



BSA and Hills Antenna Merger

Hills Industries Limited (**Hills**) and BSA Limited (**BSA**) have today entered into a merger implementation agreement that provides for the proposed merger of Hills' existing Antenna & TV Systems business (consisting of a number of long established businesses in Australia and New Zealand) with BSA, a placement to Hills and a return of capital to BSA's shareholders. Hills will hold approximately 50.1% of the issued share capital in BSA after the transaction (**Transaction**).

The Transaction, which is subject to the satisfaction of the conditions detailed in the attached schedule, comprises:

- (a) BSA acquiring the Antenna & TV Systems business and issuing 92,283,904 new shares to Hills;
- (b) BSA making a placement of convertible notes to Hills, at 90 cents per note totalling \$47,500,000 for all convertible notes issued, which will be convertible into 52,777,778 BSA shares. The convertible notes are convertible from the day after the implementation date, and Hills intends to request conversion promptly on that day;
- (c) a return of capital of approximately \$0.25 per BSA share held by all shareholders prior to Hills' entry onto BSA's share register; and
- (d) a conversion of every 4 BSA shares into 3 BSA shares.

BSA also expects to also pay a fully franked interim dividend of approximately \$0.035 per share out of the profits for the half year to 31 December 2007 to the holders of shares who participate in the reduction.

The key terms of the Transaction are set out in the attached schedule. They include that the Transaction is subject to the following conditions being satisfied:

- (a) an independent expert issues a report opining that the Transaction is fair and reasonable to BSA shareholders;
- (b) the Transaction being approved at a BSA shareholders' meeting by the requisite majorities in accordance with the *Corporations Act 2001* and the listing rules of ASX Limited;
- (c) the S&P ASX200 index not closing below 15% from the level at which it closes on the date of the merger implementation deed on more than 5 consecutive business days;
- (d) BSA and Hills conducting due diligence to their respective satisfaction; and
- (e) BSA obtaining a tax ruling in support of the Transaction from the Australian Tax Office.

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Subject to receiving a favourable independent expert's report on the Transaction, the Board of BSA intends to unanimously support the Transaction.

The Chairman of BSA, Mr. Brian Baldwin, said that the Transaction should be most attractive to BSA shareholders as it will result in the formation of a vertically integrated business with significantly enhanced diversity and quality of earnings. If the Transaction proceeds BSA will have revenues approaching \$370M per annum, with Hills bringing product opportunities in markets that have growth, in particular satellite delivery of voice, data and telephony services and a presence in the audio visual retail market. Cost synergies should be realised as a result of improved purchasing power across a number of areas.

The strategy to diversify BSA's business, which commenced earlier this financial year with the Triple M acquisition, is key for the BSA Board and the proposed transaction is consistent with this strategy.

Mr. Baldwin urged existing BSA shareholders to wait for the receipt of full details of Hills' proposal, which will include an independent expert's report to consider the impact on BSA's existing shareholders.

The BSA Board has agreed that in the event that a favourable independent expert's report is received but the Board decides not to recommend proceeding with the Transaction that a break fee will be paid, which will be capped at 1% of the transaction value or Hills' actual external costs, whichever is the lesser amount. The same break fee will be payable in the event that the Board of BSA recommends a superior proposal to BSA shareholders should one eventuate.

A high level summary of Hills' conditional proposal is **attached**.

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Merger Implementation Deed – Material Terms

1. Transaction

It is proposed that the Transaction will include the following:

- (a) Hills subscribing for 52,777,778 shares in BSA through the issue of convertible notes at an issue price of \$0.90 (**Placement**);
- (b) BSA undertaking a return of capital of \$47,500,000 to BSA shareholders funded by the proceeds from the Placement (**Reduction**);
- (c) BSA consolidating the BSA shares on issue from 192,083,648 to 144,062,736 (**Consolidation**); and
- (d) BSA acquiring the Antenna & TV Systems business from Hills in exchange for the issue of 92,283,904 BSA shares to Hills.

There are currently 7,400,000 BSA options on issue, each entitling the option holder to acquire one BSA share upon payment of the exercise price, and agreements with executives to issue 1,400,000 shares in BSA to executives. The figures in the above calculation assume that all BSA options are exercised and all shares are issued to executives (unless otherwise stated).

Upon completion of all of the steps in the Transaction, Hills will hold an interest of approximately 50.1% in the issued capital of BSA (assuming all BSA options are exercised and the above shares are issued to the executives).

The attached table indicates the expected impact of the Transaction for BSA shareholders.

2. Conditions

The Transaction is subject to the following conditions being satisfied before the shareholders meeting (unless otherwise specified):

- (a) Obtaining any consents or approvals from ASIC and ASX necessary or desirable to implement the Transaction;
- (b) No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other material legal restraint or prohibition prevents the Transaction or is likely to have a material adverse effect on either party's ability to fulfil its obligations under the deed;
- (c) BSA and Hills (in respect of the Antenna Division) conduct their businesses in the ordinary course, do not incur capital expenditure exceeding \$3 million, do not dispose of material assets or property and do not grant a material company charge or do not suffer an event of insolvency;
- (d) No event occurs that has a material adverse effect on the Antenna Division or BSA group;
- (e) Prior to the date for lodgement of the explanatory statement with ASIC the independent expert issues a report opining that the Transaction is fair and reasonable to BSA shareholders;
- (f) Obtaining consent from any third party where it is commercially reasonable to do so;

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- (g) The merger implementation deed not being terminated;
- (h) The S&P ASX200 index not closing below 15% from the level at which it closes on the date of the merger implementation deed on more than 5 consecutive business days;
- (i) The Transaction being approved at a BSA shareholders' meeting by the requisite majorities in accordance with the *Corporations Act 2001* and the listing rules of ASX Limited;
- (j) Hills restructuring its Antenna Division into a company that will be purchased by BSA;
- (k) The representations and warranties given by BSA and Hills under the merger implementation deed being true and correct in all respects and each party issuing a certificate to confirm this;
- (l) Hills not suffering an event of insolvency;
- (m) BSA and Hills conducting due diligence to their satisfaction;
- (n) The parties entering into a share sale agreement and a placement agreement, and each not being terminated; and
- (o) BSA obtaining a tax ruling in support of the Transaction from the Australian Tax Office.

3. Exclusivity

Subject to certain exceptions in respect of superior proposals and the fiduciary duties of BSA's directors, BSA agrees from the date of the merger implementation deed until the earlier of the completion of the Transaction or 6 months (**Exclusivity Period**):

- (a) not to directly or indirectly approach or solicit inquiries from, or initiate, discussions with, any person except Hills or any of its related entities, in relation to a proposal for the takeover of, scheme of arrangement, capital reconstruction, purchase of main undertaking of or other similar reorganization of, or in relation to, BSA or any of its related bodies corporate (any such proposal by a person other than Hills or its related bodies corporate or an associate of Hills being a **Competing Acquisition Proposal**);
- (b) not to directly or indirectly participate in any discussions or negotiations, provide any information or take any other action to consider or facilitate a Competing Acquisition Proposal;
- (c) to immediately cease and withdraw from any existing negotiations, discussion or activities with any corporation, partnership, person or other entity in connection with or with a view to any Competing Acquisition Proposal;
- (d) not to authorise its associates, officers or advisers to do any of the acts referred to above and to use all reasonable efforts to procure that none of its associates, officers or advisers engage in conduct set out above;
- (e) subject to any applicable confidentiality obligation binding on it, to advise Hills if any third party commences a due diligence investigation in relation to BSA;
- (f) subject to any applicable confidentiality obligation binding on it or any other obligations imposed at law on the directors, to advise Hills of any unsolicited Competing Acquisition Proposal it receives; and
- (g) not to provide any information concerning any member of BSA to any prospective purchaser or investor, except to the extent required by law or the listing rules of ASX Limited.





4. Reimbursement of Costs

BSA agrees to reimburse Hills the lower of its costs in relation to the Transaction or \$1,300,000 (being 1% of the value of the placement and share sale) if:

- (a) before the end of the Exclusivity Period:
 - i. a superior proposal is announced or open for acceptance and is publicly recommended by any director of BSA;
 - ii. any person (or group of persons) other than Hills or its related entities acquires an interest in all or a substantial part of the assets of BSA or its related bodies corporate or a relevant interest in more than 20% of the voting shares of BSA under a superior proposal;
 - iii. in the case of a superior proposal that is a takeover bid made under Chapter 6 of the *Corporations Act 2001*, any person (or group of persons) other than Hills or its related entities acquires a relevant interest in more than 50% of the voting shares of BSA and the superior proposal becomes free from all defeating conditions either before or after the end of the offer period under the superior proposal; or
 - iv. in the case of the superior proposal that is a scheme of arrangement under chapter 5.1 of the *Corporations Act 2001*, the superior proposal is approved;
- (b) all of the directors of BSA do not unanimously recommend the Transaction or any one of the directors withdraws an earlier recommendation approving the Transaction or recommends a superior proposal (or announces an intention to do any of the above);
- (c) the BSA Group or any of the directors or representatives of BSA do (or omit to do) anything (whether or not it may be permitted by the terms of the merger implementation deed) which results in any of the conditions precedent detailed above being breached and Hills does not declare the Transaction free from the breached condition; or
- (d) there is a breach of the merger implementation deed by BSA or its related entities that materially frustrates the implementation of the Transaction.

Hills has also agreed, except under the Transaction or if a superior proposal is announced, not to acquire shares in BSA for a period of 12 months after the date of the merger implementation deed. Standard terms apply including confidentiality, warranties, indemnities and representations.

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Impact to Example Shareholder - 10,000 Ordinary Shares

| Cash Consideration | |
|---|----------------------------|
| Return of Capital Per Share at Record Date: Approximately 25 cents | \$2,500 (approx) |
| Fully Franked Interim Dividend: Approximately 3.5 cents per share held at Record Date | \$350 (approx) |
| Total Cash to Shareholders | \$2,850 (approx) |
| Total Cash to shareholders - per share | 28.5 cents (approx) |

| Number of Shares | |
|--------------------------------|---------------|
| Share Held at Record Date | 10,000 Shares |
| Consolidation From Record Date | 7,500 Shares |