed Transaction and calculated as the Estimated Net Assets Amount plus or minus the Adjustment Amount (as defined in the BSA)
Report	This Independent Expert's Report prepared by RSM dated 15 March 2022
RG 111	ASIC Regulatory Guide 111 Content of expert reports
RG 112	ASIC Regulatory Guide 112 Independence of experts
RSM	RSM Corporate Australia Pty Ltd
S&P Capital IQ	An entity of Standard and Poor's which is a third-party provider of company and other financial information
SIT Business	The Security and Information Technology distribution division of Hills Limited, as defined in the Notice
Share	Ordinary fully paid share in the capital of the Company
Shareholder	Shareholders who are not a party, or associated to a party, to the Proposed Transaction
VWAP	Volume weighted average share price

APPENDIX D – INDUSTRY OVERVIEW

The SIT Business unit operates in the Telecommunications and Other Electrical Goods Wholesaling Industry in Australia¹ (“the Industry”). Industry firms primarily wholesale electrical, electronic, photographic or communications equipment.

Industry revenue is expected to rise at an annualised 0.4% over the five years through 2021-22, to \$33.9 billion. Advances in communications and electronics technology have significantly boosted demand for industry products such as telecommunications products, whilst other industry products, such as photocopiers and photographic equipment have seen continuously depressed demand. Weak economic conditions attributed to the COVID-19 pandemic are expected to further weigh on Industry revenue and profitability over the three years through 2021-22, however, solid growth in capital expenditure by the government and private capital expenditure on machinery and equipment has aided industry expansion.

IBISWorld has forecast revenue to grow at an annualised 1.3% over the five years to 2026-27, reaching \$36.1 billion. Demand for equipment and goods that expand network capacity, enhance utility productivity or improve communications security is expected to continually expand, with Australia’s rising energy consumption and gradual shift to low-carbon solutions underpinning the demand for electrical equipment. Continued growth in private capital spending on machinery and equipment is forecast to boost revenue growth while the broader economy continues to recover from COVID-19 pandemic. However, government capital expenditure is expected to contract significantly with reduced COVID-19 stimulus, leading to limited Industry expansion.

The key external drivers which can influence the Industry are:

- capital expenditure by the government;
- demand from construction;
- demand from manufacturing;
- demand from wireless telecommunications carriers; and
- private capital expenditure on machinery and equipment.

According to IBISWorld, the Industry has:

- moderate levels of revenue volatility;
- high and increasing levels of competition;
- moderate and steady barriers to entry; and
- moderate and increasing levels of globalisation.

The key success factors which can influence the Industry are:

- having an extensive distribution/collection network;
- ensuring pricing policy is appropriate;
- provision of superior after-sales service;
- ability to control stock on hand; and
- access to highly skilled workforce.

¹ IBISWorld Industry Report F3494a – Telecommunications and Other Electrical Goods Wholesaling in Australia, February 2022

The chart below sets out the Industry's products and services segmentation by total revenue contribution.

Products and Services Segmentation

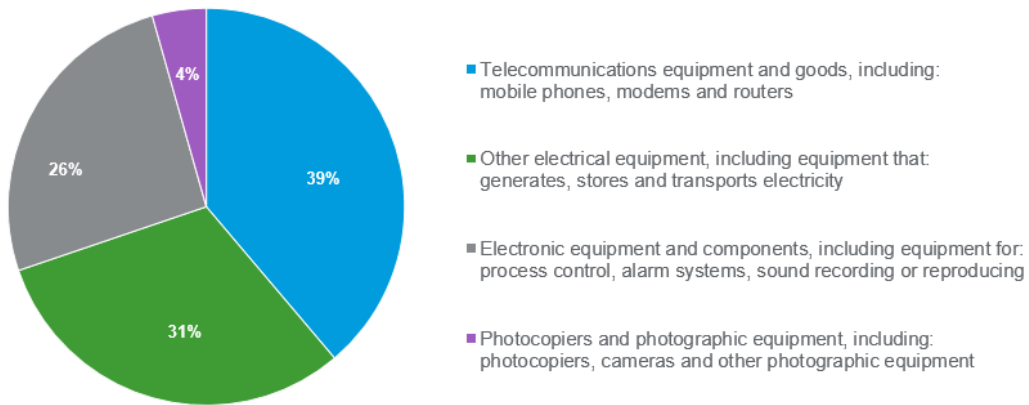


Chart 4: Products and services segmentation for the Industry in Australia

APPENDIX E – COMPARABLE COMPANIES

SIT Business Comparable Companies	
Dicker Data Limited	Dicker Data Limited engages in the wholesale distribution of computer hardware, software, and related products in Australia and New Zealand. It sells its products to approximately 6,000 resellers. The company was formerly known as Rodin Corporation Pty Limited. Dicker Data Limited was incorporated in 1978 and is headquartered in Kurnell, Australia.
Hills Limited	Hills Limited supplies technology solutions to the healthcare, security, surveillance, and IT markets in Australia and New Zealand. It operates through two segments, Hills Health Solutions and Hills Distribution. The company designs, supplies, and installs health technology solutions, nurse call and patient engagement, and other related solutions, including security, Wi-Fi, and telephony into the health and aged care sectors. It also offers CCTV and surveillance products, such as CCTV and surveillance accessories, analogue HD cameras, bundle kits, encoders and decoders, IP cameras, lighting products, monitors, networking and transmission products, recorders, video analytics, and video management software. In addition, the company provides access control and intrusion products comprising access control peripherals and systems, alarm accessories, alarms and intrusion products, home DIY solutions, batteries and power supplies, cable fire and security products, detectors, home integrated systems, intercom systems, locking products, security connectors, structured cabling products, and wireless security products. Further, it offers firewall and cybersecurity products, switches, routers, IoT, servers and storage products, Wi-Fi, fixed wireless products, and computers and display products; and NBN consumable goods. Additionally, the company provides pre and post installation support, technician management, and NBN connection services. It offers security and IT solutions for homes, healthcare facilities, places of learning, entertainment venues, retail spaces, transport and infrastructure, banking and finance, workplaces, and government institutions. The company was formerly known as Hills Holding Limited and changed its name to Hills Limited in December 2013. Hills Limited was founded in 1945 and is headquartered in Lidcombe, Australia.
Napco Security Technologies, Inc.	Napco Security Technologies, Inc. develops, manufactures, and sells electronic security products in the United States and internationally. The company offers access control systems, door-locking products, intrusion and fire alarm systems, and video surveillance systems for commercial, residential, institutional, industrial, and governmental applications. Its access control systems include various types of identification readers, control panels, PC-based computers, and electronically activated door-locking devices; and door locking devices comprise microprocessor-based electronic door locks with push button, card readers and bio-metric operation, door alarms, mechanical door locks, and simple dead bolt locks. The company's alarm systems include automatic communicators, cellular communication devices, control panels, combination control panels/digital communicators and digital keypad systems, fire alarm control panels, and area detectors; and video surveillance systems comprise video cameras, control panels, video monitors, or PCs. It also buys and resells various identification readers, video cameras, PC-based computers, and peripheral equipment for access control and video surveillance systems; offers school security products; and markets peripheral and related equipment manufactured by other companies. The company markets and sells its products primarily to independent distributors, dealers, and installers of security equipment. Napco Security Technologies, Inc. was founded in 1969 and is headquartered in Amityville, New York.
CDW Corporation	CDW Corporation provides integrated information technology (IT) solutions to business, government, education, and healthcare customers in the United States, the United Kingdom, and Canada. It operates through three segments: Corporate, Small Business, and Public. The company offers discrete hardware and software products, as well as integrated IT solutions, including on-premise, hybrid and cloud capabilities across data centre and networking, digital workspace, security, and virtualisation. Its hardware products comprise notebooks/mobile devices, network communications, desktop computers, video monitors, enterprise and data storage, and other hardware; and software products include application suites, security, virtualisation, operating systems, and network management. The company also provides field services, managed services, warranties, configuration services, partner services, and telecom services. CDW Corporation was founded in 1984 and is based in Lincolnshire, Illinois.
ScanSource, Inc.	ScanSource, Inc. distributes technology products and solutions in the United States, Canada, and internationally. It operates in two segments, Worldwide Barcode, Networking & Security; and Worldwide Communications & Services. The Worldwide Barcode, Networking & Security segment provides a portfolio of solutions primarily for enterprise mobile computing, data capture, barcode printing, point of sale (POS), payments, networking, electronic physical security, cyber security, and other technologies. This segment offers data capture and POS solutions to automate the collection, processing, and communication of information for commercial and industrial applications, including retail sales, distribution, shipping, inventory control, materials handling, warehouse management, and health care applications. It also provides electronic physical security products, such as identification, access control, video surveillance, intrusion-related, and wireless and networking infrastructure products. The Worldwide Communications & Services segment offers a portfolio of solutions primarily for communications technologies and services comprising voice, video conferencing, wireless, data networking, cable, unified communications and collaboration, cloud, and technology services, as well as IP networks and other solutions for various vertical markets, such as education, healthcare, and government. The company also provides contact centre and infrastructure services. ScanSource, Inc. was incorporated in 1992 and is headquartered in Greenville, South Carolina.

SIT Business Comparable Companies	
George Risk Industries, Inc.	George Risk Industries, Inc. designs, manufactures, and sells various electronic components worldwide. The company offers computer keyboards, proximity switches, security alarm components and systems, pool access alarms, EZ Duct wire covers, water sensors, electronic switching devices, security switches, and wire and cable installation tools, as well as door and window contact switches, environmental products, liquid detection sensors, and raceway wire covers. Its products are used for residential, commercial, industrial, and government installations. The company sells its products to security alarm distributors, alarm installers, original equipment manufacturers, and distributors of off-the-shelf keyboards of proprietary design. George Risk Industries, Inc. was incorporated in 1961 and is headquartered in Kimball, Nebraska.
Croma Security Solutions Group plc	Croma Security Solutions Group plc provides various security services in the United Kingdom. The company operates through three segments: Croma Vigilant, Croma Security Systems, and Croma Locksmiths. It offers manned guarding and asset protection services; CCTV security, fire, and alarm systems; locksmithing keys, locks, and safes; and identity management and access control solutions. The company was formerly known as Croma Group plc and changed its name to Croma Security Solutions Group plc in March 2012. Croma Security Solutions Group plc was incorporated in 1996 and is headquartered in Whiteley, the United Kingdom.
Senstar Technologies Ltd.	Senstar Technologies Ltd. develops, manufactures, markets, and sells perimeter intrusion detection sensors, physical barriers, video analytics and management systems, cyber security products and systems, and security video observation and surveillance systems. The company operates through two segments, Products and Projects. It offers perimeter security products that enable customers to monitor, limit, and control access by unauthorized personnel to specific regions or areas. The company's perimeter security systems include fence mounted detection systems; detection grids, gates, and fences; hybrid perimeter intrusion detection and intelligent lighting systems; electrical field disturbance sensors; and microwave sensors. It also provides integrated intelligent video management solutions for security surveillance and business intelligence applications; video management products for monitoring, securing, and the active management of network video systems and analytics, as well as wired, wireless, and fibre optic communication network solutions; and turnkey solutions. In addition, the company offers life safety/duress alarm to protect personnel in prisons. Further, it provides closed circuit television and intelligent video analytics solutions; Fortis X, a new generation command and control system; StarNet 2, a security management system; and Network Manager, a middleware package. The company's products are used to protect borders and sensitive facilities, including military bases, power plants, air and seaports, postal facilities, prisons, banks, retail operations, hospitals, municipal security, sporting events, and industrial locations from terrorism, theft, and security threats. It sells its products through system integrators and distribution channels. The company was formerly known as Magal Security Systems Ltd. and changed its name to Senstar Technologies Ltd. in September 2021. Senstar Technologies Ltd. was founded in 1965 and is headquartered in Yehud, Israel.

Source: S&P Capital IQ

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14 Proxy Form

Proxy Form (sample) for the Meeting to be held on 20 April 2022, **attached**.

LODGE YOUR VOTE

 **ONLINE**
www.linkmarketservices.com.au

 **BY MAIL**
Hills Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

 **BY FAX**
+61 2 9287 0309

 **BY HAND***
Link Market Services Limited
Parramatta Square, Level 22, Tower 6,
10 Darcy Street, Parramatta NSW 2150; or
Level 12, 680 George Street, Sydney NSW 2000

 **ALL ENQUIRIES TO**
Telephone: +61 1300 554 474



X99999999999


VOTING FORM

I/We being a member(s) of Hills Limited (the **Company**) and entitled to attend and vote at the meeting hereby appoint:

STEP 1 Please mark either A or B

A VOTE DIRECTLY

elect to lodge my/our vote(s) directly (mark box)

 in relation to the General Meeting of the Company to be held at **10:00am (Sydney time) on Wednesday, 20 April 2022**, and at any adjournment or postponement of the Meeting.

You should mark either "for" or "against" for each item. Do not mark the "abstain" box.

OR

B APPOINT A PROXY

the Chairman of the Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name and email of the person or body corporate you are appointing as your proxy. An email will be sent to your appointed proxy with details on how to access the virtual meeting.

Name

Email

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the General Meeting of the Company to be held at **10:00am (Sydney time) on Wednesday, 20 April 2022** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Meeting will be conducted as a virtual meeting and you can participate by logging in online at <https://meetings.linkgroup.com/HILGM22> (refer to details in the Notice of Meeting and Virtual Meeting Online Guide).

The Chairman of the Meeting intends to vote undirected proxies able to be voted in favour of the item of business.

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting. Please read the voting instructions overleaf before marking any boxes with an

STEP 2

RESOLUTION – APPROVAL OF THE DISPOSAL OF MAIN UNDERTAKING

The shareholders of Hills approve and agree to the sale of Hills's interest in its Security and Information Technology distribution division, being the main undertaking of Hills, on the terms and conditions described in the explanatory statement accompanying the Notice of Meeting, for the purposes of ASX Listing Rule 11.2 and for all other purposes.

For Against Abstain*



* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).



HOW TO COMPLETE THIS SHAREHOLDER VOTING FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

VOTING UNDER BOX A

If you ticked the box under Box A you are indicating that you wish to vote directly. Please only mark either "for" or "against" for each item. Do not mark the "abstain" box. If you mark the "abstain" box for an item, your vote for that item will be invalid.

If no direction is given on all of the items, or if you complete both Box A and Box B, your vote may be passed to the Chairman of the Meeting as your proxy.

Custodians and nominees may, with the Share Registrar's consent, identify on the Voting Form the total number of votes in each of the categories "for" and "against" and their votes will be valid.

The Chairman's decision as to whether a direct vote is valid is conclusive.

VOTING UNDER BOX B – APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name and email address of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Voting Form, including where the Resolution is connected directly or indirectly with the remuneration of KMP.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Voting Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- on each of the first Voting Form and the second Voting Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, 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 indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting virtually the appropriate "Certificate of Appointment of Corporate Representative" must be received at registrars@linkmarketservices.com.au prior to joining the meeting in accordance with the Notice of General Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A VOTING FORM

This Voting Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am (Sydney time) on Monday, 18 April 2022**, being not later than 48 hours before the commencement of the Meeting. Any Voting Form received after that time will not be valid for the scheduled Meeting.

Voting Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Voting Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" - Securityholder Reference Number (SRN) or Holder Identification Number (HIN).



BY MAIL

Hills Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
Parramatta Square
Level 22, Tower 6
10 Darcy Street
Parramatta NSW 2150

or

Level 12
680 George Street
Sydney NSW 2000

*during business hours Monday to Friday (9:00am - 5:00pm) and subject to any COVID-19 public health orders and restrictions