Hills Holdings Limited

(formerly Hills Industries Limited)

ABN 35 007 573 417

Annual report for the year ended 30 June 2011

Hills Holdings Limited ABN 35 007 573 417
Annual report - 30 June 2011

Contents

These financial statements are the consolidated financial statements of the consolidated entity consisting of Hills Holdings Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Hills Holdings Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Hills Holdings Limited
159 Port Road
Hindmarsh SA 5007

A description of the nature of the Group's operations and its principal activities is included in the review of operations and activities within the Directors' report on pages 68 - 72, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on this 11th day of September 2011. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available within Corporate Information on our website: www.hillsholdings.com.au.

For queries in relation to our reporting please call +61 8 8301 3200 or e-mail *info@hillsholdings.com.au.*

Hills Holdings Limited
Consolidated income statement
For the year ended 30 June 2011

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000
Revenue from continuing operations	3	**1,095,845**	1,156,326
Other income	4	**1,156**	1,921
		1,097,001	1,158,247
Expenses excluding finance costs	5	**(1,171,464)**	(1,092,778)
(Loss)/profit before net finance expense and income tax		**(74,463)**	65,469
Finance income	5	**1,974**	4,166
Finance expenses	5	**(6,000)**	(7,575)
Net finance expense	5	**(4,026)**	(3,409)
(Loss)/profit before income tax		**(78,489)**	62,060
Income tax benefit/(expense)	6	**5,373**	(18,965)
(Loss)/profit for the year		**(73,116)**	43,095
(Loss)/profit is attributable to:			
Owners of Hills Holdings Limited		**(74,955)**	40,188
Non-controlling interests		**1,839**	2,907
(Loss)/profit for the year		**(73,116)**	43,095
		Cents	Cents
Earnings per share for (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	25	**(30.2)**	16.7
Diluted earnings per share	25	**(30.2)**	16.7

The above consolidated income statement should be read in conjunction with the accompanying notes.

	Notes	Consolidated 2011 $'000	2010 $'000
(Loss)/profit for the year		**(73,116)**	43,095
Other comprehensive income/(loss)			
Gain on revaluation of land and buildings	23	**13,480**	-
Changes in the fair value of cash flow hedges	23	**(1,484)**	(707)
Exchange differences on translation of foreign operations	23	**(749)**	318
Income tax relating to components of other comprehensive income	6	**(3,512)**	212
Other comprehensive income/(loss) for the year, net of tax		**7,735**	(177)
Total comprehensive (loss)/income for the year		**(65,381)**	42,918
Total comprehensive (loss)/income for the year is attributable to:			
Owners of Hills Holdings Limited		**(67,686)**	40,011
Non-controlling interests		**2,305**	2,907
Total comprehensive (loss)/income for the year		**(65,381)**	42,918

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Hills Holdings Limited
Consolidated statement of financial position
As at 30 June 2011

	Notes	Consolidated 2011 $'000	2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	**7,158**	56,915
Trade and other receivables	8	**184,042**	186,002
Inventories	9	**167,999**	181,496
Derivative financial instruments	14	**-**	800
		359,199	425,213
Assets classified as held for sale	15	**2,702**	-
Total current assets		**361,901**	425,213
Non-current assets			
Investments	10	**2**	2
Property, plant and equipment	11	**197,040**	219,658
Deferred tax assets	12	**31,485**	23,771
Intangible assets	13	**49,213**	116,300
Total non-current assets		**277,740**	359,731
Total assets		**639,641**	784,944
LIABILITIES			
Current liabilities			
Trade and other payables	16	**98,671**	128,048
Borrowings	17	**6,833**	1,384
Current tax liabilities	18	**242**	10,622
Provisions	19	**30,963**	33,445
Derivative financial instruments	14	**520**	262
Total current liabilities		**137,229**	173,761
Non-current liabilities			
Borrowings	20	**91,479**	105,684
Provisions	21	**6,570**	6,318
Derivative financial instruments	14	**2,056**	2,682
Total non-current liabilities		**100,105**	114,684
Total liabilities		**237,334**	288,445
Net assets		**402,307**	496,499
EQUITY			
Contributed equity	22	**306,790**	306,595
Reserves	23	**57,245**	47,899
Retained earnings		**21,504**	126,107
Capital and reserves attributable to owners of Hills Holdings Limited		**385,539**	480,601
Non-controlling interests		**16,768**	15,898
Total equity		**402,307**	496,499

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

		Attributable to owners of Hills Holdings Limited					
Consolidated	Notes	**Contributed equity $'000**	**Reserves $'000**	**Retained earnings $'000**	**Total $'000**	**Non-controlling interests $'000**	**Total equity $'000**
Balance at 1 July 2009		**248,598**	**46,495**	**107,442**	**402,535**	**25,985**	**428,520**
Total comprehensive income for the year		-	(177)	40,188	40,011	2,907	42,918
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs and tax	22	57,997	-	-	57,997	-	57,997
Non-controlling interests in share capital issued by subsidiary		-	-	-	-	640	640
Change in non-controlling interest on acquisition of subsidiary	33	-	1,551	-	1,551	(11,551)	(10,000)
Dividends provided for or paid	24	-	-	(21,523)	(21,523)	-	(21,523)
Dividends paid to non-controlling interests in subsidiaries		-	-	-	-	(2,083)	(2,083)
Employee share options - value of employee services	23	-	30	-	30	-	30
Balance at 30 June 2010		**306,595**	**47,899**	**126,107**	**480,601**	**15,898**	**496,499**
Balance at 1 July 2010		**306,595**	**47,899**	**126,107**	**480,601**	**15,898**	**496,499**
Total comprehensive income for the year		-	7,269	(74,955)	(67,686)	2,305	(65,381)
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs and tax	22	195	-	-	195	-	195
Non-controlling interests in share capital issued by subsidiary		-	-	-	-	750	750
Change in non-controlling interest on acquisition of subsidiary	33	-	(332)	-	(332)	(811)	(1,143)
Dividends provided for or paid	24	-	-	(27,273)	(27,273)	-	(27,273)
Dividends paid to non-controlling interests in subsidiaries		-	-	-	-	(1,379)	(1,379)
Employee share options - value of employee services	23	-	34	-	34	5	39
Transfer to Reserves		-	2,375	(2,375)	-	-	-
Balance at 30 June 2011		**306,790**	**57,245**	**21,504**	**385,539**	**16,768**	**402,307**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Hills Holdings Limited
Consolidated statement of cash flows
For the year ended 30 June 2011

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**1,204,824**	1,281,583
Payments to suppliers and employees (inclusive of goods and services tax)		**(1,170,304)**	(1,160,308)
Cash generated from operations		**34,520**	121,275
Interest received		**798**	1,596
Interest paid		**(5,960)**	(7,575)
Income taxes paid		**(16,378)**	(13,748)
Net cash inflow from operating activities	36	**12,980**	101,548
Cash flows from investing activities			
Payment for acquisition of business operations, net of cash acquired	32	**-**	(3,953)
Payments to increase ownership interest in subsidiary		**(1,143)**	(10,064)
Payments for property, plant and equipment	11	**(26,823)**	(19,094)
Payments for patents, trademarks and intellectual property	13	**(293)**	(3,010)
Proceeds from sale of property, plant and equipment		**832**	4,138
Rent received		**860**	864
Net cash (outflow) from investing activities		**(26,567)**	(31,119)
Cash flows from financing activities			
Proceeds from issues of shares		**-**	57,098
Proceeds from borrowings		**-**	374
Repayment of borrowings		**(15,000)**	(115,465)
Loans received from / (paid to) other entities		**1,976**	(1,058)
Proceeds from share issues to non-controlling interests in subsidiaries		**300**	640
Dividends paid to Company's shareholders	24	**(27,273)**	(21,523)
Dividends paid to non-controlling interests in subsidiaries		**(1,379)**	(2,630)
Net cash (outflow) from financing activities		**(41,376)**	(82,564)
Net (decrease) in cash and cash equivalents		**(54,963)**	(12,135)
Cash and cash equivalents at the beginning of the financial year		**55,531**	67,650
Effects of exchange rate changes on cash and cash equivalents		**78**	16
Cash and cash equivalents at the end of the financial year	7	**646**	55,531

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for Hills Holdings Limited (the "Company" or "parent entity") and its subsidiaries (together referred to as the "Group" or "Consolidated Entity" and individually as "Group Entities").

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards (AASB), including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001*.

These accounting policies have been consistently applied by each entity in the Group to all periods presented.

(i) Compliance with IFRS

The financial report of the Group also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

These financial statements have been prepared on the basis of historical costs, except for the following:

- financial instruments at fair value through profit or loss are measured at fair value; and
- land and buildings are measured at fair value.

The methods used to measure fair values are discussed further in notes 1(o), 1(p), 11 and 31.

(iii) Critical accounting estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 32 - business combinations
- Note 13 - measurement of the recoverable amounts of cash-generating units containing goodwill
- Note 26 - measurement of share-based payments
- Notes 19, 21 and 29 - provisions and contingencies
- Note 14 - financial instruments
- Notes 11 and 13 – measurement of the useful lives of property, plant and equipment and intangible assets (excluding goodwill)

(iv) Early adoption of standards

The Group has not elected to early adopt any accounting standards or amendments.

1 Summary of significant accounting policies (continued)

(b) Parent entity financial information

The financial information for the parent entity, Hills Holdings Limited, disclosed in note 34 has been prepared on the same basis as the consolidated financial statements.

(c) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2011 and the results of all subsidiaries for the year then ended.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(i)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position, respectively.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Hills Holdings Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Group Managing Director.

Operating segments that exhibit similar long-term economic characteristics, and have similar products, processes, customers, distribution methods and regulatory environments are aggregated.

1 Summary of significant accounting policies (continued)

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency and the functional and presentation currency of the majority of the Group.

(ii) Transactions and balances

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

(f) Revenue recognition

Revenue is recognised for the major business activities as follows:

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to estimates of work performed.

(iii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(iv) Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 1(n).

1 Summary of significant accounting policies (continued)

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Tax consolidation legislation

Hills Holdings Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Hills Holdings Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts arising from temporary differences. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Hills Holdings Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 6.

(h) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 30). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

1 Summary of significant accounting policies (continued)

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as a financial liability. Amounts are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(j) Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts and at call borrowings. Bank overdrafts and at call borrowings are shown within borrowings in current liabilities in the consolidated statement of financial position.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 to 90 days.

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

1 Summary of significant accounting policies (continued)

(l) Trade receivables (continued)

The amount of the impairment loss is recognised in profit or loss. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against expenses in profit or loss.

(m) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw material. Costs are assigned to individual items of inventory on the basis of the first-in-first-out principle. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(n) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held-for-trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held-for-trading unless they are designated as hedges. Assets in this category are classified as current and non current assets on the basis of the maturity of the underlying derivative.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in current assets - trade and other receivables (note 8) in the consolidated statement of financial position.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

Loans and receivables and held to maturity investments are subsequently carried at amortised cost using the effective interest method.

Details on how the fair value of financial instruments is determined are disclosed in note 1(o).

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

1 Summary of significant accounting policies (continued)

(o) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 14. Movements in the hedging reserve in shareholders' equity are shown in note 23. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds). The fair value of interest rate swaps is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market rates at the measurement date.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and within the hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance income' or 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

(p) Property, plant and equipment

Land and buildings are shown at fair value less subsequent depreciation for buildings. Land and buildings are independently valued at least every four years on the basis of open market values, and in the intervening years are valued by the Directors based on the most recent independent valuation combined with current market information. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The costs of additions since the valuations are deemed to be the fair value of those assets. The Directors are of the opinion that these bases provide a reasonable estimate of fair value. All other plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

1 Summary of significant accounting policies (continued)

(p) Property, plant and equipment (continued)

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss.

Land is not depreciated. Depreciation on other assets is calculated using the diminishing value or straight line method as considered appropriate to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

	2011	2010
- Buildings	0.75%	0.75%
- Plant and equipment	5.00% to 40.00%	5.00% to 40.00%
- Leasehold improvements	20.00% to 66.67%	20.00% to 66.67%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to the asset realisation reserve.

(q) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of a business acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Patents and Trademarks

Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents and trademarks over their estimated useful lives, which vary from 10 to 20 years.

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which is estimated to be 5 to 20 years.

1 Summary of significant accounting policies (continued)

(q) Intangible assets (continued)

(iv) Fair values

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(r) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated statement of financial position.

(s) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are paid in accordance with the Group's terms of trade.

(t) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of each reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

1 Summary of significant accounting policies (continued)

(v) Employee benefits

(i) Wages and salaries, and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

A defined contribution plan is a post employment benefit plan which receives fixed contributions from Group entities' and the Group's legal or constructive obligation is limited to these contributions.

Contributions to defined contribution plans are recognised as an expense as they become payable.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Long Term Incentive Share Plan (previously the Executive Share Option Plan) and the Employee Share Plan. Information relating to these schemes is set out in note 26.

Long Term Incentive Plan

The Long Term Incentive Share Plan (in previous years the Executive Share Option Plan) allows Group executives to acquire shares of the Company.

The fair value of Performance Rights / options granted under the Long term Incentive Share Plan / Executive Share Option Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the Performance Rights / options granted, measured at the grant date, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

The valuation method takes into account the exercise price of the Performance Right / option, the life of the Performance Right / option, the current price of the underlying shares, the expected volatility of the share price, the dividends expected of the shares and the risk-free interest rate for the life of the Performance Right / option.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. No change is made for changes in market conditions.

Employee Share Bonus Plan

The Employee Share Bonus Plan allows Group employees to acquire shares of the Company. Up to $1,000 per year in shares is allotted to employees who have served a qualifying period. The fair value of shares issued is recognised as an employee expense with a corresponding increase in equity. The fair value of the shares granted is measured using a present value method based upon independent advice.

(v) Profit-sharing and bonus plans

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably, or where there is past practice that has created a constructive obligation.

1 Summary of significant accounting policies (continued)

(w) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

If the entity reacquires its own equity instruments, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(x) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(y) Finance income and expense

Finance income comprises interest income on funds invested, fair value gains on interest rate swap contracts not accounted for using hedge accounting and the ineffective portion of cash flow hedges relating to interest rate swaps. Interest income is recognised as it accrues in profit or loss.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, fair value losses on interest rate swap contracts not accounted for using hedge accounting and the ineffective portion of cash flow hedges relating to interest rate swaps. Borrowing costs are recognised in profit or loss using the effective interest method.

(z) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(aa) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(ab) Rounding of amounts

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

1 Summary of significant accounting policies (continued)

(ac) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of new standards is set out below.

AASB 9 *Financial Instruments,* AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9* (December 2010) (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities and is likely to affect the Group's accounting for its financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. Retrospective application is generally required, although there are exceptions, particularly if the Group adopts the standard for the year ended 30 June 2012. The Group has not yet decided when to adopt AASB 9 and has not yet determined the potential effect of the standard.

2 Segment information

(a) Description of segments

The Group has four reportable segments, based upon reports reviewed by the Group Managing Director that are used to make strategic decisions. The following summary describes the operations in each of the Group's reportable segments:

Electronics & Communications – includes electronic security systems, closed circuit television systems, home and commercial automation and control systems, professional audio products, consumer electronic equipment, fibre optic transmission solutions, communications related products and services, domestic and commercial antennas, master antenna television systems, communications antennas, amplifiers, and subscription TV installation services.

Lifestyle & Sustainability – includes outdoor clothes driers, ladders, ironing boards, laundry trolleys, security doors, garden sprayers, rehabilitation and mobility products, water tanks and other rotationally moulded products, solar hot water products, stainless steel products and plumbing products.

Building & Industrial – comprises the Fielders Steel Roofing and Orrcon Steel businesses and includes structural, precision and large steel tubing, steel doorframes, roll formed metal building products, carports and shed systems.

Korvest – comprises the business of Korvest Ltd and includes electrical and cable support systems, pipe support systems, walkway systems, steel fabrication, associated metal treatment and galvanising services.

The Group principally considers the businesses from a products and services perspective. The Electronics & Communications division is managed separately by a group general manager and the Lifestyle & Sustainability division is managed by the chief operating officer.

The Electronics & Communications businesses meet the aggregation criteria of the Standard because of similarities of products, markets, distribution and regulatory environments.

The Lifestyle & Sustainability division comprises a number of business units, which individually would not comprise reportable segments, however, rather than reporting these businesses as "other operations" they are reported as Lifestyle & Sustainability as this reflects the manner in which the Group manages these businesses.

For management reporting purposes, the Building & Industrial division comprises the operations of Orrcon, Fielders and Korvest. These businesses are run by separate General Managers and the Group considers them separate operating segments. However, for the purposes of disclosure under *AASB 8 Operating Segments,* the Orrcon and Fielders businesses meet the aggregation criteria of the Standard because of similarities of products, markets, distribution and regulatory environments. However, Korvest does not meet the aggregation criteria, and as a consequence is reported separately.

Although the Group's divisions are managed on a products and services basis they operate in two main geographical areas:

Australia

Comprises manufacturing facilities and sales offices and customers in all states and territories.

Overseas

Comprises sales offices and customers in New Zealand.

2 Segment information (continued)

(b) Segment information provided to the Group Managing Director

2011	**Electronics & Communications**	**Lifestyle & Sustainability**	**Building & Industrial**	**Korvest Ltd**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Total segment revenue	**340,675**	**161,440**	**553,242**	**67,383**	**1,122,740**
Inter-segment revenue	(23,296)	(680)	(3,622)	(157)	(27,755)
Revenue from external customers	**317,379**	**160,760**	**549,620**	**67,226**	**1,094,985**
Segment EBIT	**28,027**	**9,697**	**(2,402)**	**5,556**	**40,878**
Depreciation and amortisation	3,339	4,995	11,769	1,278	21,381
Total segment assets	**142,608**	**107,815**	**277,649**	**42,434**	**570,506**
Total assets include: Additions to non-current assets (other than financial assets and deferred tax)	5,175	4,396	11,215	2,040	22,826
Total segment liabilities	**37,846**	**19,900**	**57,047**	**8,974**	**123,767**

2010	Electronics & Communications	Lifestyle & Sustainability	Building & Industrial	Korvest Ltd	Total
	$'000	$'000	$'000	$'000	$'000
Total segment revenue	368,901	177,444	578,061	55,775	1,180,181
Inter-segment revenue	(19,395)	(1,133)	(3,695)	(496)	(24,719)
Revenue from external customers	349,506	176,311	574,366	55,279	1,155,462
Segment EBIT	32,525	10,235	20,622	5,706	69,088
Depreciation and amortisation	3,291	5,803	12,110	1,060	22,264
Total segment assets	143,955	128,840	372,623	35,882	681,300
Total assets include: Additions to non-current assets (other than financial assets and deferred tax)	2,956	2,128	13,068	2,362	20,514
Segment liabilities	33,099	26,989	81,830	7,070	148,988

(c) Notes to, and forming part of, the segment information

(i) Accounting policies

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. Segment assets do not include income taxes.

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on a "cost plus" basis and are eliminated on consolidation.

2 Segment information (continued)

(ii) Segment revenue

Segment revenue reconciles to total revenue from continuing operations as follows:

	Consolidated	
	2011 $'000	2010 $'000
Total segment revenue	**1,122,740**	1,180,181
Intersegment eliminations	**(27,755)**	(24,719)
Other revenue	**860**	864
Total revenue from continuing operations (note 3)	**1,095,845**	1,156,326

The Group is domiciled in Australia. The amount of its revenue from external customers in Australia is $1,050.138 million (2010: $1,116.159 million), and the total of revenue from external customers in other countries is $44.847 million (2010: $39.303 million). Segment revenues are allocated based on the country in which the customer is located.

The Group does not derive 10% or more of its revenues from any single external customer.

(iii) Segment EBIT

Segment EBIT reconciles to (loss)/profit before income tax as follows:

	Consolidated	
	2011 $'000	2010 $'000
Segment EBIT	**40,878**	69,088
Interest revenue	**798**	1,596
Interest expense	**(5,960)**	(7,575)
Fair value profit on interest rate swaps and forward exchange contracts	**1,136**	2,570
Goodwill impairment	**(66,182)**	-
Impairment of other assets	**(43,694)**	(1,680)
Closure costs	**(4,963)**	-
Other	**(502)**	(1,939)
(Loss)/profit before income tax from continuing operations	**(78,489)**	62,060

(iv) Segment assets

The amounts provided to the Group Managing Director with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	Consolidated	
	2011 $'000	2010 $'000
Segment assets	**570,506**	681,300
Cash	**7,158**	56,915
Deferred tax assets	**31,485**	23,771
Investments	**2**	2
Derivative financial instruments	**-**	800
Corporate assets	**30,490**	22,156
Total assets as per the consolidated statement of financial position	**639,641**	784,944

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is $238.629 million (2010: $327.890 million), and the total of these non-current assets located in other countries is $7.624 million (2010: $8.070 million). Segment assets are allocated to countries based on where the assets are located.

2 Segment information (continued)

(v) Segment liabilities

The amounts provided to the Group Managing Director with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

The Group's borrowings and derivative financial instruments are not considered to be segment liabilities but rather managed by the treasury function.

Reportable segments' liabilities are reconciled to total liabilities as follows:

	Consolidated	
	2011 $'000	2010 $'000
Segment liabilities	**123,767**	148,988
Tax liabilities (including GST payable)	**4,916**	15,646
Borrowings	**98,312**	107,068
Derivative financial instruments	**2,576**	2,944
Corporate liabilities	**7,763**	13,799
Total liabilities as per the consolidated statement of financial position	**237,334**	288,445

3 Revenue

	Consolidated	
	2011 $'000	2010 $'000
From continuing operations		
Sales revenue		
Sale of goods	**1,033,517**	1,094,540
Services	**61,468**	60,922
	1,094,985	1,155,462
Other revenue		
Rents and sub-lease rentals	**860**	864
	1,095,845	1,156,326

4 Other income

	Consolidated	
	2011 $'000	2010 $'000
Net gain on disposal of property, plant and equipment	**106**	179
Foreign exchange gains (net)	**-**	14
Other income	**1,050**	1,728
	1,156	1,921

5 Expenses

	Consolidated 2011 $'000	Consolidated 2010 $'000
Classification of expenses by function		
Cost of goods sold	**714,556**	756,558
Cost of services provided	**54,331**	53,143
Distribution expenses	**89,409**	87,337
Sales and marketing expenses	**135,022**	129,091
Administration expenses	**63,307**	64,486
Other expenses	**114,839**	2,163
	1,171,464	1,092,778
(Loss)/profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	**1,769**	1,644
Plant and equipment	**20,112**	21,233
Total depreciation	**21,881**	22,877
Amortisation		
Patents and trademarks	**1,158**	996
Development costs	**40**	40
Total amortisation	**1,198**	1,036
Total depreciation and amortisation	**23,079**	23,913
Personnel expenses		
Wages and salaries	**192,454**	184,512
Defined contribution superannuation expense	**16,238**	15,383
Other employee benefits expense	**17,292**	18,556
Equity-settled share-based payment transactions	**479**	467
	226,463	218,918
Finance expenses		
Interest and finance charges paid/payable	**5,960**	7,575
Ineffective portion of changes in fair value of cash flow hedges	**40**	-
	6,000	7,575
Finance income		
Interest income	**(798)**	(1,596)
Fair value gains on derivatives	**(1,176)**	(2,504)
Ineffective portion of changes in fair value of cash flow hedges	**-**	(66)
	(1,974)	(4,166)
Net finance costs expensed	**4,026**	3,409
Rental expense relating to operating leases		
Minimum lease payments	**25,191**	22,625
Research and development	**446**	467

5 Expenses (continued)

	Consolidated 2011 $'000	2010 $'000
Impairment of financial and other assets		
Plant and equipment	**37,210**	1,680
Inventories	**3,783**	3,836
Receivables	**1,635**	3,336
Intangible assets	**66,182**	-
Total impairment losses - financial and other assets	**108,810**	8,852

(Loss)/profit after tax for the year includes the following items that are unusual because of their nature and size:

	2011 $'000	2010 $'000
(a) Impairment of Orrcon plant and equipment (recognised within Other expenses)	**34,622**	-
Less: Applicable income tax benefit	**(10,387)**	-
	24,235	-
(b) Impairment of Orrcon inventory (recognised within Other expenses)	**7,324**	-
Less: Applicable income tax benefit	**(2,197)**	-
	5,127	-
(c) Impairment of Orrcon goodwill (recognised within Other expenses)	**49,590**	-
Less: Applicable income tax benefit	**-**	-
	49,590	-
(d) Impairment of Team Poly plant and equipment (recognised within Other expenses)	**1,748**	-
Less: Applicable income tax benefit	**(524)**	-
	1,224	-
(e) Impairment of Team Poly goodwill (recognised within Other expenses)	**16,592**	-
Less: Applicable income tax benefit	**-**	-
	16,592	-
(f) Closure costs (recognised within Other Expenses)	**4,963**	-
Less: Applicable income tax benefit	**(1,489)**	-
	3,474	-

As a result of poor trading conditions during the year at Orrcon and Team Poly and the decision to close Orrcon's Unanderra operations, the Group has undertaken a comprehensive review of the carrying values of the assets including the goodwill of Orrcon and Team Poly. This has resulted in total non cash impairment of assets and goodwill of $109.876 million, comprising impairment to Orrcon inventory of $7.324 million, impairment in Orrcon plant and equipment of $34.622 million, impairment in Orrcon goodwill of $49.590 million, impairment in Team Poly goodwill of $16.592 million and impairment in Team Poly assets relating to decommissioned assets of $1.748 million. The after tax impact of these impairments is $96.768 million.

The decision to close Orrcon's Unanderra operations was announced and communicated to affected parties in May 2011. Costs associated with the closure totalling $4.963 million have been recognised in the financial statements at 30 June 2011. The after tax impact of these costs is $3.474 million.

Further details on the impairment of Orrcon plant and equipment and Team Poly plant and equipment are disclosed in note 11.

Further details on the impairment of Orrcon goodwill and Team Poly goodwill are disclosed in note 13.

6 Income tax expense

	Consolidated	
	2011	2010
	$'000	$'000
(a) Income tax (benefit)/expense:		
Current tax	**8,389**	17,659
Deferred tax	**(11,406)**	2,795
Adjustments for current and deferred tax of prior periods	**(2,356)**	(1,489)
	(5,373)	18,965
Deferred income tax (revenue)/expense included in income tax expense comprises:		
(Increase)/decrease in deferred tax assets (note 12)	**(11,406)**	2,693
Adjustments for deferred tax of prior periods	**-**	102
	(11,406)	2,795
(b) Numerical reconciliation of income tax (benefit)/expense to prima facie tax payable		
(Loss)/profit from continuing operations before income tax (benefit)/expense	**(78,489)**	62,060
Tax at the Australian tax rate of 30% (2010: 30%)	**(23,547)**	18,618
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Goodwill impairment	**19,855**	-
Impairment of other assets	**252**	504
Depreciation of buildings	**-**	274
Non deductable expenses	**249**	819
R&D allowances	**(90)**	(180)
Difference in overseas tax rates	**28**	4
Adjustments for current and deferred tax of prior periods	**(2,356)**	(1,387)
Tax losses not recognised	**236**	313
Total income tax (benefit)/expense	**(5,373)**	18,965

(c) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:

	2011	2010
Net deferred tax - debited/(credited) directly to equity (note 12)	**180**	(526)

(d) Tax expense / (income) relating to items of other comprehensive income

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to other comprehensive income:

	2011	2010
Gains / (losses) on revaluation of land and buildings (note 12)	**3,957**	-
Cash flow hedges (notes 12, 23)	**(445)**	(212)
	3,512	(212)

6 Income tax expense (continued)

	Consolidated 2011 $'000	2010 $'000
(e) Tax losses		
Unused capital tax losses for which no deferred tax asset has been recognised	**41,320**	29,918
Potential tax benefit @ 30%	**12,396**	8,975

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future capital gains will be available against which the Group can utilise the benefits from these items.

Revenue tax losses for which no deferred tax asset has been recognised total $2,417,000 (2010: $1,121,000). The potential deferred tax asset not recognised totals $725,000 (2010: $336,000).

(f) Current tax assets and liabilities

The current tax liability for the Group of $242,000 (2010: $10,622,000) represents the amount of income taxes payable in respect of current and prior financial periods.

(g) Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(g).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Hills Holdings Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Hills Holdings Limited for any current tax payable assumed and are compensated by Hills Holdings Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Hills Holdings Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables and eliminated on consolidation.

7 Current assets - Cash and cash equivalents

	Consolidated 2011 $'000	2010 $'000
Cash at bank and in hand	**6,396**	10,610
Deposits at call	**762**	46,305
	7,158	56,915

7 Current assets - Cash and cash equivalents (continued)

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the consolidated statement of cash flows as follows:

	Consolidated 2011 $'000	Consolidated 2010 $'000
Balances as above	**7,158**	56,915
Bank overdrafts (note 17)	**(1,512)**	(1,384)
Borrowings - at call (note 17)	**(5,000)**	-
Balances per consolidated statement of cash flows	**646**	55,531

(b) Risk exposure

The Group's exposure to interest rate risk is discussed in note 31. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

(c) Fair value

The carrying amount for cash and cash equivalents equals the fair value.

8 Current assets - Trade and other receivables

	Consolidated 2011 $'000	Consolidated 2010 $'000
Net trade receivables		
Trade receivables	**180,445**	188,818
Provision for impairment of receivables (note (a))	**(9,180)**	(9,418)
	171,265	179,400
Net other receivables		
Other receivables	**10,888**	4,105
Prepayments	**1,889**	2,497
	184,042	186,002

(a) Impaired trade receivables

The ageing of the Group's trade receivables at the reporting date is as follows:

	Consolidated 2011 $'000	Consolidated 2010 $'000
Not past due	**96,409**	103,215
Past due 0 - 30 days	**55,728**	60,019
Past due 31 - 90 days	**18,673**	16,494
Past due more than 90 days	**9,635**	9,090
	180,445	188,818

8 Current assets - Trade and other receivables (continued)

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2011	2010
	$'000	$'000
At 1 July	**(9,418)**	(7,782)
Provision for impairment recognised during the year	**(1,635)**	(3,336)
Receivables written off during the year as uncollectible	**1,873**	1,700
At 30 June	**(9,180)**	(9,418)

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not yet past due.

The provision for impaired receivables for the Group of $9,180,000 (2010: $9,418,000) relates to receivables past due more than 30 days, based upon a case by case assessment. Receivables past due between 0 and 30 days are not considered impaired.

(b) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 31.

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The fair value of securities held for certain trade receivables is insignificant as is the fair value of any collateral sold or repledged. Refer to note 31 for more information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

9 Current assets - Inventories

	Consolidated	
	2011	2010
	$'000	$'000
Raw materials		
- at cost and net realisable value	**51,273**	54,859
- impairment losses	**(5,629)**	(3,152)
	45,644	51,707
Work in progress		
- at cost and net realisable value	**6,577**	5,224
- impairment losses	**-**	-
	6,577	5,224
Finished goods		
- at cost and net realisable value	**139,685**	147,293
- impairment losses	**(23,907)**	(22,728)
	115,778	124,565
	167,999	181,496

10 Non-current assets - Investments

	Consolidated 2011 $'000	Consolidated 2010 $'000
Other listed securities		
Equity securities	2	2

These financial assets are carried at cost.

11 Non-current assets - Property, plant and equipment

Consolidated	Land - Fair Value $'000	Buildings - Fair Value $'000	Plant and equipment - Cost & Fair Value $'000	Total $'000
At 1 July 2009				
Cost or fair value	44,232	52,134	252,500	348,866
Accumulated depreciation and impairment	-	(2,859)	(118,513)	(121,372)
Net book amount	44,232	49,275	133,987	227,494
Year ended 30 June 2010				
Opening net book amount	44,232	49,275	133,987	227,494
Exchange differences	62	50	11	123
Acquisitions through business combinations	-	-	1,463	1,463
Additions	-	1,946	17,148	19,094
Disposals	-	(20)	(3,939)	(3,959)
Impairment charge recognised in profit or loss	-	-	(1,680)	(1,680)
Depreciation charge	-	(1,644)	(21,233)	(22,877)
Closing net book amount	44,294	49,607	125,757	219,658
At 30 June 2010				
Cost or fair value	44,294	54,072	258,663	357,029
Accumulated depreciation and impairment	-	(4,465)	(132,906)	(137,371)
Net book amount	44,294	49,607	125,757	219,658
Year ended 30 June 2011				
Opening net book amount	44,294	49,607	125,757	219,658
Exchange differences	(201)	(172)	(29)	(402)
Revaluation to fair value	10,333	3,147	-	13,480
Additions	-	1,663	25,160	26,823
Disposals	-	(20)	(706)	(726)
Transfers to assets held-for-sale	-	-	(2,702)	(2,702)
Depreciation charge	-	(1,769)	(20,112)	(21,881)
Impairment charge recognised in profit or loss	-	-	(37,210)	(37,210)
Closing net book amount	54,426	52,456	90,158	197,040
At 30 June 2011				
Cost or fair value	54,426	57,838	230,248	342,512
Accumulated depreciation and impairment	-	(5,382)	(140,090)	(145,472)
Net book amount	54,426	52,456	90,158	197,040

11 Non-current assets - Property, plant and equipment (continued)

(a) Assets in the course of construction

The carrying amounts of the assets disclosed above include the following expenditure recognised in relation to property, plant and equipment which is in the course of construction:

	Consolidated	
	2011 $'000	**2010 $'000**
Property, furniture, fittings, plant and equipment	**15,732**	13,023
Total assets in the course of construction	**15,732**	13,023

(b) Valuations of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The 2011 valuations were based on independent assessments by a member of the Australian Property Institute as at 31 May 2011 and the 2010 valuations were made by the Directors as at 30 June 2010. The revaluation surplus net of applicable deferred income taxes was credited to the asset revaluation reserve in shareholders' equity (note 23).

(c) Impairment loss

The impairment loss relates to certain plant and equipment within the Orrcon and Team Poly cash generating units and to property, plant and equipment in the course of construction. The whole amount was included in profit or loss, as there was no amount previously included in the asset revaluation reserve relating to the relevant assets.

The recoverable amount of certain plant and equipment within the Orrcon cash generating unit (Unanderra plant and equipment) was determined on a fair value less cost to sell basis, using an independent valuation of these assets. Based on this assessment the recoverable amount of this plant and equipment was determined to be $34.622 million lower than its carrying amount.

The recoverable amount of certain decommissioned plant and equipment within the Team Poly cash generating unit was determined on a fair value less cost to sell basis. Based on this assessment the recoverable amount of this plant and equipment was determined to be $1.748 million lower than its carrying amount.

The recoverable amount of the asset in the course of construction was determined by reference to a report provided by an independent valuer as fair value less costs to sell based on an active market. Based on this assessment the recoverable amount was determined to be $0.840 million lower than its carrying amount.

12 Non-current assets - Deferred tax assets

	Consolidated 2011 $'000	Consolidated 2010 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**5,368**	(1,921)
Inventories	**4,869**	4,614
Employee benefits	**10,737**	10,865
Receivables	**2,811**	2,543
Loans and borrowings	**1,218**	1,218
Provisions	**2,201**	2,238
Other accruals	**2,293**	1,576
Derivative financial instruments	**1,303**	1,233
Other items	**685**	1,405
Net deferred tax assets	**31,485**	23,771

Movements - Consolidated	**Balance at 1 July 2009 $'000**	**Recognised in profit or loss $'000**	**Recognised in other compre- hensive income $'000**	**Recognised in equity $'000**	**Balance at 30 June 2010 $'000**
Property, plant and equipment	(1,961)	40	-	-	(1,921)
Inventories	5,511	(897)	-	-	4,614
Employee benefits	10,873	(8)	-	-	10,865
Receivables	2,423	120	-	-	2,543
Loans and borrowings	1,218	-	-	-	1,218
Provisions	2,080	158	-	-	2,238
Other accruals	2,136	(560)	-	-	1,576
Derivative financial instruments	2,942	(1,921)	212	-	1,233
Other items	606	273	-	526	1,405
At 30 June 2010	25,828	(2,795)	212	526	23,771

Movements - Consolidated	**Balance at 1 July 2010 $'000**	**Recognised in profit or loss $'000**	**Recognised in other compre- hensive income $'000**	**Recognised in equity $'000**	**Balance at 30 June 2011 $'000**
Property, plant and equipment	(1,921)	11,246	(3,957)	-	5,368
Inventories	4,614	255	-	-	4,869
Employee benefits	10,865	(128)	-	-	10,737
Receivables	2,543	268	-	-	2,811
Loans and borrowings	1,218	-	-	-	1,218
Provisions	2,238	(37)	-	-	2,201
Other accruals	1,576	717	-	-	2,293
Derivative financial instruments	1,233	(375)	445	-	1,303
Other items	1,405	(540)	-	(180)	685
	23,771	11,406	(3,512)	(180)	31,485

13 Non-current assets - Intangible assets

Consolidated	Development costs $'000	Goodwill $'000	Patents, trademarks and other rights $'000	Total $'000
At 1 July 2009				
Cost	200	122,461	2,946	125,607
Accumulated amortisation and impairment	-	(11,043)	(238)	(11,281)
Net book amount	200	111,418	2,708	114,326
Year ended 30 June 2010				
Opening net book amount	200	111,418	2,708	114,326
Additions	-	-	3,010	3,010
Amortisation charge **	(40)	-	(996)	(1,036)
Closing net book amount	160	111,418	4,722	116,300
At 30 June 2010				
Cost	200	122,461	5,957	128,618
Accumulated amortisation and impairment	(40)	(11,043)	(1,235)	(12,318)
Net book amount	160	111,418	4,722	116,300
Year ended 30 June 2011				
Opening net book amount	160	111,418	4,722	116,300
Additions	-	-	293	293
Impairment charge **	-	(66,182)	-	(66,182)
Amortisation charge **	(40)	-	(1,158)	(1,198)
Closing net book amount	120	45,236	3,857	49,213
At 30 June 2011				
Cost	200	122,461	6,250	128,911
Accumulated amortisation and impairment	(80)	(77,225)	(2,393)	(79,698)
Net book amount	120	45,236	3,857	49,213

** The amortisation and impairment charges are recognised in expenses in the consolidated income statement.

(a) Impairment tests for goodwill

During the year ended 30 June 2011 the Group determined that there is no impairment of any of its cash generating units (CGU) containing goodwill or intangible assets with indefinite useful lives, except for goodwill relating to the Orrcon and Team Poly CGUs. For the purpose of impairment testing, goodwill is allocated to the Group's operating units that represent the lowest level within the Group at which the goodwill is monitored for internal management purposes (cash generating units).

13 Non-current assets - Intangible assets (continued)

The aggregate carrying amounts of goodwill allocated to each cash generating unit, analysed at a segment level, are as follows:

Cash generating unit	Building and Industrial $'000	Electronics and Commun-ications $'000	Lifestyle and Sustainability $'000	Total $'000
2011				
Hills SVL	-	16,237	-	16,237
Hills Healthcare	-	-	11,839	11,839
LW Gemmell	-	-	3,324	3,324
Fielders	7,789	-	-	7,789
Orrcon	-	-	-	-
Opticomm	-	754	-	754
UHS	-	5,293	-	5,293
Team Poly	-	-	-	-
Total Group	7,789	22,284	15,163	45,236
2010				
Hills SVL	-	16,237	-	16,237
Hills Healthcare	-	-	11,839	11,839
LW Gemmell	-	-	3,324	3,324
Fielders	7,789	-	-	7,789
Orrcon	49,589	-	-	49,589
Opticomm	-	756	-	756
UHS	-	5,293	-	5,293
Team Poly	-	-	16,591	16,591
Total Group	57,378	22,286	31,754	111,418

The cash generating unit impairment tests are based on value in use calculations which were determined by discounting the future cash flows generated from the continuing use of the unit and were based on the following key assumptions:

- Cash flow projections have been based on the coming year's budget and Board agreed forecasts with key assumptions for future years relating to sales, gross margins and expenses. Sales are based on management assessments with allowances for future growth based upon assessments of growth rates in the markets to which the assets belong. Gross margins and expense levels are based on past experience.
- A terminal value has been determined at the end of the five year strategic plan using a growth rate of 2.5% - 3% (2010: 3%), which is no greater than the long term average growth rate for the market to which the asset is dedicated.
- A pre-tax discount rate of between 13.19% and 14.91% (2010: 14.17% and 14.77%), determined by reference to the Group's weighted average cost of capital and specific industry factors was applied in determining the recoverable amount of the units.

(b) Impact of possible changes in key assumptions

With the exception of the Fielders cash generating units, a reasonably possible change in the key assumptions above would not have resulted in the carrying amount exceeding the recoverable amount for any of the Group's cash generating units.

The Fielders cash generating unit's recoverable amount (which exceeds its carrying value in use by approximately $16.535 million (2010: $48.454 million) is sensitive to a possible change in EBIT. The business is forecasting for EBIT to return to 2009 levels by the end of the five year model period. A decrease in forecast annual EBIT of 15% (2010: 32%) could result in an impairment.

13 Non-current assets - Intangible assets (continued)

(c) Impairment charge

The recoverable amount of the Orrcon cash generating unit was estimated based on its value in use for the Orrcon business. The estimate of value in use was determined using a pre tax discount rate of 13.19% (2010: 14.17%). Cash flow projections have been based on Board agreed forecasts with key assumptions for future years relating to sales, gross margins and expenses. Sales are based on management assessments with allowances for future growth based upon assessments of growth rates in the markets to which the assets belong. Gross margins and expense levels are based on past experience. The Orrcon cash generating unit recoverable amount is sensitive to a possible change in EBIT. The Orrcon business is forecasting annualised EBIT growth of 2% - 3% per annum over the five year model period. A terminal value has been determined at the end of the five year strategic plan using a growth rate of 2.5% (2010: 3%), which is no greater than the long term average growth rate for the market to which the assets are dedicated. Based on this assessment assets are impaired by $49.590 million and in accordance with Accounting Standards the impairment was allocated against goodwill.

The recoverable amount of the Team Poly cash generating unit was estimated based on its value in use for the Team Poly business. The estimate of value in use was determined using a pre tax discount rate of 14.91% (2010: 14.77%). Cash flow projections have been based on Board agreed forecasts with key assumptions for future years relating to sales, gross margins and expenses. Sales are based on management assessments with allowances for future growth based upon assessments of growth rates in the markets to which the assets belong. Gross margins and expense levels are based on past experience. The Team Poly cash generating unit recoverable amount is sensitive to a possible change in EBIT. The Team Poly business is forecasting average annualised EBIT growth of 3% - 3.5% per annum over the five year model period. A terminal value has been determined at the end of the five year strategic plan using a growth rate of 3% (2010: 3%), which is no greater than the long term average growth rate for the market to which the assets are dedicated. Based on this assessment assets are impaired by $16.592 million and in accordance with Accounting Standards the impairment was allocated against goodwill.

14 Derivative financial instruments

	Consolidated	
	2011	2010
	$'000	$'000
Current assets		
Forward foreign exchange contracts - cash flow hedges *(ii)*	-	800
Total current derivative financial instrument assets	-	800
Current liabilities		
Interest rate swaps - cash flow hedges *(i)*	8	250
Forward foreign exchange contracts - held for trading *(iii)*	512	12
Total current derivative financial instrument liabilities	520	262
Non-current liabilities		
Interest rate swaps - cash flow hedges *(i)*	2,056	2,682
Total non-current derivative financial instrument liabilities	2,056	2,682
Total derivative financial instrument liabilities	2,576	2,944
Net derivative financial instrument liabilities	(2,576)	(2,144)

14 Derivative financial instruments (continued)

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 31).

(i) Interest rate swap contracts - cash flow hedges

Bank loans of the Group at 30 June 2011 bear an average variable interest rate of 5.01% (2010: 4.75%). It is the Group's policy to manage exposure to increasing interest rates by hedging a proportion of the Group's exposure to variable rate bank loans. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Interest rate swaps in place at 30 June 2011 cover approximately 83% (2010: 100%) of the loan principal outstanding and are taken out with terms of between three and seven years. The fixed interest rates average 6.2% (2010: 6.2%).

The contracts require net settlement of the interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit or loss when the hedged item is derecognised. In the year ended 30 June 2011 a loss of $40,000 was reclassified into profit or loss (2010: gain of $66,000) and included in finance cost due to hedge ineffectiveness in the current or prior year and a gain of $1,176,000 was reclassified into profit or loss (2010: $1,998,000) to offset net interest expense paid.

(ii) Forward foreign exchange contracts - cash flow hedges

The Group purchases goods and materials from overseas, principally in US dollars. In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase US dollars.

These contracts are hedging highly probable forecasted purchases for approximately the next two to three months.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the statement of financial position by removing the related amount from other comprehensive income.

During the year ended 30 June 2011 a gain of $8,000 was recognised in profit or loss for the ineffective portion of these hedging contracts (2010: loss of $11,000).

(iii) Forward foreign exchange contracts and interest rate swaps - held for trading

Group subsidiaries have entered into forward foreign exchange contracts which are economic hedges but do not satisfy the requirements for hedge accounting. These contracts are subject to the same risk management policies as all other derivative contracts, see note 31 for details. However, they are accounted for as held for trading.

(a) Risk exposures and fair value measurements

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk and about the methods and assumptions used in determining fair values is provided in note 31. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of each class of derivative financial assets mentioned above.

15 Non-current assets classified as held for sale

	Consolidated	
	2011	2010
	$'000	$'000
Plant and equipment	**2,702**	-

As part of the restructuring of Orrcon, in May 2011 the Directors decided to close certain operations and assets previously used in manufacturing have been classified as held for sale. An active programme of marketing and selling the assets is underway. There are interested parties and the sales are expected to be completed during the financial year. The assets are presented within total assets of the Building and Industrial segment in note 2.The losses on measuring the assets at fair value less costs to sell are presented within "impairment of property, plant and equipment" in note 5 and disclosed within note 11.

16 Current liabilities - Trade and other payables

	Consolidated	
	2011	2010
	$'000	$'000
Trade payables	**54,162**	76,813
Amounts due to associates (note 28)	**993**	134
Other trade payables and accrued expenses	**43,516**	51,101
	98,671	128,048

(a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 31.

17 Current liabilities - Borrowings

	Consolidated	
	2011	2010
	$'000	$'000
Bank overdrafts **	**1,512**	1,384
Short term money market	**5,000**	-
Other loans	**321**	-
Total current borrowings	**6,833**	1,384

** Further information on the bank overdrafts and bills payable are set out in note 20.

(a) Security and fair value disclosures

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 20.

(b) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 31.

18 Current liabilities - Current tax liabilities

	Consolidated 2011 $'000	Consolidated 2010 $'000
Income tax	**242**	10,622

19 Current liabilities - Provisions

	Consolidated 2011 $'000	Consolidated 2010 $'000
Employee benefits	**27,046**	27,248
Outstanding claims	**3,339**	5,701
Other provisions	**578**	496
	30,963	33,445

Information on non-current provisions is set out in note 21.

Outstanding claims

The provision for claims comprises the amounts set aside for estimated claims, as well as the estimated future liability of the Group's self-insurance arrangements. The value of the provision is determined in consultation with the Group's actuaries or legal advisers as appropriate. The claims estimate is based on historical claims data and a weighting of the possible outcomes against their associated probabilities. Outstanding claims are recognised for incidences that have occurred that may give rise to a claim and are measured at the cost that the entity expects to incur in settling the claims, discounted using a Commonwealth government bond rate with a maturity date approximating the terms of the Group's obligations.

Other provisions

Other provisions comprise mainly a provision for site restoration and safety upgrades.

(a) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Provision for dividend $'000	Outstanding claims $'000	Other Provisions $'000	Total $'000
2011				
Current & non-current				
Carrying amount at start of year	-	5,701	692	6,393
Charged/(credited) to profit or loss / retained earnings				
- additional provisions recognised	27,273	-	269	27,542
- reductions from remeasurement or settlement without cost	-	(2,362)	-	(2,362)
Amounts used during the year	(27,273)	-	(50)	(27,323)
Carrying amount at end of year	-	3,339	911	4,250

19 Current liabilities - Provisions (continued)

	Contingent consideration $'000	Provision for dividend $'000	Outstanding claims $'000	Other Provisions $'000	Total $'000
2010					
Current & non-current					
Carrying amount at start of year	400	550	5,751	799	7,500
Charged/(credited) to profit or loss / retained earnings					
- additional provisions recognised	-	24,362	-	-	24,362
- reductions from remeasurement or settlement without cost	(400)	-	(50)	(65)	(515)
Amounts used during the year	-	(24,199)	-	(42)	(24,241)
Dividend foregone - SIP	-	(713)	-	-	(713)
Carrying amount at end of year	-	-	5,701	692	6,393

20 Non-current liabilities - Borrowings

	Consolidated 2011 $'000	Consolidated 2010 $'000
Unsecured		
Bills payable	**90,000**	105,000
Other loans	**1,458**	663
Loans from non-controlling interests	**21**	21
Total unsecured non-current borrowings	**91,479**	105,684
Total non-current borrowings	**91,479**	105,684

(a) Bank loans and bank overdraft

Bank overdrafts

Bank overdrafts are denominated in both AUD and NZD. The bank overdraft of a controlled entity is secured by a guarantee from the Company. Interest on bank overdrafts is charged at prevailing market rates. The bank overdrafts are payable on demand and are subject to annual review. The Company and a number of its subsidiaries have a net bank overdraft facility of $1,000,000 (2010: $1,000,000) and the Company's New Zealand subsidiary has a separate bank overdraft facility of $1,737,000 (2010: $1,828,000).

Unsecured bank loans

The Group has a number of multi option facilities with its bankers. Generally, these facilities can be utilised for a combination of bank loans, guarantees and standby letters of credit. Bank loans are denominated in both AUD and NZD. The bank loans are Commercial Bills and Fully Drawn Advances with interest charged at prevailing market rates. The Company and its wholly owned subsidiaries have provided an interlocking guarantee and indemnity to its financiers for these facilities. The bank loan facility of a controlled entity is secured by a guarantee from the Company, to the extent of the Company's ownership interest. An assessment of the contractual maturities of financial liabilities is provided in note 31.

Standby letter of credit

The standby letter of credit facility forms part of the multi option facilities negotiated with the Group's bankers.

Short-term money market

Borrowings on the short-term money market are denominated in AUD. Interest on the borrowings is charged at the prevailing market rates.

20 Non-current liabilities - Borrowings (continued)

(b) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the reporting date:

	Consolidated 2011 $'000	Consolidated 2010 $'000
Facilities		
Bank overdraft	**4,437**	2,828
Unsecured bank loans	**207,088**	218,169
Standby letters of credit	**10,869**	6,831
Short term money market	**5,000**	5,000
	227,394	232,828
Used at balance date		
Bank overdrafts	**1,512**	1,384
Unsecured bank loans	**90,000**	105,000
Standby letters of credit	**10,439**	6,831
Short term money market	**5,000**	-
	106,951	113,215
Unused at balance date		
Bank overdrafts	**2,925**	1,444
Unsecured bank loans	**117,088**	113,169
Standby letters of credit	**430**	-
Short term money market	**-**	5,000
	120,443	119,613

(c) Fair value

The carrying amounts and fair values of borrowings at the end of reporting period are:

Consolidated	2011 Carrying amount $'000	2011 Fair value $'000	2010 Carrying amount $'000	2010 Fair value $'000
Non-traded financial liabilities				
Bank overdrafts	**1,512**	**1,512**	1,384	1,384
Short term money market	**5,000**	**5,000**	-	-
Bills payable	**90,000**	**90,000**	105,000	105,000
Other loans	**1,800**	**1,800**	684	684
	98,312	**98,312**	107,068	107,068

(d) Risk exposures

Information about the Group's exposure to interest rate and foreign currency changes is provided in note 31.

For an analysis of the sensitivity of borrowings to interest rate risk and foreign exchange risk refer to note 31.

21 Non-current liabilities - Provisions

	Consolidated	
	2011	2010
	$'000	$'000
Employee benefits	**6,237**	6,122
Other provisions	**333**	196
	6,570	6,318

Movements in provisions are set out in note 19.

22 Contributed equity

	2011 Shares '000	2010 Shares '000	**2011 $'000**	2010 $'000
(a) Share capital				
Ordinary shares				
Fully paid	**248,636**	247,697	**306,790**	306,595

(b) Movements in ordinary share capital:

Date	**Details**	**Number of shares '000**	**$'000**
1 July 2009	Opening balance	204,601	248,598
	Issued under the capital raising	29,185	40,859
	Issued under the Share Purchase Plan	11,956	16,738
	Issued under the Dividend Investment Plan	674	1,255
	Issued under the Share Investment Plan	382	-
	Issued under the Employee Share Bonus Plan	899	373
	Less: Transaction costs arising on share issue	-	(1,228)
30 June 2010	Balance	247,697	306,595
1 July 2010	Opening balance	247,697	306,595
	Issued under the Employee Share Bonus Plan	939	375
	Less: Movement in deferred tax asset relating to transaction costs arising on share issue	-	(180)
30 June 2011	Balance	248,636	306,790

(c) Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(d) Dividend investment plan and share investment plan

The Dividend Investment Plan and the Share Investment Plan did not operate in respect of dividends issued during the financial year.

22 Contributed equity (continued)

(e) Employee share scheme

The Company made two issues of ordinary shares under the Employee Share Bonus Plan during the year. All employees meeting the service criteria were eligible to participate in the issue. The shares are issued at market value.

(f) Executive Shares, Performance Rights and Options

Information relating to the Long Term Incentive Share Plan and the Executive Share Plan, including details of Performance Rights and options issued, exercised and lapsed during the financial year and Performance Rights and options outstanding at the end of the financial year, is set out in note 26.

(g) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio in conjunction with its review of the Group's banking covenants. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings as shown in the statement of financial position less cash and cash equivalents. Total equity is equity as shown in the statement of financial position (including non-controlling interests).

During 2011, the Group's strategy, which was unchanged from 2010, was to maintain a target gearing ratio less than 45%. The gearing ratios at 30 June 2011 and 30 June 2010 were as follows:

	Consolidated	
	2011	2010
	$'000	$'000
Total borrowings	**98,312**	107,068
Less: cash and cash equivalents	**(7,158)**	(56,915)
Net debt	**91,154**	50,153
Total equity	**402,307**	496,499
Gearing ratio	**22.7%**	10.1%

The increase in the gearing ratio during 2011 resulted primarily from lower levels of cash generated from operations and the decrease in total equity, due to the impairment of assets recorded.

23 Reserves

	Consolidated	
	2011	2010
	$'000	$'000
(a) Reserves		
Asset revaluation reserve	**47,041**	35,634
Hedging reserve - cash flow hedges	**(1,304)**	(265)
Asset realisation reserve	**11,854**	12,019
Foreign currency translation reserve	**(2,212)**	(1,653)
Equity compensation reserve	**647**	613
Non-controlling interests acquisition reserve	**1,219**	1,551
	57,245	47,899

23 Reserves (continued)

	Consolidated	
	2011	2010
	$'000	$'000
Movements:		
Asset revaluation reserve		
Balance 1 July	**35,634**	44,828
Revaluation - gross	**12,814**	-
Deferred tax	**(3,757)**	-
Transfer (to) / from retained earnings	**2,350**	-
Transfer to asset realisation reserve	**-**	(9,194)
Balance 30 June	**47,041**	35,634
Hedging reserve - cash flow hedges		
Balance 1 July	**(265)**	230
Revaluation - gross	**(1,484)**	(707)
Deferred tax	**445**	212
Balance 30 June	**(1,304)**	(265)
Asset realisation reserve		
Balance 1 July	**12,019**	2,825
Transfer from asset revaluation reserve	**-**	9,194
Transfer (to)/from retained earnings	**(165)**	-
Balance 30 June	**11,854**	12,019
Foreign currency translation reserve		
Balance 1 July	**(1,653)**	(1,971)
Currency translation differences arising during the year	**(722)**	269
Disposal of foreign subsidiary	**(27)**	49
Transfer (to)/from retained earnings	**190**	-
Balance 30 June	**(2,212)**	(1,653)
Equity compensation reserve		
Balance 1 July	**613**	583
Long Term Incentive Share Plan and Executive Share Option Plan expense	**34**	30
Balance 30 June	**647**	613
Non-controlling interests acquisition reserve		
Balance 1 July	**1,551**	-
Adjustment to non-controlling interest upon increase in Group shareholding	**(332)**	1,551
Balance 30 June	**1,219**	1,551

(b) Nature and purpose of reserves

(i) Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of property, plant and equipment, as described in note 1(p).

23 Reserves (continued)

(ii) Hedging reserve - cash flow hedges

The hedging reserve is used to record changes in the fair value of derivative financial instruments designated in a cash flow hedge relationship that are recognised in other comprehensive income, as described in note 1(o). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

(iii) Asset realisation reserve

Where a revalued asset is sold, that portion of the asset revaluation reserve that relates to that asset is transferred to the asset realisation reserve upon settlement.

(iv) Foreign currency translation reserve

Exchange differences arising on translation of the financial statements of a foreign controlled entity are recognised in other comprehensive income as described in note 1(e) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(v) Equity compensation reserve

The equity compensation reserve represents the value of Performance Rights and options held by an equity compensation plan that the Group is required to include in the consolidated financial statements. This reserve will be reversed against share capital when the underlying Performance Rights and options are exercised and shares vest in the employee. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(vi) Non-controlling interests acquisition reserve

The non-controlling interests acquisition reserve arises upon changes in the Group's ownership interest in subsidiaries after control is obtained. The reserve represents the difference between the fair value of consideration paid or received, and the amount of the change in the non-controlling interest's share of net assets of the subsidiary.

24 Dividends

	Consolidated	
	2011	2010
	$'000	$'000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2010 of 5.5 cents (year ended 30 June 2009: 2.0 cents) per fully paid share paid on 27 September 2010 (year ended 30 June 2009: 23 November 2009)		
Fully franked based on tax paid @ 30%	**13,623**	4,917
Final dividend foregone for Share Investment Plan	**-**	(713)
	13,623	4,204
Interim dividend for the year ended 30 June 2011 of 5.5 cents (2010: 7.0 cents) per fully paid share paid on 21 March 2011 (2010: 3 March 2010)		
Fully franked based on tax paid @ 30%	**13,650**	17,319
Total dividends provided for or paid	**27,273**	21,523

(b) Dividends and share reinvestment plan

The Dividend Investment Plan and Share Investment Plan will not operate in respect of the proposed final dividend.

24 Dividends (continued)

	Consolidated	
	2011 $'000	2010 $'000
(c) Dividends not recognised at the end of the reporting period		
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 4.5 cents per fully paid ordinary share (2010: 5.5 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 26 September 2011 out of retained profits at 30 June 2011, but not recognised as a liability at year end, is	**11,189**	13,623

(d) Franked dividends

The franked portions of the final dividends recommended after 30 June 2011 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2012.

	2011 $'000	2010 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2010: 30%)	**32,713**	41,240

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the Company if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the dividend recommended by the Directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of $4,795,000 (2010: $5,838,000).

25 Earnings per share

	Consolidated	
	2011 Cents	2010 Cents
(a) Basic earnings per share		
From (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	**(30.2)**	16.7
From profit from continuing operations before unusual / significant items attributable to the ordinary equity holders of the Company	**10.2**	16.7
(b) Diluted earnings per share		
From (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	**(30.2)**	16.7
From profit before unusual / significant items attributable to the ordinary equity holders of the Company	**10.2**	16.7

25 Earnings per share (continued)

(c) Reconciliations of earnings used in calculating earnings per share

	Consolidated 2011 $'000	Consolidated 2010 $'000
Basic earnings per share		
(Loss) / profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(74,955)	40,188
Diluted earnings per share		
(Loss) / profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	(74,955)	40,188
Basic earnings per share before unusual / significant items		
(Loss) / profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(74,955)	40,188
Adjusted for unusual / significant items:		
Impairment of Orrcon plant and equipment	24,235	-
Impairment of Orrcon inventory	5,127	-
Impairment of Orrcon goodwill	49,590	-
Impairment of Team Poly plant and equipment	1,224	-
Impairment of Team Poly goodwill	16,592	-
Closure costs	3,474	-
Profit attributable to the ordinary equity holders of the Company before unusual / significant items used in calculating basic earnings per share	25,287	40,188

(d) Weighted average number of shares used as the denominator

	Consolidated 2011 Number '000	Consolidated 2010 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	248,171	240,481
Adjustments for calculation of diluted earnings per share:		
Effect of share options on issue	-	523
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	248,171	241,004

26 Share-based payments

In 2010 the Group established the Hills Holdings Limited Long Term Incentive Share Plan (LTIP). The Plan is designed to provide long term incentives to eligible senior employees in the Company and entitles them to acquire shares in the Company, subject to the successful achievement of performance hurdles related to earnings per share (EPS) and total shareholder returns (TSR).

Under the plan, eligible employees are offered Performance Rights, which enables the employee to acquire one fully paid ordinary share in the Company for no monetary consideration, once the Performance Rights vest. The conditions attached to the Performance Rights are measured over the three year period commencing at the beginning of the financial year in which the Performance rights are granted. If the performance conditions at the end of the three year period are met, in whole or in part, all or the relevant percentage of the Performance Rights will vest.

The previous plan, the Executive Share Option Plan (ESOP), which is still operational for employees granted options under that plan, was established in 1997. The share option plan entitled selected senior managers to acquire shares in the Company subject to the successful achievement of performance targets related to improvements in total shareholder returns.

The shares issued pursuant to these options are financed by an interest free loan from the Company repayable within twenty years from the proceeds of dividends declared by the Company. These loans are of a non-recourse nature. For accounting purposes these 20-year loans are treated as part of the options to purchase shares, until the loan is extinguished at which point the shares are recognised.

In relation to the previous financial year ended 30 June 2010, the Board suspended the long term incentive bonus scheme and accordingly no long term incentive bonus was allocated to the Managing Director or senior executives.

Details of Performance Rights and Options under the current and previous scheme are as follows:

Grant date / Exercise date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited / lapsed during the year Number	Balance at end of the year Number
Consolidated - 2011							
Current Plan - LTIP							
April 2011	June 2013	$-	-	209,740	-	-	209,740
Previous Plan - ESOP							
Feb 2001 / Jan 2003	Jan 2023	$2.50	50,000	-	-	-	50,000
Feb 2002 / Jan 2004	Jan 2024	$2.90	53,000	-	-	-	53,000
Feb 2003 / Jan 2005	Jan 2025	$3.23	80,000	-	-	-	80,000
Feb 2004 / Jan 2006	Jan 2026	$3.66	135,000	-	-	(10,000)	125,000
Feb 2005 / Jan 2007	Jan 2027	$4.16	205,000	-	-	(10,000)	195,000
Feb 2008 / Jan 2011	Jan 2031	$5.49	445,000	-	-	(445,000)	-
Feb 2009 / Jan 2012	Jan 2032	$3.01	525,000	-	-	(110,000)	415,000
Total			1,493,000	209,740	-	(575,000)	1,127,740
Weighted average exercise price (Executive Share Option Plan)			$3.96	$-	$-	$4.96	$3.33

26 Share-based payments (continued)

Grant date / Exercise Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited / lapsed during the year Number	Balance at end of the year Number
Consolidated - 2010							
Feb 2001 / Jan 2003	Jan 2023	$2.50	55,000	-	-	(5,000)	50,000
Feb 2002 / Jan 2004	Jan 2024	$2.90	58,000	-	-	(5,000)	53,000
Feb 2003 / Jan 2005	Jan 2025	$3.23	90,000	-	-	(10,000)	80,000
Feb 2004 / Jan 2006	Jan 2026	$3.66	145,000	-	-	(10,000)	135,000
Feb 2005 / Jan 2007	Jan 2027	$4.16	215,000	-	-	(10,000)	205,000
Feb 2008 / Jan 2011	Jan 2031	$5.49	455,000	-	-	(10,000)	445,000
Feb 2009 / Jan 2012	Jan 2032	$3.01	525,000	-	-	-	525,000
Total			1,543,000	-	-	(50,000)	1,493,000
Weighted average exercise price			$3.95	$-	$-	$3.85	$3.96

Details of options outstanding under accounting standards are as follows:

Grant Date	Options granted Number	Outstanding at balance date AIFRS Number	Outstanding at balance date ASX Number
Consolidated - 2011			
February 2001	195,000	50,000	-
February 2002	245,000	53,000	-
February 2003	280,000	80,000	-
February 2004	370,000	125,000	-
February 2005	460,000	195,000	-
February 2008	625,000	-	-
February 2009	535,000	415,000	415,000
Total	2,710,000	918,000	415,000
Consolidated - 2010			
February 2001	195,000	50,000	-
February 2002	245,000	53,000	-
February 2003	280,000	80,000	-
February 2004	370,000	135,000	-
February 2005	460,000	205,000	-
February 2008	625,000	445,000	445,000
February 2009	535,000	525,000	525,000
Total	2,710,000	1,493,000	970,000

26 Share-based payments (continued)

Fair value of Performance Rights granted

The share price used to calculate the number of Performance Rights issued to the Managing Director and Senior Executives was $2.31237, being the volume weighted average price of the Company's shares for the ten trading days commencing on the day after the announcement of the Company's full year financial results for the year ended 30 June 2010.

The fair value assessed in accordance with AASB 2 *Share Based Payment* at grant date of Performance Rights granted during the year ended 30 June 2011 was 90.5 cents per Performance Right. The fair value at grant date is independently determined using a Monte Carlo valuation methodology that takes into account the exercise price, the expected life and vesting period of the Performance Right, the share price at grant date and expected price volatility of the underlying shares, the expected dividend yield, the risk free interest rate for the term of the Performance Rights and the volatility of the ASX 200 Industrials Index.

The model inputs for the valuation of Performance Rights in accordance with AASB 2 *Share Based Payment* for Performance Rights granted during the year ended 30 June 2011 included:

(a) exercise price: $0.00
(b) vesting period: 3 years
(c) grant date (for Accounting Standards): 28 April 2011
(d) expiry date: 30 June 2013
(e) share price at grant date: $1.53
(f) expected price volatility of the Company's shares: 35%
(g) expected dividend yield: 8.7%
(h) risk-free interest rate: 5.01%
(i) volatility of index: 17%

(a) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated	
	2011	2010
	$'000	$'000
Performance Rights / options issued under executive long term incentive plan / share option plan	**53**	49
Shares issued under employee share scheme	**425**	418
	478	467

27 Key management personnel disclosures

(a) Directors

The following persons were Directors of Hills Holdings Limited during the financial year and unless otherwise indicated were Directors for the entire period:

(i) Chairman - non-executive

Jennifer Helen Hill-Ling

(ii) Executive Directors

Graham Lloyd Twartz (Group Managing Director)

(iii) Non-executive Directors

Fiona Rosalyn Vivienne Bennett
Ian Elliot
Roger Baden Flynn
Geoffrey Guild Hill (retired 24 April 2011)
David Moray Spence (appointed 1 September 2010)
Peter William Stancliffe

There were no changes in Directors since the end of the financial year and prior to the date when the financial report is authorised for issue.

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year and unless otherwise indicated were key management personnel for the entire period:

Name	*Position*	*Employer / Division*
L Andrewartha	Managing Director	Orrcon Operations Pty Ltd
S Cope	CEO	Hills Holdings Limited / Electronics and Communications
D Edgecombe	General Manager Business Development (until 1 November 2010)	Hills Holdings Limited
R Gros	Group General Manager (until 4 March 2011)	Hills Holdings Limited / Lifestyle and Sustainability
A Kachellek	Managing Director	Korvest Ltd
D Lethbridge	Company Secretary	Hills Holdings Limited
M McKinstry	Chief Operating Officer (from 6 June 2011)	Hills Holdings Limited
K Middleton	CEO	Fielders Australia Pty Ltd
A Muir	Chief Financial Officer	Hills Holdings Limited
T Sullivan	Group General Manager Strategy (from 11 October 2010)	Hills Holdings Limited

All of the above persons were key management persons during the year ended 30 June 2011, except for T Sullivan, who commenced employment with the Group on 11 October 2010, M McKinstry, who commenced employment with the Group on 6 June 2011, D Edgecombe, who moved to a different position within the Group with effect from 1 November 2010 and R Gros, who resigned from the Group with effect from 4 March 2011.

All of the above persons were also key management persons during the year ended 30 June 2010, except for D Lethbridge, who commenced employment with the Group on 6 January 2010, T Sullivan and M McKinstry.

Since the end of the financial year A Muir resigned from the position of Chief Financial Officer on 7 July 2011 and G Logan was appointed Chief Financial Officer for the Group on 7 July 2011 with effect from 8 August 2011.

27 Key management personnel disclosures (continued)

(c) Key management personnel compensation

The key management personnel (KMP) compensation included in 'personnel expenses' in note 5 is as follows:

	Consolidated 2011 $	Consolidated 2010 $
Short-term employee benefits	**4,335,545**	4,134,474
Post-employment benefits	**345,549**	344,880
Long-term benefits	**74,082**	18,349
Share-based payments	**37,194**	26,095
	4,792,370	4,523,798

Information regarding individual Directors' and Executives' compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 are provided in the Remuneration report on pages 76 to 89.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

(d) Equity instrument disclosures relating to key management personnel

(i) Rights and options provided as remuneration

Details of Rights and options over ordinary shares in the Company provided as remuneration to each key management person of the Group and held, directly, indirectly or beneficially, are set out below. When exercisable, each Right or option is convertible into one ordinary share of the Company. Further information on the Rights and options is set out in note 26 and pages 86 to 91.

Name	Number of Rights granted during the year		Number of Rights / options vested during the year	
	2011	2010	**2011**	2010
Directors of Hills Holdings Limited				
GL Twartz	**118,926**	-	-	60,000
Other key management personnel of the Group				
L Andrewartha	**21,623**	-	-	60,000
S Cope	**21,623**	-	-	-
D Edgecombe	-	-	-	-
R Gros	-	-	-	-
A Kachellek	-	-	-	-
D Lethbridge	**10,811**	-	-	-
M McKinstry	-	-	-	-
K Middleton	**21,623**	-	-	-
A Muir	-	-	-	10,000
T Sullivan	**15,134**	-	-	-

No Rights or options were held by key management person related entities.

(ii) Rights and options provided as remuneration and shares issued on exercise of such Rights / options

Details of rights / options provided as remuneration and shares issued on the exercise of such Rights / options, together with terms and conditions of the Rights / options, can be found in the Remuneration report on pages 79 to 80 and 86 to 89.

(iii) Rights / option holdings

The numbers of Rights / options over ordinary shares in the Company held during the financial year by each Director of the Company and other key management personnel of the Group, including their personally related parties, are set out below.

27 Key management personnel disclosures (continued)

2011 Name	Balance at start of the year	Granted as compen-sation	Exercised	Options lapsed / forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of Hills Holdings Limited							
G Twartz	363,000	118,926	-	(60,000)	421,926	203,000	218,926
Other key management personnel of the Group							
L Andrewatha	180,000	21,623	-	(60,000)	141,623	60,000	81,623
S Cope	120,000	21,623	-	(60,000)	81,623	-	81,623
D Edgecombe	25,000	-	-	(25,000)	-	-	-
R Gros	120,000	-	-	(120,000)	-	-	-
A Kachellek	-	-	-	-	-	-	-
D Lethbridge	-	10,811	-	-	10,811	-	10,811
M McKinstry	-	-	-	-	-	-	-
K Middleton	45,000	21,623	-	(20,000)	46,623	-	46,623
A Muir	105,000	-	-	(25,000)	80,000	20,000	60,000
T Sullivan	-	15,134	-	-	15,134	-	15,134

2010 Name	Balance at start of the year	Granted as compen-sation	Exercised	Options lapsed / forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of Hills Holdings Limited							
G Twartz	363,000	-	-	-	363,000	203,000	160,000
Other key management personnel of the Group							
L Andrewartha	180,000	-	-	-	180,000	60,000	120,000
S Cope	120,000	-	-	-	120,000	-	120,000
D Edgecombe	25,000	-	-	-	25,000	-	25,000
R Gros	120,000	-	-	-	120,000	-	120,000
A Kachellek	-	-	-	-	-	-	-
D Lethbridge	-	-	-	-	-	-	-
K Middleton	45,000	-	-	-	45,000	-	45,000
A Muir	105,000	-	-	-	105,000	20,000	85,000

(iv) Share holdings

The numbers of shares in the Company held during the financial year by each Director of Hills Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation aside from those issued to the Executives as part of the employee share scheme.

The analysis does not include options exercised, as options subject to a non-recourse loan for the purchase of shares are not recognised as exercised by International Financial Reporting Standards, until the loan is extinguished at which point the shares are recognised.

Share disclosures for JH Hill-Ling includes 1,188,918 (2010: 1,188,918) shares owned by Hills Associates & Poplar Pty Ltd (jointly held) and 13,455,689 (2010: 13,455,689) shares owned by Hills Associates Ltd, of which J H Hill-Ling is a Director.

Other changes during the year for JH Hill-Ling are a consequence of JH Hill-Ling ceasing to be one of a number of shareholders in a private company that is a trustee of a trust that holds voting shares in the Company. The transfer of the shares in the private company was part of the finalisation of an estate. There has been no change in the underlying beneficial interest in the ownership of the Company's shares. JH Hill-Ling did not have a beneficial interest in those Company shares.

Other changes during the year for G Hill comprises the removal of the disclosure of his shareholdings in the Company, as G Hill ceased to be a Director of the Company on 24 April 2011.

27 Key management personnel disclosures (continued)

2011 Name	Balance at the start of the year	Granted during reporting year as compensation	Received during the year on the exercise of Rights/options	Other changes during the year	Balance at the end of the year
Directors of Hills Holdings Limited					
Ordinary shares					
J Hill-Ling	16,512,469	-	-	(1,694,798)	14,817,671
G Twartz	9,036	-	-	(4,694)	4,342
F Bennett	4,000	-	-	-	4,000
I Elliot	6,235	-	-	-	6,235
R Flynn	35,665	-	-	-	35,665
G Hill	92,505	-	-	(92,505)	-
P Stancliffe	19,104	-	-	-	19,104
D Spence	-	-	-	19,000	19,000
Other key management personnel of the Group					
Ordinary shares					
L Andrewartha	1,228	519	-	-	1,747
S Cope	459	519	-	-	978
D Edgecombe	2,690	256	-	(2,946)	-
R Gros	4,047	256	-	(4,303)	-
A Kachellek	-	-	-	-	-
D Lethbridge	-	-	-	-	-
M McKinstry	-	-	-	-	-
K Middleton	2,790	519	-	-	3,309
A Muir	4,759	519	-	-	5,278
T Sullivan	-	-	-	-	-

2010 Name	Balance at the start of the year	Granted during reporting year as compensation	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Hills Holdings Limited					
Ordinary shares					
J Hill-Ling	16,343,161	-	-	169,308	16,512,469
G Twartz	8,486	459	-	91	9,036
F Bennett	-	-	-	4,000	4,000
I Elliot	4,449	-	-	1,786	6,235
R Flynn	31,740	-	-	3,925	35,665
G Hill	87,953	-	-	4,552	92,505
P Stancliffe	17,115	-	-	1,989	19,104
Other key management personnel of the Group					
Ordinary shares					
L Andrewartha	411	459	-	358	1,228
S Cope	-	459	-	-	459
D Edgecombe	421	459	-	1,810	2,690
R Gros	1,802	459	-	1,786	4,047
A Kachellek	-	-	-	-	-
D Lethbridge	-	-	-	-	-
K Middleton	520	459	-	1,811	2,790
A Muir	2,514	459	-	1,786	4,759

(e) Loans to key management personnel

There were no loans outstanding at the reporting date to key management personnel and their related parties. Option loans are not recognised as loans as they are included in the fair value of the options as required by IFRS.

27 Key management personnel disclosures (continued)

(f) Other transactions with key management personnel

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

There were no other transactions during the financial year with key management personnel and their related parties.

There were no amounts receivable from or payable to key management personnel at reporting date arising from these transactions (2010: $nil).

From time to time, key management personnel of the Company or its controlled entities, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

28 Related party transactions

(a) Parent entities

The parent entity within the Group and the ultimate parent entity is Hills Holdings Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 33.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 27.

(d) Transactions with other related parties

The following transactions occurred with related parties:

Subsidiaries

All transactions with partly owned controlled entities are on normal commercial terms and conditions. Transactions with controlled entities are determined on a cost basis.

Sales of goods and services within the Group, that eliminated with cost of goods sold and services provided amounted to $27,755,000 (2010: $24,719,000).

Loans and borrowings with Australian wholly owned controlled entities are interest free and payable on demand while loans to or from non-wholly owned subsidiaries are charged interest at rates no more favourable than current market rates. Inter entity interest paid and received during the year was $431,000 (2010: $2,681,000).

Entities within the Group rent properties to or from other entities within the Group at rentals that are market related. Property rentals within the Group during the year were $2,234,000 (2010: $2,223,000).

Group entities charge an administration fee for services rendered which during the year was $11,967,000 (2010: $10,451,000).

Inter entity dividends paid and received during the year amounted to $13,236,000 (2010: $15,502,000).

Key management persons related parties

For details of these transactions refer to key management personnel related disclosures in note 27.

Other related parties

Contributions to superannuation funds on behalf of employees are disclosed in note 5.

28 Related party transactions (continued)

(e) Loans to/from related parties

Subsidiaries

Group entity trading transactions and borrowings result in balances arising in respect of current and non-current assets and liabilities. At 30 June 2011 the Group current assets and liabilities that were eliminated were $258,907,000 (2010: $272,047,000) and the Group non-current assets and liabilities that were eliminated were $426,000 (2010: $441,000).

Other related parties

Loans (from) / to associated entities amounted to ($993,000) (2010: ($134,000)).

29 Contingent liabilities

(a) Contingent liabilities

The Group had contingent liabilities at 30 June 2011 in respect of:

(i) Claims

Responding to a request from the Environmental Protection Authority, the extent of groundwater contamination potentially originating from the Company's former Edwardstown site is being assessed by the Company. The Company has provided for the anticipated cost of ongoing assessment. At this time the possibility of or cost of potential claims is unknown and no provision has been made.

(ii) Guarantees

(a) Letters of credit established in favour of suppliers / creditors amounting to $10,439,000 (2010: $6,831,000).

(b) Bank guarantees in favour of customers and suppliers amounting to $19,302,000 (2010: $18,557,000).

The Group has various commercial legal claims common to businesses of its type which constitute contingent liabilities, no one of which is material to Hills' financial position.

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required.

(b) Contingent assets

There are no contingent assets where the probability of future receipts is not considered remote.

30 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of each reporting period but not recognised as liabilities is as follows:

	Consolidated	
	2011	2010
	$'000	$'000
Property, plant and equipment		
Payable:		
Within one year	**12,938**	9,129

(b) Lease commitments: Group as lessee

The Group leases a number of warehouse and factory facilities under operating leases.

The leases run for a period ranging from 1 to 15 years with the majority running for a period of 5 years, with an option to renew the lease after that date. Lease payments are increased each renewal period to reflect market rentals. Some leases provide for additional rent payments that are based on changes in the consumer price index, local capital city consumer price indices or a fixed percentage.

30 Commitments (continued)

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Consolidated	
	2011	2010
	$'000	$'000
Within one year	**25,557**	22,408
Later than one year but not later than five years	**61,249**	55,904
Later than five years	**37,429**	32,096
	124,235	110,408

(c) Lease commitments: where a Group company is the lessor

The future minimum lease payments receivable under non cancellable operating leases are as follows:

	Consolidated	
	2011	2010
	$'000	$'000
Within one year	**143**	944
Later than one year and not later than five years	**-**	157
	143	1,101

31 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for risk minimisation purposes, ie not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

Risk management is carried out by a central treasury department (Treasury) under policies approved by the Board of Directors. Treasury identifies, evaluates and minimises financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Group holds the following financial instruments:

	Consolidated	
	2011	2010
	$'000	$'000
Financial assets		
Cash and cash equivalents	**7,158**	56,915
Trade and other receivables	**184,042**	186,002
Derivative financial instruments	**-**	800
Investments	**2**	2
	191,202	243,719
Financial liabilities		
Trade and other payables	**98,671**	128,048
Borrowings	**98,312**	107,068
Derivative financial instruments	**2,576**	2,944
	199,559	238,060

31 Financial risk management (continued)

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in a currency that is not the Group's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Management and Group Treasury manage the Group's foreign exchange risk against their functional currency. The companies and business units within the Group are required to hedge their foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities using forward contracts transacted by Group Treasury.

The Group Treasury's risk management policy is to hedge approximately three months of anticipated cash flows (mainly purchases of inventory) in US dollars.

The Group's exposure to foreign currency risk at the reporting date, was as follows:

	30 June 2011				30 June 2010			
	USD $'000	**NZD $'000**	**euro '000**	**JPY '000**	USD $'000	NZD $'000	euro '000	JPY '000
Trade receivables	**1,052**	**5,699**	-	-	933	6,509	-	-
Cash at bank	**35**	**3**	-	-	30	-	-	-
Bank loans	-	**(1,958)**	-	-	-	(1,704)	-	-
Trade payables	**(12,933)**	**(3,080)**	**(103)**	**(66,574)**	(4,398)	(1,904)	(80)	(2,350)
Forward exchange contracts - buy foreign currency (cash flow hedges)	**(31,514)**	-	-	-	(29,460)	-	-	-
Forward exchange contracts - buy foreign currency (FVTPL)	**(1,096)**	-	-	-	(875)	-	-	-

Group sensitivity

Based on the financial instruments held at 30 June 2011, had the Australian dollar weakened / strengthened by 10% against other currencies with all other variables held constant, the Group's pre-tax profit for the year would have been $1,130,000 lower / $918,000 higher (2010: $13,000 higher/$5,000 lower), mainly as a result of foreign exchange gains / losses on translation of US dollar denominated financial assets and liabilities as detailed in the above table. Profit is more sensitive to movements in the Australian dollar / US dollar exchange rates in 2011 than 2010 because of the increased amount of US dollar denominated trade creditors.

Other components of equity would have been $2,856,000 higher / $3,077,000 lower (2010: $3,813,000 higher / $3,125,000 lower) had the Australian dollar weakened / strengthened by 10% against the US dollar, arising from forward foreign exchange contracts designated as cash flow hedges.

(ii) Price risk

The Group has no material financial exposure to other market price risk as it is not exposed to equity securities price risk. The Group does not enter into commodity contracts other than to meet the Group's expected usage requirements.

(iii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Group policy is to maintain approximately 50% to 75% of its borrowings at fixed rate using interest rate swaps to achieve this when necessary. During 2011 and 2010, the Group's borrowings at variable rate were denominated in Australian Dollars and NZ Dollars.

31 Financial risk management (continued)

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

At the end of the reporting period the interest rate profile of the Group's variable rate borrowings and interest rate swap contracts was:

	30 June 2011		30 June 2010	
Consolidated	**Weighted average interest rate %**	**Balance $'000**	Weighted average interest rate %	Balance $'000
Bank overdrafts and bank loans	**5.3%**	**(96,512)**	4.8%	(106,384)
Cash and cash equivalents	**4.3%**	**7,158**	4.4%	56,915
Other loans	**3.9%**	**(1,281)**	- %	-
Interest rate swaps (notional principal amount)	**6.2%**	**75,000**	6.2%	105,000

An analysis by maturities is provided in (c) below.

Sensitivity

At 30 June 2011, if interest rates had increased by 100 or decreased by 100 basis points from the year end rates with all other variables held constant, pre-tax profit for the year would have been $946,000 higher / $1,839,000 lower (2010: $547,000 higher / $1,064,000 lower), mainly as a result of higher / lower interest income from cash and cash equivalents and higher / lower interest expense from borrowings. Other components of equity would have been $1,733,000 higher / $909,000 lower (2010: $2,466,000 higher / $2,064,000 lower) mainly as a result of a decrease in the fair value of the cash flow hedges of borrowings.

(iv) Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk.

Consolidated		Interest rate risk				Foreign exchange risk			
		-100bps		+100bps		-10%		+10%	
30 June 2011	Amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial assets									
Cash and cash equivalents	7,158	19	-	(19)	-	5	-	(4)	-
Trade and other receivables	184,042	-	-	-	-	599	-	(490)	-
Total increase/(decrease) in financial assets		19	-	(19)	-	604	-	(494)	-
Financial liabilities									
Derivatives - cash flow hedges	(2,474)	(931)	(909)	38	1,733	(1)	2,856	(6)	(3,077)
Derivatives - fair value through profit or loss	(102)	-	-	-	-	158	-	(129)	-
Trade and other payables	(98,671)	-	-	-	-	(1,723)	-	1,410	-
Borrowings	(98,312)	(927)	-	927	-	(168)	-	137	-
Total increase/(decrease) in financial liabilities		(1,858)	(909)	965	1,733	(1,734)	2,856	1,412	(3,077)
Total increase/ (decrease)		(1,839)	(909)	946	1,733	(1,130)	2,856	918	(3,077)

31 Financial risk management (continued)

Consolidated		Interest rate risk				Foreign exchange risk			
		-100bps		+100bps		-10%		+10%	
30 June 2010	Amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial assets									
Cash and cash equivalents	56,915	569	-	(569)	-	4	-	(3)	-
Trade and other receivables	186,002	-	-	-	-	709	-	(580)	-
Derivatives - cash flow hedges	800	-	-	-	-	16	3,813	(8)	(3,125)
Total increase/(decrease) in financial assets		569	-	(569)	-	729	3,813	(591)	(3,125)
Financial liabilities									
Derivatives - cash flow hedges	(2,932)	(569)	(2,064)	52	2,466	-	-	-	-
Derivatives - fair value through profit or loss	(12)	-	-	-	-	201	-	(164)	-
Trade and other payables	(128,048)	-	-	-	-	(763)	-	624	-
Borrowings	(107,068)	(1,064)	-	1,064	-	(154)	-	126	-
Total increase/(decrease) in financial liabilities		(1,633)	(2,064)	1,116	2,466	(716)	-	586	-
Total increase/ (decrease)		(1,064)	(2,064)	547	2,466	13	3,813	(5)	(3,125)

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, favourable derivative financial instruments as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings and trade references. Purchase limits are established for each customer, which represent the maximum open amount without requiring further approval. These limits are reviewed monthly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or incorporated legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

In most cases goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a priority claim. Depending upon the Group's assessment of industry or company risk, the Group requires personal guarantees from customer company directors and charging clauses over real property.

The Group has established an allowance for impairment that represents the estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The ageing of the Group's trade receivables is analysed in note 8.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to the dynamic and diversified nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

31 Financial risk management (continued)

The Group has multi option financing facilities totalling $225,000,000 (2010: $225,000,000) of which $65,000,000 has been approved until 30 June 2013, a further $80,000,000 has been approved until 30 July 2013 and the remainder of the facility has been approved until 30 November 2013. For more information please refer to note 20 (bank loans and standby letters of credit).

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities including derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the reporting date.

Contractual maturities of financial liabilities	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contract-ual cash flows	Carrying Amount (assets)/ liabilities
Consolidated - at 30 June 2011	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Non-derivatives							
Non-interest bearing	98,671	-	-	-	519	99,190	99,190
Variable rate	8,935	2,256	48,781	45,188	-	105,160	96,512
Fixed rate	620	212	425	177	-	1,434	1,281
Total non-derivatives	108,226	2,468	49,206	45,365	519	205,784	196,983
Derivatives							
Net settled (interest rate swaps and forward exchange contracts)	781	343	624	463	-	2,211	2,576
Consolidated - at 30 June 2010							
Non-derivatives							
Non-interest bearing	128,048	-	-	-	684	128,732	128,732
Variable rate	3,905	2,491	64,982	46,027	-	117,405	106,384
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	131,953	2,491	64,982	46,027	684	246,137	235,116
Derivatives							
Net settled (interest rate swaps and forward exchange contracts)	(143)	595	851	1,300	(47)	2,556	2,144

(d) Fair value measurements

Fair value measurement hierarchy

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
(b) Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
(c) Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2011 and 30 June 2010.

31 Financial risk management (continued)

At 30 June 2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Derivatives used for hedging	-	-	-	-
Total assets	-	-	-	-
Liabilities				
Derivatives used for hedging	-	2,576	-	2,576
Total liabilities	-	2,576	-	2,576

At 30 June 2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Derivatives used for hedging	-	800	-	800
Total assets	-	800	-	800
Liabilities				
Derivatives used for hedging	-	2,944	-	2,944
Total liabilities	-	2,944	-	2,944

The fair value of financial instruments that are not traded in an active market (for example derivatives used for hedging) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. All significant inputs required to fair value derivatives used for hedging are observable, and hence the instruments are included in level 2.

The carrying amounts of cash and cash equivalents, trade receivables and trade payables are assumed to approximate their fair values due to their short term nature. The fair value of borrowings approximates their carrying amount, as the impact of discounting is not significant.

32 Business combination

Current period

There were no acquisitions of subsidiaries or business operations in the current reporting period.

Prior period

(a) Summary of acquisition

On 31 May 2010 the Group acquired certain assets of the operations of The Steel Barn Pty Ltd in Queensland.

Details of the purchase consideration and the net assets and liabilities acquired are as follows:

32 Business combination (continued)

	$'000
Purchase consideration	
Cash paid	3,558
Total purchase consideration	3,558
Fair value of net identifiable assets acquired (refer to (b) below)	3,558
Goodwill	-

(b) Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $'000
Inventories	2,359
Property, plant and equipment	1,463
Other assets	12
Provision for employee benefits	(276)
Net identifiable assets acquired	3,558
Add: goodwill	-
Net assets acquired	3,558

(c) Purchase consideration - cash outflow

	Consolidated	
	2011 $'000	2010 $'000
Outflow of cash to acquire business operation:		
Cash consideration	-	3,558
Direct costs relating to acquisition	-	395
Outflow of cash - investing activities	-	3,953

Acquisition-related costs

Acquisition-related costs of $395,000 are included in expenses in profit or loss and in investing cash flows in the statement of cash flows.

33 Subsidiaries

(a) Investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c).

Name of entity	Country of incorporation	Class of shares	Equity holding 2011 %	Equity holding 2010 %
Hills Finance Pty Ltd	Australia	Ordinary	**100**	100
Hills Industries NZ Limited	New Zealand	Ordinary	**100**	100
Korvest Limited (i) (note (b))	Australia	Ordinary	**49**	46
Hills Hoists Pty Ltd	Australia	Ordinary	**100**	100
Bailey Aluminium Products Pty Ltd	Australia	Ordinary	**100**	100
Hills Industries Pty Ltd (formerly Triton Manufacturing & Design Co Pty Ltd)	Australia	Ordinary	**100**	100
ACN 089 622 622 Pty Ltd (formerly Triton Workshop Systems (UK) Pty Ltd)	Registered branch in United Kingdom	Ordinary	**100**	100
Woodroffe Industries Pty Ltd	Australia	Ordinary	**100**	100
Fielders Australia Pty Ltd	Australia	Ordinary	**100**	100
Fielders Mobile Mill Pty Ltd	Australia	Ordinary	**100**	100
Zen 99 Pty Ltd	Australia	Ordinary	**100**	100
Orrcon Holdings Pty Ltd	Australia	Ordinary	**100**	100
Orrcon Operations Pty Ltd	Australia	Ordinary	**100**	100
Orrcon Tubing Pty Ltd	Australia	Ordinary	**100**	100
Access Television Services Pty Ltd	Australia	Ordinary	**100**	100
Techlife Solutions Pty Ltd (shelved)	Australia	Ordinary	**100**	100
Audio Telex Communications Pty Ltd	Australia	Ordinary	**100**	100
Crestron Control Solutions Pty Ltd	Australia	Ordinary	**100**	100
Team Poly Pty Ltd	Australia	Ordinary	**100**	100
KDB Engineering Pty Ltd	Australia	Ordinary	**100**	100
Kerry Equipment (Aust) Pty Ltd	Australia	Ordinary	**100**	100
Step Electronics 2005 Pty Ltd (i)	Australia	Ordinary	**50**	50
Greenwattle Investments Pty Ltd	Australia	Ordinary	**100**	100
Access Scaffolding (Aust) Pty Ltd	Australia	Ordinary	**100**	100
Greenwattle Equipment Pty Ltd	Australia	Ordinary	**100**	100
ACN 095 224 034 Pty Ltd (formerly Alquip (Holdings) Pty Ltd)	Australia	Ordinary	**100**	100
ACN 009 696 084 Pty Ltd (formerly Alquip Pty Ltd)	Australia	Ordinary	**100**	100
Pathfinder (Edwardstown) Pte Ltd (liquidated)	Singapore	Ordinary	**-**	100
Hills Nominees Pty Ltd	Australia	Ordinary	**100**	100
DAS Security Wholesalers Pty Ltd	Australia	Ordinary	**100**	100
Pacific Communications (PACOM) Pty Ltd	Australia	Ordinary	**100**	100
Pacom Security Pty Ltd	Australia	Ordinary	**100**	100
CBS Hardware Pty Ltd	Australia	Ordinary	**100**	100
Step Electronics Pty Ltd	Australia	Ordinary	**100**	100
OptiComm Co Pty Ltd (i)	Australia	Ordinary	**50**	50
UHS Systems Pty Ltd	Australia	Ordinary	**51**	51
UHS Pty Ltd	Australia	Ordinary	**100**	100
Cygnus Satellite Pty Ltd (i)	Australia	Ordinary	**50**	50

Names inset indicate shares held by the company immediately above the inset.

(i) These companies are controlled by virtue of the Company's control of the company's Board through the chairman's casting vote, effective management of the company and exposure to the risks and benefits of ownership, or control of voting rights through the dilution of the minority shareholders.

33 Subsidiaries (continued)

(b) Transactions with non-controlling interests

On 23 August 2010, the Group increased its shareholding in Korvest Ltd from 45.9% to 48.8% through an on market acquisition of 250,000 shares at $4.56. The total consideration paid was $1.143 million.

In the previous financial year, on 16 November 2009, the Group increased its shareholding in Fielders Australia Pty Ltd from 60% to 74.9% through a rights issue and conversion of debt to equity. The consideration paid was $19.955 million. On 6 April 2010 the Group acquired the remaining 25.1% of Fielders Australia Pty Ltd by way of a $10.0 million selective share buy back.

	2011 $'000	2010 $'000
Carrying amount of non-controlling interests acquired	**811**	11,551
Consideration paid to non-controlling interests	**(1,143)**	(10,000)
Excess consideration paid recognised in the transactions with non-controlling interests reserve within equity	**(332)**	1,551

34 Parent entity financial information

(a) Summary financial information

The individual financial statements for the Company show the following aggregate amounts:

	Company 2011 $'000	Company 2010 $'000
Statement of financial position		
Current assets	**340,124**	359,661
Non-current assets	**272,425**	260,983
Total assets	**612,549**	620,644
Current liabilities	**137,846**	142,551
Non-current liabilities	**98,641**	113,480
Total liabilities	**236,487**	256,031
Shareholders' equity		
Contributed equity	**306,790**	306,595
Reserves		
Asset revaluation reserve	**45,034**	37,517
Hedging reserve - cash flow hedges	**(1,303)**	(265)
Asset realisation reserve	**1,855**	1,855
Equity compensation reserve	**620**	592
Retained earnings	**23,066**	18,319
Total shareholder's equity	**376,062**	364,613
Profit for the year	**32,020**	32,711
Total comprehensive income	**38,497**	32,216

34 Parent entity financial information (continued)

(b) Guarantees entered into by the Company

Bank guarantees given by the Company in favour of customers and suppliers amounted to $8,723,000 (2010: 7,486,000).

Cross guarantees are given by the Company and its wholly owned subsidiaries as described in note 35. Under the terms of the Deed of Cross Guarantee the Company and its wholly owned subsidiaries have guaranteed the debt in each other's companies. Guarantees amount to $260,277,000 (2010: $289,252,000). No material deficiency in net tangible assets exists in these companies at reporting date with net tangible assets amounting to $296,171,000 (2010: $329,736,000).

(c) Contingent liabilities of the Company

The parent entity had a contingent liability in respect of claims, as disclosed in note 29. For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2011, the Company had contractual commitments for the acquisition of property, plant and equipment totalling $8,479,000 (2010: $1,530,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

35 Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Director's reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

Hills Finance Pty Ltd

Hills Hoists Pty Ltd

Bailey Aluminium Products Pty Ltd

KDB Engineering Pty Ltd

Kerry Equipment (Aust) Pty Ltd

Woodroffe Industries Pty Ltd

Hills Industries Pty Ltd (Formerly Triton Manufacturing & Design Co Pty Ltd)

Orrcon Operations Pty Ltd

Orrcon Holdings Pty Ltd

Greenwattle Investments Pty Ltd (Alquip)

Audio Telex Communications Pty Ltd

Team Poly Pty Ltd

Fielders Australia Pty Ltd

Access Television Services Pty Ltd

All of the subsidiaries except KDB Engineering Pty Ltd, Kerry Equipment (Aust) Pty Ltd, Orrcon Operations Pty Ltd, Orrcon Holdings Pty Ltd, Greenwattle Investments Pty Ltd, Audio Telex Communications Pty Ltd, Team Poly Pty Ltd, Fielders Australia Pty Ltd and Access Television Services Pty Ltd became a party to the deed on 15 April 2004 by virtue of a Deed of Assumption.

35 Deed of cross guarantee (continued)

KDB Engineering Pty Ltd, Kerry Equipment (Aust) Pty Ltd, Orrcon Holdings Pty Ltd and Orrcon Operations Pty Ltd became parties to the deed on 23 June 2006, by virtue of a Deed of Assumption. Greenwattle Investments Pty Ltd (Alquip) and Audio Telex Communications Pty Ltd became parties to the deed on 25 June 2007. Team Poly Pty Ltd became a party to the deed on 14 May 2008. Fielders Australia Pty Ltd and Access Television Services Pty Ltd became parties to the deed on 29 June 2010.

Hills Holdings Limited is the Holding Company and Pacom Security Pty Ltd is the Trustee under the Deed.

The above companies represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Hills Holdings Limited, they also represent the 'extended closed group'.

Set out below is a consolidated income statement, a consolidated statement of comprehensive income, a summary of movements in consolidated retained earnings for the year ended 30 June 2011 and a consolidated statement of financial position as at 30 June 2011 of the Company and controlled entities that are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee.

(a) Consolidated income statement, consolidated statement of comprehensive income and summary of movements in consolidated retained earnings

	2011 $'000	2010 $'000
Consolidated income statement		
Revenue from continuing operations	**993,991**	1,062,568
Other income	**2,873**	1,217
Finance costs	**(3,964)**	(3,566)
Other expenses	**(1,074,017)**	(1,003,351)
(Loss)/profit before income tax	**(81,117)**	56,868
Income tax benefit / (expense)	**7,543**	(15,726)
(Loss)/profit for the year	**(73,574)**	41,142
Consolidated statement of comprehensive income		
(Loss)/profit for the year	**(73,574)**	41,142
Other comprehensive income		
Gain on revaluation of land and buildings	**12,250**	-
Changes in the fair value of cash flow hedges	**(1,484)**	(707)
Income tax relating to components of other comprehensive income	**(3,230)**	212
Other comprehensive income/(loss) for the year, net of tax	**7,536**	(495)
Total comprehensive (loss)/income for the year	**(66,038)**	40,647
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**101,403**	64,954
(Loss)/profit for the year	**(73,574)**	40,044
Transfers to and from reserves	**(533)**	-
Adjustment to retained profits at the beginning of the year on inclusion of additional companies in the Class Order	**-**	17,928
Dividends provided for or paid	**(27,273)**	(21,523)
Retained earnings at the end of the financial year	**23**	101,403

35 Deed of cross guarantee (continued)

(b) Consolidated statement of financial position

	2011 $'000	2010 $'000
Current assets		
Cash and cash equivalents	**2,669**	51,476
Trade and other receivables	**210,750**	191,943
Inventories	**154,093**	165,982
Derivative financial instruments	**-**	800
Total current assets	**367,512**	410,201
Non-current assets		
Investments	**12,453**	11,140
Property, plant and equipment	**174,009**	195,515
Deferred tax assets	**33,322**	25,443
Intangible assets	**32,503**	99,561
Total non-current assets	**252,287**	331,659
Total assets	**619,799**	741,860
Current liabilities		
Trade and other payables	**118,040**	125,674
Borrowings	**13,467**	8,191
Current tax liabilities	**104**	9,917
Provisions	**29,023**	31,151
Derivative financial instruments	**418**	250
Total current liabilities	**161,052**	175,183
Non-current liabilities		
Borrowings	**91,458**	105,663
Provisions	**5,711**	5,724
Derivative financial instruments	**2,056**	2,682
Total non-current liabilities	**99,225**	114,069
Total liabilities	**260,277**	289,252
Net assets	**359,522**	452,608
Equity		
Contributed equity	**306,790**	306,595
Reserves	**52,709**	44,610
Retained earnings	**23**	101,403
Total equity	**359,522**	452,608

36 Reconciliation of (loss)/profit after income tax to net cash inflow from operating activities

	Consolidated	
	2011	2010
	$'000	$'000
(Loss)/profit for the year	**(73,116)**	43,095
Depreciation and amortisation	**23,079**	23,913
Impairment of goodwill	**66,182**	-
Acquisition costs relating to business operations acquired	**-**	395
Non-cash employee benefits expense - share-based payments	**478**	467
Net (gain) loss on sale of non-current assets	**(106)**	(179)
Fair value (gain) loss on derivatives	**(1,054)**	(8,471)
Foreign currency translation reserve recycled through profit or loss on disposal of subsidiary	**(27)**	49
Impairment of trade receivables	**1,635**	3,336
Impairment of inventories	**3,783**	3,836
Impairment of property, plant and equipment	**37,210**	1,680
Rent received	**(860)**	(864)
Amounts set aside to provisions	**13,726**	16,833
Change in operating assets and liabilities, net of effects from purchase of controlled entities and business operations:		
(Increase)/decrease in trade and other receivables	**(103)**	8,059
Decrease in inventories	**9,508**	13,670
(Increase)/decrease in deferred tax assets	**(10,884)**	2,289
(Decrease)/increase in trade and other creditors	**(29,648)**	7,053
(Decrease)/increase in provision for income taxes payable	**(10,883)**	2,944
(Decrease) in other provisions	**(15,940)**	(16,557)
Net cash inflow from operating activities	**12,980**	101,548

37 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

	Consolidated	
	2011	2010
	$	$
(a) Audit services		
KPMG Australia:		
Audit and review of financial reports	**488,500**	450,000
Overseas KPMG Firms:		
Audit and review of financial reports	**31,768**	31,905
Total remuneration for audit and other assurance services	**520,268**	481,905
(b) Non-audit services		
Taxation services		
KPMG Australia:		
Taxation and other services	**113,838**	126,354
Overseas KPMG Firms:		
Taxation services	**26,824**	10,542
Total remuneration for non-audit services	**140,662**	136,896

38 Events occurring after the reporting period

On 23 August 2011 the Company announced an on-market buy-back which will give Hills the option to acquire up to 10% of its issued ordinary shares. The buy-back is for ongoing capital management purposes and will take place over the twelve months from the date of the announcement.

Apart from the matter noted above, no other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Directors' report

The Directors present their report on the consolidated entity (referred to hereafter as the Group or Hills) consisting of Hills Holdings Limited (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2011, and the independent auditor's report thereon.

Directors

The following persons were Directors of the Company during the whole of the financial year and up to the date of this report:

Jennifer Helen Hill-Ling
Graham Lloyd Twartz
Ian Elliot
Roger Baden Flynn
Peter William Stancliffe
Fiona Rosalyn Vivienne Bennett

David Moray Spence was appointed as a Director on 1 September 2010 and continues in office at the date of this report.

Geoffrey Guild Hill was a Director from the beginning of the financial year until his retirement on 24 April 2011.

Review of operations

Overview

The Hills Group of companies achieved an underlying profit after tax before unusual/significant items from ordinary activities attributable to shareholders of $25.287 million, which was a 37.1% decline compared to the previous year's results. After recording a number of unusual impairment losses, comprising the impairment of goodwill and certain assets of Orrcon Steel and Team Poly, the loss after tax attributable to members was $74.955 million. A reconciliation of underlying profit to the reported loss after tax attributable to members is provided in note 25 to the financial statements.

The year in review

Despite generally satisfactory performances from many of the Hills business units, in particular those in the Lifestyle & Sustainability and Electronics & Communications divisions, very poor trading conditions in the building, construction and steel markets, and to a lesser extent, the DGTEC consumer electronics and Team Poly businesses, saw the Company produce a lower profit from ordinary activities before unusual / significant items this year. These unusual / significant items are discussed later in this report. As a result of this reduced profit the full year dividend of 10.0 cents per share fully franked was lower than the prior year by 2.5 cents per share. The Directors resolved to increase the percentage of the earnings of the Company to be paid as dividends to the top end of the targeted range, which is between 50% and 100% of profits. Whilst debt levels were increased during the year, the balance sheet remains conservatively geared with debt to equity at balance date of 22.7%.

There were a number of highlights during the period, including:

- the introduction of a number of new products during the year in Hills' Electronics & Communications Division;
- the launch of a number of new products during the year in the traditional home hardware businesses, including a new range of clotheslines and ladders;
- increased profitability from Hills Electronic Security;
- the successful completion by OptiComm of projects in the fibre market that were undertaken with the National Broadband Network in Tasmania, the new Westfield property in Sydney and a record number of new greenfields project signings;
- gaining further contracts to provide digital television services under a Federal Government program in South Australia, Victoria and Queensland;
- the launch of Cygnus Satellite, a joint venture business which provides bandwidth to remote locations, including the mining sector; and
- an increase in Hills SVL's share of the sound vision and lighting markets.

Group strategy

The Company's strategy is to consistently grow shareholder value over time by investing in businesses that deliver superior service and/or innovative products and which are exposed to high growth markets.

This approach is built on a commitment to diversification in order to mitigate the impacts of short term changes to individual markets and economies.

Review of operations (continued)
Unusual items

As a result of the well publicised difficulties in the Australian steel industry and in the market for rain water tanks, the Directors have booked impairment write downs of $100.242 million after tax.

Orrcon Steel

As a result of losses incurred by Orrcon during the year and the increasing market share held by imports, the Directors reviewed the carrying value of the Orrcon business in line with accounting standards and announced a non-cash impairment of goodwill after tax of $49.590 million.

In addition, as a result of a deteriorating market for the pipeline industry, it was decided to close the large pipe and tube manufacturing business of Orrcon Steel at Unanderra. This closure was announced in May 2011 and resulted in non-operating costs of $30.0 million after tax, including after tax cash costs of $3.5 million.

Team Poly

Trading conditions in the water tank market continued to be depressed during the period as a result of above average rainfall across much of Australia and the continued lack of Government subsidies.

There have been a number of insolvencies of water tank manufacturers and although management have continued to implement a number of profit improvement initiatives, which are expected to deliver profits in the future, the Directors reviewed the carrying value of the Team Poly business and announced a non-cash impairment of goodwill and fixed assets of $17.816 million after tax.

Vision and values

Hills is a diversified company operating mainly in Australia and New Zealand. The Company's aim is to be recognised as a superior investment by delivering a portfolio of profitable and growing businesses. The Company's values can be summarised as follows:

- Hills cares about its people, its customers and the environment;
- Hills is in many businesses but comes together as one team;
- Innovation is Hills past, present and future – the lifeblood of the company;
- Hills invests the best of its time and talent to deliver on its promises.

Funding

Hills net debt at 30 June 2011 was $91.2 million. Gearing, measured as debt to equity, stood at 22.7% at the end of the period. Hills bank facilities have been extended such that the earliest date for review of any of the debt facilities is June 2013. Hills continues to comfortably meet all of its banking covenants.

Dividends

The Directors have announced an annual dividend of 10.0 cents per share. This dividend is fully franked and comprised an interim dividend of 5.5 cents per share paid in March 2011 and a final dividend of 4.5 cents per share to be paid in September 2011. This represents a payout ratio of slightly under 100% for the year.

Given Hills strong balance sheet position, the Dividend Reinvestment Plans have remained suspended for both the interim and final dividends.

On market share buy-back

Given Hills' low levels of debt and the current share price at below net asset backing, the Board resolved to undertake an on market buy-back of its issued shares. The announcement of the buy back gives Hills the option to acquire up to 10% of the issued Hills shares and will be earnings per share accretive and will not affect Hills' existing dividend policy.

Review of operations (continued)

Likely developments

While future trading conditions are forecast to remain difficult in many of the markets in which Hills operates in Australia and New Zealand, Hills' strategy remains focused on growth sectors and investing in the Electronics & Communications Divison and those profitable businesses in the Lifestyle & Sustainability Division. The Group is currently evaluating a number of potential acquisitions, focussing on high growth markets.

Hills has implemented a number of overhead reduction initiatives to reflect the current demand for its products and services to improve performance.

The outlook for the commercial building and the steel industry remains subdued and increased competition from imports continues across those sectors.

In view of the above, and the current market volatility, the Company is unable at this time to provide specific profit guidance for the year ending 30 June 2012.

The recent appointments of Mike McKinstry as Chief Operating Officer and Grant Logan as Chief Financial Officer have strengthened the Company's senior management team, and will enable the Company to apply the resources and focus to the implementation of its strategic plans and restructuring initiatives.

Electronics & Communications

The Electronics & Communications division comprises Hills Electronic Security, Hills Antenna & TV Systems, Hills Signalmaster, Hills Sound, Vision and Lighting, Access Television Services, Techlife, Step Electronics, UHS, OptiComm and Cygnus Satellite. The Division continues to produce the highest profit margins and return on assets employed within any of the Hills divisions. Revenue of $317.4 million was 9.2% below the previous year while the EBIT of $28.0 million was 13.8% below 2010.

Hills Electronic Security

- Hills Electronic Security comprises the market leading business operations of Pacific Communications, Direct Alarm Supplies and Ultra High Speed. Demand for security products remained at acceptable levels, although with the strength of the Australian dollar, selling prices continued to decrease across the period. This business unit markets an extensive range of electronic security products, ranging from simple domestic alarms to complex integrated surveillance and access control systems.

- Although the level of large project work remained subdued, the business continued to release a range of new products made specifically for the Australian and New Zealand markets and has delivered an improved result for the year despite a lower profit from UHS as a result of poor export sales to the UK.

Hills Antenna & TV Systems

- Hills Antenna & TV Systems business unit provides a full range of reception and distribution equipment for subscription television, free-to-air television, the wireless voice and data market and DGTEC consumer electronic equipment.
- Demand from the subscription television and free-to-air television markets was good during the period. Furthermore, the business continues to look for opportunities as a result of the Australian Federal Government's decision to progressively shut down the analogue television signal.
- In the previous year, the DGTEC range of consumer electronics experienced good growth and contributed to profit. The appreciation in the Australian dollar, price deflation and fierce competition adversely affected the DGTEC business during the year. As a result, this business produced a loss of $3.4 million (before tax). The business and its product range have been restructured to ensure that these losses are not repeated.

Access Television Services

- Access Television Services (ATS) in Australia and Signalmaster in New Zealand provide subscription television installation services to AUSTAR and SkyTV respectively. Demand from subscription television providers, in particular AUSTAR, was strong in the second half. The Techlife Solutions business has been successful in winning further contracts to provide installation services to non-subscription television providers.
- Of particular note was the successful conclusion to the Mildura, regional South Australia and regional Victoria Federal Government funded project to install digital television solutions for certain qualifying customers. In addition, Techlife Solutions has won installation contracts in rolling out fibre to the home networks, including Stage 1 of the National Broadband Network in Tasmania.

Review of operations (continued)

Hills SVL

- Hills Sound Vision and Lighting (SVL) is the leading provider of professional audio, lighting and control systems to a wide range of customers in Australia and New Zealand and to a number of export markets. SVL's results from its Australian and New Zealand operations during the period were pleasing on the back of a range of new products launched under the Crestron and Australian Monitor brands. Unfortunately, the key export markets of the USA and Europe were weak due to the strength of the Australian dollar and very weak demand as a result of poor economic conditions in those markets. We continue to look for acquisitions and complementary products to add to our range.

OptiComm/Cygnus

- Hills' strategy to expand its exposure to communications markets continued with the establishment of Cygnus Satellite, a new 50% joint venture to offer satellite bandwidth to rural and remote markets in Australia. This complements Hills' other 50% owned joint venture, OptiComm, which provides fibre to the node and fibre to the home in new housing developments. OptiComm's open platform offer is generally the preferred solution for customers and developers. The Company is forecasting improving profitability as the number of homes connected continues to increase.

  OptiComm completed Stage 1 of the National Broadband Network's rollout in Tasmania and continues to operate the network operation centre for NBN Tasmania in Hobart. The business was pleased to sign a number of new greenfields estates to the OptiComm solution as a result of delays in the NBN offer. Also, during the period, OptiComm completed the fibre network in the new Westfield shopping centre in Pitt Street, Sydney. This was a first for OptiComm and for the Australian retail shopping centre market.

  In both cases, all costs associated with the start-up of operations have been expensed. As a result, Cygnus generated an EBIT loss of $0.8 million (before tax) in the period under review. These losses are not forecast to continue.

Lifestyle & Sustainability

The Lifestyle & Sustainability division comprises our branded Home and Hardware Products operations in Australia and New Zealand, the Hills Healthcare rehabilitation and mobility business, LW Gemmell plumbing supplies, Hills Solar and Team Poly. During the year revenue declined by 8.8% to $160.8 million and the division produced EBIT of $9.7 million, which was 5.3% below the prior year.

Home & Hardware Products

- The results of Hills' traditional Hills Branded Products business continued the improvement of the previous year. The business has focussed on a smaller range of products and looks to achieve operational excellence in its supply chain and customer service. The rise in the Australian dollar has helped margins and the Directors were pleased with the solid contribution from the LW Gemmell plumbing distribution business. Since year end, the business has launched a new range of clotheslines with additional features designed to increase market share. In addition, the new range of 150kg Bailey Professional ladders has been launched.

Hills Healthcare

- Hills Healthcare is the leading manufacturer of rehabilitation, mobility and hospital equipment in Australia. The business achieved a small improvement in profit during the period as a result of some additional nursing home construction activity, compared to the prior period, but also as a result of the higher Australian dollar. The Directors believe this business is well placed to grow over the next few years.

Team Poly/Hills Eco

- Team Poly is one of Australia's leading manufacturers of rotationally moulded polyethylene water tanks. As a result of significant and widespread rainfall, the level of activity in the water tank industry remains at historically very low levels. During the period, other market players experienced financial difficulties including insolvency. Revenue was reduced this year compared to the prior comparable period. A number of profit improvement initiatives within Team Poly, focussing on improvements in supply chain and the manufacturing process have continued to be undertaken. The other Hills Eco business, Hills Solar, suffered from changes to government subsidies and delays in its products launch programme.

  These businesses delivered an operating loss of around $2.0 million (before tax) for the year. Profit improvement initiatives are expected to deliver better results in a difficult market.

Building & Industrial

The Building and Industrial Division comprises Orrcon Steel, Fielders and Korvest. Revenues declined by 2% to $616.8 million while EBIT declined by 88% to $3.2 million.

Review of operations (continued)
Orrcon Steel

- Orrcon Steel is a leading manufacturer and distributor of steel tube and pipe in Australia, specialising in the manufacture of precision tube, structural tube, rectangular hollow sections and water, oil and gas pipelines. After delivering an improved result in the prior year, demand for Orrcon Steel's products fell significantly below expectations.

  The strengthening of the Australian dollar has led to increased competition for steel and tube products in a weak market and this, combined with very low priced imported product, has contributed to a greater market share for imported tube. In addition, inventory reductions by Orrcon Steel customers and a decline in demand for steel tube saw lower sales for Orrcon Steel.

  In particular, a number of pipeline projects were deferred or sourced with imported product, which has adversely affected the results from Orrcon Steel's Pipeline and Infrastructure operation. In response to deteriorating market conditions, Hills undertook a restructure and cost reduction program in the Structural and Precision tube businesses, and after an unsuccessful process to sell the large pipe business, the Board announced in May the closure of the Unanderra plant. It is expected that all customer requirements will be met to enable a final closure in September 2011. The losses incurred by this operation, of around $7.0 million (before tax) and which are included in profit from operations, will not recur this year.

  While profit improvement initiatives have been initiated as a result of these lower levels of activity, volumes are not forecast to improve in the near term. This is consistent with information from other industry participants. The Orrcon Steel business will focus more on the domestic structural and precision markets, and will continue contracting for large major projects with imported product in the coming year.

Fielders

- The Fielders rollforming business is a market leader in new and innovative products in a market that is not generally known for innovation.

  While Fielders sales to domestic customers remained strong, the level of commercial building activity remained low, affecting the overall result for Fielders. Despite this, Fielders' national market share grew over the year, but in a contracting market.

  During the period, the New South Wales operation relocated to new premises, and the business is seeing improved results from its New South Wales and Queensland operations.

  Since balance date, activity in both the commercial and domestic construction markets has further deteriorated. As a result, a number of cost reduction initiatives have been implemented in Fielders.

Korvest

- Hills holds 48.8% of Korvest which comprises the market leading EzyStrut cable and pipe support business, Korvest Galvanisers and Indax industrial access equipment. The Korvest business recorded increased revenue but reduced profit during the period. Korvest is a separately listed public company and further details of its results are obtainable from Korvest's website.

Information on Directors

Jennifer Helen Hill-Ling LLB (Adel) FAICD. *Chairman Non-Independent Non-Executive Director.* Age 49.

Experience and expertise
Appointed Director in August 1985. Appointed Deputy Chairman in June 2004. Appointed Chairman 28 October 2005.

Jennifer Hill-Ling has extensive experience in corporate and commercial law, specialising in corporate and business structuring, mergers and acquisitions, joint ventures and related commercial transactions. She practiced law for some 25 years and was a senior partner in two Sydney law firms in that time. In addition to any listed company directorships she is also currently a director of Hills Associates Limited and Hills Industries NZ Limited and was formerly a director of Tower Trust Limited. She is a fellow of the Australian Institute of Company Directors.

Other current listed company directorships
None

Former listed company directorships in last 3 years
None

Special responsibilities
Chairman of the Board, Chairman of the Remuneration Committee, Member of the Nomination Committee.

Interests in shares and options at the date of this report
15,602,477 ordinary shares in Hills Holdings Limited (including 1,188,918 shares owned by Hills Associates Limited and Poplar Pty Ltd (jointly held) and 14,240,495 shares owned by Hills Associates Limited of which JH Hill-Ling is a Director).
Nil options over ordinary shares in Hills Holdings Limited.

Information on Directors (continued)

Graham Lloyd Twartz BA (Adel) DipAcc (Flinders). *Group Managing Director.* Age 54.

Experience and expertise
Appointed Director in July 1993. Appointed as Group Managing Director 1 July 2008.

Graham Twartz is the Group Managing Director and is responsible for Group operations, including business strategy and acquisitions. He was formerly the Finance Director and Company Secretary and has over 25 years experience in his field. Mr Twartz held senior management positions in diversified companies before joining Hills in 1993.

Other current listed company directorships
Director of Korvest Ltd (since 1999).

Former listed company directorships in last 3 years
None.

Special responsibilities
Managing Director.

Interests in shares and options at the date of this report
207,342 ordinary shares in Hills Holdings Limited and 29,115 ordinary shares in Korvest Ltd.
118,926 Performance Rights and 100,000 options over ordinary shares in Hills Holdings Limited.

Ian Elliot FAICD. *Independent Non-Executive Director.* Age 57.

Experience and expertise
Appointed Director in August 2003.

Ian Elliot has spent 38 years in marketing. His speciality is brand building, with extensive involvement in a number of icon brands. Mr Elliot is a fellow of the Australian Institute of Company Directors and graduate of the Harvard Business School Advanced Management Program. In addition to his listed company directorships he was formerly a director of Zenith Media Pty Ltd and Cordiant Communications Group and former Chairman of Allied Brands Limited, Promentum Limited and Artist & Entertainment Group Limited and Chairman and CEO of George Patterson Advertising.

Other current listed company directorships
Director of Salmat Limited (since 2005).

Former listed company directorships in last 3 years
None.

Special responsibilities
Chairman of the Nomination Committee, Member of the Remuneration Committee.

Interests in shares and options at the date of this report
6,235 ordinary shares in Hills Holdings Limited.
Nil options over ordinary shares in Hills Holdings Limited.

Roger Baden Flynn BEng (Hons) MBA FIE (Aust) FAICD. *Independent Non-Executive Director.* Age 61.

Experience and expertise
Appointed Director in November 1999 (Lead independent Director).

Roger Flynn has extensive experience in manufacturing and distribution industries in Australia, Asia and the United States, including over 40 Board years of experience in ASX listed companies. He has been Managing Director of four ASX listed companies over an 18 year period. Mr Flynn is a fellow of the Australian Institute of Company Directors.

Other current listed company directorships
Executive Chairman of Coventry Group Limited (since 2001).

Former listed company directorships in last 3 years
None.

Special responsibilities
Lead independent non-executive Director.

Interests in shares and options at the date of this report
35,665 ordinary shares in Hills Holdings Limited.
Nil options over ordinary shares in Hills Holdings Limited.

Information on Directors (continued)

Peter William Stancliffe BE (Civil) FAICD. *Independent Non-Executive Director.* Age 63.

Experience and expertise
Appointed Director in August 2003.

Peter Stancliffe has over 40 years experience in the management of large industrial companies both in Australia and overseas and has held various senior management positions, including Chief Executive Officer. He has extensive experience in strategy development and a detailed knowledge of modern company management practices. Mr Stancliffe is a graduate of the MIT Senior Management Program and the AICD Company Directors' Course. In addition to his listed company directorships he is a director of Harris Scarfe Pty Ltd.

Other current listed company directorships
Chairman of Korvest Ltd (since 2009). Director of Automotive Holdings Group Limited (since 2005).

Former listed company directorships in last 3 years
Former Chairman of View Resources Limited (from 2006 to 2009).

Special responsibilities
Member of the Audit and Compliance Committee, Member of the Nomination Committee.

Interests in shares and options at the date of this report
19,104 ordinary shares in Hills Holdings Limited and 1,000 ordinary shares in Korvest Ltd.
Nil options over ordinary shares in Hills Holdings Limited.

Fiona Rosalyn Vivienne Bennett BA (Hons) FCA FAICD FAIM. *Independent Non-Executive Director.* Age 55.

Experience and expertise
Appointed Director on 31 May 2010.

Fiona Bennett is a Chartered Accountant with over 30 years experience in business and financial management, corporate governance, risk management and audit. She has previously held senior executive positions at BHP Billiton Limited and Coles Group Limited and has been a Chief Financial Officer at several organisations in the health sector.

Ms Bennett is a graduate of The Executive Program at the University of Virginia's Darden Graduate School and the AICD Company Directors' course.

Other current listed company directorships
Director of Boom Logistics Limited (since March 2010).

Former listed company directorships in last 3 years
None

Special responsibilities
Chairman of the Audit and Compliance Committee.

Interests in shares and options at the date of this report
4,000 ordinary shares in Hills Holdings Limited.
Nil options over ordinary shares in Hills Holdings Limited.

David Moray Spence B Com CA (SA). *Independent Non-Executive Director.* Age 59.

Experience and expertise
Appointed Director on 1 September 2010.

David Spence has experience in a number of industries and more recently in the technology and communications industry. He has over 25 years of senior management experience, including as CFO of Freedom Furniture and OPSM, where he also assumed responsibility for manufacturing and logistics. He has been directly involved in many internet and communications companies including the building of Australia's first and largest dial up ISP, OzEmail.

Mr Spence was the chief executive officer of Unwired Australia until February 2010. He has been involved in a number of listed and non-listed boards including WebCentral, uuNet, Access1, Emitch, Commander Communications, Chaosmusic, ubowireless, Vividwireless and is a past chairman of the Internet Industry Association. He is currently a non-executive Director of AWA Limited.

Other current listed company directorships
Chairman of VOCUS Communications Ltd (since June 2010).

Former listed company directorships in last 3 years
None.

Information on Directors (continued)

Special responsibilities
Member of the Audit and Compliance Committee, Member of the Remuneration Committee.

Interests in shares and options at the date of this report
19,000 ordinary shares in Hills Holdings Limited.
Nil options over ordinary shares in Hills Holdings Limited.

Geoffrey Guild Hill FCPA FAICD F.S.I BEc (Syd) MBA (NSW). *Independent Non-Executive Director.* Age 65.

Experience and expertise
Appointed Director in February 1999, retired as Director on 24 April 2011.

Geoffrey Hill is a merchant banker, based in Hong Kong, with over 33 years experience in the securities industry. He has worked both in Europe and the United States and has managed merchant banks in Australia since 1989. Mr Hill specialises in mergers and acquisitions and corporate reconstructions and has been active in the merchant banking field since 1979. In addition to his listed company directorships he is the Chairman of International Pacific Securities (Group) Limited and Asian Property Investments Limited and was formerly the Chairman of Fielders Australia Pty Ltd. He was formerly a Director of Biron Apparel Limited and Pacific Strategic Investments Limited.

Other current listed company directorships
Chairman of Metals Finance Limited (Director since 2007) and Heritage Gold NZ Limited (Director since 1999).

Former listed company directorships in last 3 years
Former Director of Brickworks Investment Company Limited (from 2005 to 2009), Huntley Investment Company Limited (from 1998 to 2009), Centrex Metals Limited (from 2008 to December 2010) and Outback Metals Limited (until November 2010).

Special responsibilities
None

Interests in shares and options at the date of this report
None.

Company secretary

David Lethbridge, LLB (Otago, NZ), Grad Dip ACG, FCIS, GAICD was appointed to the position of Company Secretary in January 2010. Mr Lethbridge was previously the company secretary of NIB Holdings Limited and prior to that was Board Secretary and Legal Counsel for the New Zealand Apple and Pear Marketing Board.

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2011, and the numbers of meetings attended by each Director were:

			Meetings of committees					
	Full meetings of Directors		Audit & Compliance		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Jennifer Helen Hill-Ling	18	18	-	-	3	3	4	4
Graham Lloyd Twartz *	18	18	-	-	-	-	-	-
Ian Elliot	16	18	-	-	3	3	4	4
Roger Baden Flynn	16	18	3	3	-	-	-	-
Geoffrey Guild Hill ^	13	14	1	3	-	-	3	3
Peter William Stancliffe	18	18	7	7	2	3	-	-
Fiona Rosalyn Vivienne Bennett	18	18	4	4	-	-	-	-
David Moray Spence	12	15	4	4	-	-	1	1

A = Number of meetings attended
B = Number of meetings held during the time the Director held office or was a member of the committee during the year
* = An executive Director
^ = Retired 24 April 2011

Remuneration report - audited

The Directors of Hills Holdings Limited present this Remuneration report for the Group for the year ended 30 June 2011. This Remuneration report forms part of the Directors' report and has been prepared in accordance with section 300A of the Corporations Act 2001(Cth) (Corporations Act) for the Group. The information provided in this Remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001. Below is a summary of Hills Holdings Limited's (Hills or the Group) executive and non executive Director remuneration arrangements in place for the year ended 30 June 2011.

Directors and executives disclosed in this report

The Remuneration report sets out the remuneration arrangements that apply to the non executive Directors, the Managing Director and other senior executives who are the key management personnel of the Group for the purposes of the Corporations Act and Accounting Standards. They include the five highest remunerated executives of the Group and the Company during the reporting period.

The key management personnel of the Group includes the Directors as per pages 72 to 75 above and the following executive officers who report directly to the Managing Director and have authority and responsibility for planning, directing and controlling the activities of the Group:

Name	Position
Non-executive and executive Directors – see pages 72 to 75 above.	
Other key management personnel	
L Andrewartha	Managing Director - Orrcon Operations Pty Ltd
S Cope	CEO - Electronics and Communications Division
D Edgecombe	General Manager - Business Development (until 31 October 2010)
R Gros	Group General Manager - Lifestyle and Sustainability Division (until 4 March 2011)
A Kachellek	Managing Director - Korvest Ltd
D Lethbridge	Company Secretary
M McKinstry	Chief Operating Officer (from 6 June 2011)
K Middleton	CEO - Fielders Australia Pty Ltd
A Muir	Chief Financial Officer
T Sullivan	Group General Manager Strategy (from 11 October 2010)
In addition, the following persons are among the 5 highest remunerated Group and / or Company executives:	
G Daher	General Manager - Direct Alarm Supplies
R Meacham	General Manager - Pacific Communications
A Oliver	General Manager - Antenna and TV Systems

Changes since the end of the reporting period

Since the end of the reporting period Mr A Muir resigned from the position of Chief Financial Officer on 7 July 2011 and Mr G Logan was appointed Chief Financial Officer for the Group on 7 July 2011 with effect from 8 August 2011.

Payments to persons before taking office

There were no payments to persons before taking office.

Principles used to determine the nature and amount of remuneration

(a) Role of the Remuneration Committee

Information on the composition and functions of the Remuneration Committee ("the Committee") is set out in the Corporate Governance Statement in this Annual Report. The charter of the Committee is available from the Hills' internet site at www.hillsholdings.com.au.

The Committee assists and makes recommendations to the Board on remuneration policies, strategies and practices for the Board, its Committees, the Managing Director, the direct reports to the Managing Director, senior executives and other management as appropriate.

The Board established the Committee to provide advice to the Board on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive Directors, other senior executives and non executive Directors.

Remuneration report - audited (continued)

Principles used to determine the nature and amount of remuneration (continued)

The Committee's responsibilities include developing, reviewing and making recommendations to the Board on:

- the remuneration framework for the Non-Executive Directors and Board Committees;
- the remuneration policy for the Managing Director and senior executives; and
- remuneration incentive schemes for the Managing Director and senior executives.

The Board regularly reviews the remuneration strategy and framework to assess its effectiveness in achieving its objectives. As part of these reviews, the Board relies on external and independent remuneration consultants.

(b) Executive remuneration policy

Hills' remuneration strategy is designed to attract, motivate and retain senior executives and Hills' employees generally. Given the diversified nature of the Group, the Board has developed a remuneration framework which reflects this diversity and is structured to reward executives for performance both at the Group level and at the operating divisional level.

The key principles on which the Hills' remuneration strategy is based are as follows:

(i) Market competitive and fair:
- Executive remuneration is reviewed annually;
- Hills' aim, in attracting and retaining the best people for the job, is to provide market competitive remuneration against jobs of comparable size and responsibility, with an opportunity for highly competitive total remuneration for superior performance; and
- External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role.

(ii) Performance driven:
- Remuneration is designed to reward executives for performance against business plans and longer term shareholder returns to a level that is appropriate for the results delivered;
- A portion of the executive remuneration is at risk and performance dependent; and
- The variable components of the remuneration are driven by targets that focus on external and internal measures of financial and non financial performance.

(iii) Alignment with shareholder interests:
- Incentive plans and performance measures are aligned with Hills' short and long term success.

(c) Executive remuneration framework

The executive remuneration framework has a mix of fixed and variable ("at risk") pay. It has three components:

- Fixed remuneration, being base pay, superannuation and other short term benefits;
- Short term incentives; and
- Long term incentives.

The combination of these comprises an executive's total remuneration. The Board considers that the performance linked remuneration structure generates the desired outcome for Hills.

The relative weightings of the three components comprising an executive's total remuneration are typically between 60% - 70% fixed remuneration, 20% - 25% short term incentives and 10% long term incentives. The weightings are calculated on the basis that the "at risk" components (STI and LTI) are at their maximum.

(i) Fixed remuneration

Fixed remuneration is targeted at or above the median of the market for jobs of comparable size and responsibility in companies in the ASX 200 and it also takes into account an individual's responsibilities, performance, qualifications and experience. In some cases, experience, superior performance or strong market demands for specific job categories may justify above median fixed remuneration.

Structured as a total employment cost package, the base pay may be delivered as a combination of cash and prescribed non financial benefits at the executives' discretion.

There are no guaranteed base pay increases included in any executives' contracts.

Retirement benefits comprise employer contributions to defined contribution superannuation funds.

Remuneration report - audited (continued)

Principles used to determine the nature and amount of remuneration (continued)

(ii) Short term incentives

Hills' executives all participate in an STI Plan which is designed to drive individual and team performance to deliver annual business plans and increase shareholder value by providing rewards for achievement of business financial performance goals and individual performance goals which are focussed on non-financial performance.

Each year the Remuneration Committee recommends to the Board the key performance indicators (KPIs) for the key management personnel. KPIs generally include measures relating to the Group, the relevant business segment and the individual, and may include a mix of financial and non financial performance measures. Typically, the STI plan is weighted 75% to financial metrics and 25% to individual metrics.

Features of all executive's STI plans for FY 2011 are as follows:

Frequency and timing	Participation is determined on an annual basis with performance measured over the financial year ending 30 June.
Financial measures used	A principal focus of Hills is earnings before interest and tax (EBIT) and returns on funds employed (ROFE) which measures effective utilisation of assets and earnings per share (EPS). The measures used in the STI plan are: • for senior executive roles with corporate responsibility: EPS; • for senior executives with divisional responsibility: EBIT and ROFE; and • for the Managing Director: ROFE and EPS.
Non financial measures	Non financial measures vary with position and responsibility and are chosen because they are critical to Hills' short term and long term success, and are aligned to the business plan. The measures typically cover areas including: • Safety; • Strategic outcomes; • Operational improvements; • Succession planning; • Restructuring and rationalisation; and • Other discretionary performance targets.
Assessment of performance	At the end of the financial year each senior executive's performance is assessed based on the actual performance of the Group and the relevant segment and individual performance overall and against KPIs set at the beginning of the financial year. The Managing Director makes recommendations in respect of each senior executive to the Remuneration Committee who in turn makes recommendations to the Board in relation to the payment of individual short term bonuses.
Service condition	At the Board's discretion, new executives may be eligible to participate in the STI plan on a pro-rata entitlement basis. The Board retains the discretion in awarding payment to executives who retire, die or are retrenched during the financial year. No payments are made to executives who have their employment terminated for inadequate performance or misconduct, before the end of the financial year.
STI awarded in FY 2011	In terms of the targets set by the Board for FY 2011, the annual STI awarded to the Senior Executives reflected the following: • The overall financial performance for the Group did not meet the financial targets set; • The overall financial performance for the Electronics and Communications division met or exceeded the financial targets set; • The Building and Industrial and Lifestyle and Sustainability divisions did not meet the financial targets set; • Certain strategy and succession planning targets were met; and • The Group's safety targets were exceeded.

Remuneration report - audited (continued)

Principles used to determine the nature and amount of remuneration (continued)

(iii) Long term incentives

(a) Long Term Incentive Plan (LTIP)

In 2010, consistent with Hills' remuneration strategy of rewarding executives for performance against business plans and longer term shareholder returns to a level that is appropriate for the results delivered, Hills established the LTIP. The aim of the LTIP is to incentivise senior executives by aligning their long term incentives with the interests of shareholders.

General features of the Plan are as follows:

- eligible employees may be offered shares in Hills (which will be held in trust pending the satisfaction of specified performance conditions) (Deferred Shares) or a right to receive shares in the Company in the future (subject to the satisfaction of specified performance conditions) (Performance Rights);
- the Board imposes performance conditions on Deferred Shares or Performance Rights at the time at which an offer is made in respect of such Deferred Shares or Performance Rights;
- except in special circumstances, Deferred Shares or Performance Rights do not vest unless the performance conditions attaching to them have been satisfied within the prescribed period;
- Performance Rights or Deferred Shares which have not vested will lapse or be forfeited (respectively) if an eligible employee ceases to be employed by Hills before vesting has occurred (unless the Board determines otherwise), or in the Board's opinion, the eligible employee has acted fraudulently, dishonestly, or committed an act of harassment or discrimination or brought the Company into disrepute;
- with the Board's approval, the eligible employee may nominate someone else to hold the Deferred Share or Performance Right (generally a relative or dependant or entity under the eligible employee's control);
- the Board may impose disposal restrictions on trading Performance Shares (that is shares received by the eligible employee or their nominee on vesting of a Performance Right) or Deferred Shares for up to a maximum of seven years although this is not currently proposed;
- no payment is required for the grant of a Performance Right (unless the Board specifies otherwise) and the Board may determine the price (if any) at which Deferred Shares will be offered;
- an eligible employee will receive all dividends paid by the Company in respect of Deferred Shares which have not yet vested. However, the eligible employee will not be entitled to any dividends in respect of Performance Rights which have not yet vested.

At Hills' 2010 Annual General Meeting, shareholder approval was obtained for the Managing Director to be issued with 118,926 Performance Rights under the LTIP.

Following the approval given at the 2010 AGM, certain senior executives were also invited to participate in Hills' LTIP and receive Performance Rights under the LTIP.

The details of the LTIP Performance Rights allocations made to the Managing Director and senior executives are set out in this table and the table set out on page 87 of this Report.

Remuneration report - audited (continued)

Principles used to determine the nature and amount of remuneration (continued)

Participation	Executive participation is determined by the Board.
Performance Conditions	The performance conditions attaching to the Performance Rights will be measured over a three year period commencing from 1 July 2010. If the relevant performance conditions at the end of that three year period have been met, in whole or in part, all or the relevant percentage of the Performance Rights (as applicable) will vest. The senior executive (or nominees) will be entitled to be issued or transferred one ordinary share in the Company for each Performance Right that has vested.
Performance Measures	Vesting of the Performance Rights will be determined by reference to EPS and TSR performance conditions. These performance conditions have been chosen as EPS focuses attention on the Hill's three year strategic and financial objectives and TSR measures growth in the price of Hills' shares and dividends against the ASX 200 Industrial Accumulation Index. The principles used in setting the performance conditions are as follows: (a) the EPS hurdle – a compound annual growth rate in Hills' EPS which is applicable to 50% of the Performance Rights; (b) the TSR hurdle - the TSR performance achieved by Hills in comparison to the TSR of the ASX 200 Industrial Accumulation Index (Index) which is applicable to the other 50% of the Performance Rights.
Performance Testing	The performance hurdles will be tested at 30 June 2013. No further testing will occur.
Vesting Schedule	EPS Hurdle: • EPS compound annual growth rate of less than 15% - 0% vested • EPS compound annual growth rate of 15% or more - 25% vested • EPS compound annual growth rate of 20% or more - 50% vested TSR Hurdle: • Hills TSR less than Index - 0% vested • Hills TSR outperforms Index - 25% vested • Hills TSR outperforms Index by 15% or more - 25% vested
Trading Restrictions	There are no restrictions on trading the Performance Shares once issued.

(b) Prior long-term Incentive Plans

Long term incentives have been provided in previous years to certain employees as options over ordinary shares of the Company under the rules of the Executive Share Option Plan. The Group established a share option plan in October 1997 that entitles selected senior managers and executives to acquire shares in the Company subject to the successful achievement of performance targets related to improvements in total shareholder returns.

Prior to 2008 the options were exercisable if Hills' TSR over a two year period from the grant date exceeded ten percent plus CPI per annum. Once exercised the shares were forfeited if the holder ceased to be an employee of the Group within a further three year period.

The shareholders approved an amendment to this plan as part of the 2007 Annual General Meeting (AGM) such that the option period over which the shareholder return must be achieved was extended to three years. The three year period during which the shares were restricted has now been removed. This amendment is applicable for all share options granted after the resolution was passed. No changes were made to the rules governing options already granted.

Executives who acquired shares through the exercise of options were provided with 20 year interest free loans by the Company in accordance with the rules of the Executive Share Option Plan approved by the Shareholders. These loans are of a non recourse nature. For accounting purposes these 20 year, non recourse loans are treated as part of options to purchase shares, until the loan is extinguished at which point the shares are recognised.

In relation to the financial year ended 30 June 2010, the Board suspended the long term incentive bonus scheme and accordingly no long term incentive bonus was allocated to the Managing Director or senior executives.

Remuneration report - audited (continued)

Principles used to determine the nature and amount of remuneration (continued)

In accordance with Hills' Securities Trading Policy, participants in equity based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements.

Employee share plan

The Hills Employee Share Bonus Plan provides that eligible employees may receive up to $1,000 of Hills' ordinary shares for no consideration. Shares are allotted under the plan in two tranches, (usually in March/April and in September/October). Shares issued under the Hills Employee Share Bonus Plan cannot be sold until seven years after issue. The number of Hills Shares each eligible employee receives is the value of the allotment divided by the weighted average price at which the Company's shares are traded on the ASX on the five business days prior to the date of the allotment, rounded down to the nearest whole share, or as otherwise determined by the Directors.

Link between remuneration and Group performance

A key underlying principle of the executive reward strategy is that remuneration should be linked to performance.

As discussed earlier, STI payments are based on a variety of performance conditions, both financial and non financial. The key financial measures are EBIT, ROFE and EPS, at a business unit and divisional level for some executives and at a Group level for other executives. The non financial measures include safety, strategic outcomes, operational improvements, restructuring and rationalisation and other discretionary performance targets.

In the financial year ended 30 June 2011 the Group performance declined on the prior year, with EBIT (before unusual / significant items) decreasing 38% to $40.376 million and net profit after tax (before unusual / significant items) decreasing 37% to $27.126 million.

In difficult trading conditions, some of the businesses within the Electronics and Communications and Lifestyle and Sustainability divisions achieved their budget EBIT results. However, the Building and Industrial division businesses of Orrcon and Fielders did not meet the EBIT thresholds set by the Board. Accordingly, the executives of those businesses (Messrs Andrewartha and Middleton) did not qualify for a financial STI payment. As a consequence, STI payments related to financial measures were overall lower than the previous year.

Non financial STIs were achieved where executives achieved their strategic, operational or other discretionary targets. Pleasingly, and as reported elsewhere in this report, Hills continues to drive down the total reportable incident frequency rate (TRIFR) to 19.8, a 43% improvement on the prior year. Accordingly, all executives achieved the safety component of their non financial STI's.

The following table summarises financial and share price information and safety performance over the last five years:

Key financials	**FY11**	**FY10**	**FY09**	**FY08**	**FY07**
Earnings before interest and tax (EBIT) ($'000) before unusual / significant items	40,376	65,469	59,978	87,772	82,273
Shareholders' funds ($'000)	402,307	496,499	428,520	429,517	348,764
Return on funds employed (ROFE) based on year end Funds Employed	8.2%	12.0%	10.3%	14.2%	16.6%
Net profit before unusual / significant items ($'000)	27,126	43,095	34,201	53,589	52,042
Net profit after unusual / significant items ($'000)	(73,116)	43,095	15,655	52,360	52,042
Basic earnings per share before unusual / significant items (cents)	10.2	16.7	14.6	27.3	27.6
Dividends (cents)	10.0	12.5	10.0	27.5	27.5
Share price ($)	1.20	2.15	1.57	3.34	5.33
Safety (TRIFR)	19.8	34.7	41.4	65.1	71.6

Remuneration report - audited (continued)

Principles used to determine the nature and amount of remuneration (continued)

(d) Non executive Director remuneration

Fees and payments to non executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non executive Directors' fees and payments are reviewed annually by the Board. Non executive Directors do not receive performance based pay. The Board has also considered the advice of independent remuneration consultants to ensure non executive Directors' fees and payments are appropriate and in line with the market.

The Chairman's fees are determined independently to the fees of non executive Directors based on comparative roles in the external market.

Directors' fees

At Hills' 2010 Annual General meeting shareholders approved an increase in the aggregate amount of remuneration paid to non-executive Directors to $1,200,000. This increase was considered necessary in order to pay the retirement benefit to Mr G Hill and to allow Hills to continue to pay fees to non-executive Directors at an appropriate market rate in the future.

Non executive Directors who chair a committee receive an additional $10,000 per annum. Directors' fees were not increased during the period and have been frozen for the past two years.

The following fees have applied:

	Current fees
Base fees	
Chairman	$200,000
Other non-executive Directors	$100,000
Additional fees	
Committee - Chairman	$10,000

Retirement allowances for non-executive Directors

Superannuation contributions required under the Australian superannuation guarantee legislation are made and are deducted from the Directors' overall fee entitlements.

With the retirement of Mr G Hill on 24 April 2011, Ms J Hill-Ling is the remaining Director entitled to receive benefits on retirement under a scheme that has since been discontinued. Under the scheme, Ms J Hill-Ling is entitled to a maximum retirement benefit of twice her annual Directors' fees (calculated as an average of her fees over the last three years) accumulated over a period of eight years of service. Since the scheme was discontinued, no new Directors have become entitled to any benefit and the benefit multiple (up to a maximum of two times fees) remains fixed.

Upon retirement, Mr G Hill was paid $187,000 in accordance with the retirement scheme. This benefit was fully provided for in previous years financial statements and the benefit for Ms J Hill-Ling is also fully provided for in the financial statements.

Details of remuneration

Amounts of remuneration

Details of the remuneration of the Directors, the key management personnel of the Company and the Group (as defined in AASB 124 *Related Party Disclosures*) and the five highest paid executives of the Company and the Group are set out in the following tables.

Remuneration report - audited (continued)

Details of remuneration (continued)
Amounts of remuneration (continued)

Key management personnel of the Group and other executives of the Company and the Group

2011	Short-term employee benefits				Post-employment benefits	Long-term benefits	Share-based payments (B)		
Name	Cash salary and fees $	Cash bonus (A) $	Non monetary benefits $	Other $	Super-annuation $	Long service leave $	Perform-ance rights & options $	Shares $	Total $
Non-executive Directors									
J Hill-Ling+	192,661	-	-	5,600	17,339	-	-	-	215,600
F Bennett	97,095	-	-	-	8,739	-	-	-	105,834
I Elliot	100,917	-	-	-	9,083	-	-	-	110,000
R Flynn	91,743	-	-	-	8,257	-	-	-	100,000
G Hill*	74,632	-	-	-	6,717	-	-	-	81,349
D Spence	76,453	-	-	-	6,881	-	-	-	83,334
P Stancliffe*	147,233	-	-	-	13,251	-	-	-	160,484
Sub-total non-executive Directors	**780,734**	**-**	**-**	**5,600**	**70,267**	**-**	**-**	**-**	**856,601**
Executive Director									
G Twartz	779,816	75,000	-	65,508	70,183	19,495	13,277	-	1,023,279
Other key management personnel (Group)									
L Andrewartha^	348,624	10,000	-	1,400	31,376	-	3,222	999	395,621
S Cope #^	321,101	60,664	-	5,091	28,952	-	3,222	999	420,029
D Edgecombe	76,453	-	-	8,709	6,881	-	-	599	92,642
R Gros	218,721	32,926	-	24,748	19,685	-	988	599	297,667
D Lethbridge	211,009	25,000	-	4,058	18,991	-	1,117	-	260,175
A Kachellek^	240,005	87,039	-	350	29,944	-	5,635	-	362,973
M McKinstry	31,845	-	-	2,289	2,866	-	-	-	37,000
K Middleton^	349,197	10,000	-	700	25,803	-	2,563	999	389,262
A Muir#^	316,605	20,000	-	8,598	23,448	54,587	412	999	424,649
T Sullivan	190,584	10,000	-	13,171	17,153	-	1,564	-	232,472
Total key management personnel compensation (Group)	**3,864,694**	**330,629**	**-**	**140,222**	**345,549**	**74,082**	**32,000**	**5,194**	**4,792,370**
Other Company and Group executives									
G Daher #	211,271	75,155	-	6,650	21,960	3,500	329	999	319,864
R Meacham #	208,627	93,508	-	5,646	18,829	3,546	412	999	331,567
A Oliver #	230,856	69,153	-	16,694	20,779	3,917	412	999	342,810

(A) The short-term incentive bonus is for performance during the respective financial year using the criteria set out above.

(B) Share based payment remuneration comprises Performance Rights in the Long Term Incentive Plan, options in the former Executive Share Option Plan and shares under the Employee Share Plan.

Performance Rights were granted to various executives during the year. No options were granted during the year. Options granted in 2009 expire three years after the grant date and each option entitles the holder to purchase one ordinary share in the Company. The ability to exercise the Performance Rights and options is conditional on the Group achieving certain performance hurdles. For all options granted prior to 2008, once the option is exercised, the holder was restricted from selling the shares for a period of three years.

The fair value of Performance Rights granted to the Managing Director and senior executives included above is described in the Long Term Incentives discussion below. The fair value of options granted to executive Directors and senior executives included above is calculated at the grant date using the valuation methodology set out in Division 13A of the Income Tax Assessment Act, 1936. This method has been adopted, as other methods do not reflect the number of conditions that must be met under the plan, including those applying after the shares have been allocated. Further details of Performance Rights granted during the year are set out below.

Remuneration report - audited (continued)

Details of remuneration (continued)
Amounts of remuneration (continued)

^ denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

# denotes one of the 5 highest paid executives of the Company, as required to be disclosed under the *Corporations Act 2001*.

* P Stancliffe remuneration includes Board fees from Korvest Ltd and G Hill remuneration in the previous financial year included Board fees from Fielders Australia Pty Ltd (Chairman until April 2010).

+ J Hill-Ling remuneration includes a dividend of $5,600 (2010: $5,600) paid as a shareholder of Hills Associates Limited.

2010	Short-term employee benefits				Post-employment benefits	Long-term benefits	Share-based payments (B)		
Name	Cash salary and fees $	Cash bonus (A) $	Non monetary benefits $	Other $	Super-annuation $	Long service leave $	Options $	Shares $	Total $
Non-executive Directors									
J Hill-Ling+	192,661	-	-	5,600	17,339	-	-	-	215,600
I Elliot	100,917	-	-	-	9,083	-	-	-	110,000
R Flynn	91,743	-	-	-	8,257	-	-	-	100,000
G Hill*	199,743	-	-	-	8,257	-	-	-	208,000
P Stancliffe*	150,917	-	-	-	13,583	-	-	-	164,500
F Bennett	8,009	-	-	-	721	-	-	-	8,730
Sub-total non-executive Directors	**743,990**	**-**	**-**	**5,600**	**57,240**	**-**	**-**	**-**	**806,830**
Executive Director									
G Twartz	724,943	211,795	13,113	16,009	72,215	18,349	3,399	999	1,060,822
Other key management personnel (Group)									
L Andrewartha^	335,079	48,223	-	1,400	33,356	-	3,399	999	422,456
S Cope^#	299,393	60,516	-	1,400	33,399	-	1,976	999	397,683
D Edgecombe	239,061	4,497	-	350	21,468	-	-	999	266,375
R Gros#^	285,539	57,289	-	1,400	30,183	-	1,976	999	377,386
D Lethbridge	103,598	-	-	-	8,650	-	-	-	112,248
A Kachellek	221,129	67,114	-	350	25,587	-	5,635	998	320,813
K Middleton^	326,903	45,608	-	700	33,413	-	659	999	408,282
A Muir#	293,578	24,497	-	1,400	29,369	-	1,060	999	350,903
Total key management personnel compensation (Group)	**3,573,213**	**519,539**	**13,113**	**28,609**	**344,880**	**18,349**	**18,104**	**7,991**	**4,523,798**
Other Company and Group executives									
G Daher#	197,693	73,843	-	3,150	23,733	3,269	659	999	303,346
A Oliver#^	227,581	111,150	-	15,849	28,295	3,640	1,890	999	389,404

Remuneration report - audited (continued)

Details of remuneration (continued)
Amounts of remuneration (continued)

The relative proportions of remuneration for the year ended 30 June 2011 (30 June 2010) as set out above that are linked to performance and that are fixed are as follows:

Name	Paid / payable Fixed remuneration %		Paid / payable At risk -STI %		Value of Performance Rights / options as proportion of remuneration %	
	2011	2010	**2011**	2010	**2011**	2010
Executive Directors of Hills Holdings Limited						
G Twartz	**91%**	80%	**9%**	20%	**1.51%**	0.33%
Other key management personnel of Group						
L Andrewartha	**97%**	89%	**3%**	11%	**0.81%**	0.81%
S Cope	**85%**	85%	**15%**	15%	**0.77%**	0.50%
D Edgecombe	**100%**	98%	**-%**	2%	**-%**	-%
R Gros	**89%**	85%	**11%**	15%	**0.33%**	0.53%
D Lethbridge	**90%**	100%	**10%**	-%	**0.43%**	-%
A Kachellek	**74%**	79%	**26%**	21%	**1.55%**	1.76%
M McKinstry	**100%**	-%	**-%**	-%	**-%**	-%
K Middleton	**97%**	89%	**3%**	11%	**0.66%**	0.16%
A Muir	**95%**	93%	**5%**	7%	**0.10%**	0.30%
T Sullivan	**95%**	-%	**5%**	-%	**0.67%**	-%
Other Company and Group executives						
G Daher	**76%**	76%	**24%**	24%	**0.10%**	0.22%
R Meacham	**72%**	-%	**28%**	-%	**0.12%**	-%
A Oliver	**80%**	71%	**20%**	29%	**0.12%**	0.49%

Service agreements

Executives

The details of the contracts of Hills' senior executives named in the remuneration tables (excluding the Managing Director) can be summarised as follows:

- All executives have ongoing contracts of no fixed term;
- The period of notice required to be given to terminate a contract varies depending upon an executive's contract, with an executive's period of notice to the Company ranging from one to six months, and the Company's period of notice to an executive ranging from three to six months or payment in lieu of that notice;
- Upon termination, executives are entitled to payment of annual and long service leave; and
- If an executive is retrenched, the executive is not entitled to contractual termination payments other than those generally applicable to all staff.

Managing Director

Graham Twartz was appointed as Managing Director effective 1 July 2008. The details of the Managing Director's contract and the remuneration package for the financial year are as follows:

Term	The contract is for indefinite duration. The contract can be terminated by the Company or the Managing Director giving three month's notice to the other.
Fixed remuneration	The Managing Director has received an annual base salary, inclusive of superannuation, for the year ended 30 June 2011 of $850,000.
Short-term incentive	An annual maximum STI opportunity of $375,000. The performance of the Managing Director against performance measures is assessed and the payment determined by the Board.

Remuneration report - audited (continued)

Share-based compensation

Performance Rights and Options

The terms and conditions of each grant of Performance Rights under the LTIP and options under the Executive Share Option Plan affecting remuneration in the current or a future reporting period are as follows:

Grant date	Date exercisable / vested	Expiry date	Exercise price	Value per option / Right at grant date	Performance achieved	% Vested
Options 28 Feb 2008	31 Jan 2011	31 Jan 2031	$5.49	$0.19	No	0%
Options 4 Feb 2009	31 Jan 2012	31 Jan 2032	$3.01	$-	n/a	n/a
Performance Rights 30 April 2011	30 June 2013	30 June 2013	$-	$0.905	n/a	n/a

The maximum value of the Performance Rights represents their fair value as at their grant date, determined in accordance with AASB 2 *Share Based Payment*. The fair value for each hurdle in the Performance Rights was:

- EPS hurdle: $1.19
- TSR hurdle: $0.62

Monte Carlo simulation was used to determine the value of the Performance Rights granted. Details of the assumptions underlying the valuation are set out in note 26 to the financial statements.

No Performance Rights have been granted since the end of the financial year. The Performance Rights were provided at no cost to the recipients.

All Performance Rights and options expire on the earlier of their expiry date or termination of the individual's employment. The Performance Rights will vest on 30 June 2013 and the options are exercisable three years from grant date for the options issued from 2008 onwards, or two years from grant date for options issued prior to 2008. In addition to a continuing employment service condition, the ability for Performance Rights to vest or to exercise options is conditional on the Group achieving certain performance hurdles. Details of the performance criteria are included in the long-term incentives discussion above.

No terms of equity-settled share-based payment transactions (including options and Rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Details of Performance Rights and options over ordinary shares in the Company provided as remuneration to each Director of Hills Holdings Limited and each of the key management personnel of the Company and the Group are set out below. When vested or exercisable, each Performance Right or option is convertible into one ordinary share of Hills Holdings Limited. Further information on the options is set out above and in note 26 to the financial statements.

No Performance Rights or options vested during the financial year.

Remuneration report - audited (continued)

Share-based compensation (continued)

Name	Number of Performance Rights granted during the year	Fair value of Performance Rights at grant date calculated in accordance with AASB 2	Value of Performance Rights using the share price of $2.31237 *	Number of Performance Rights / options lapsed / forfeited during the year	Value at lapse / forfeit date
Directors of Hills Holdings Limited					
G Twartz	**118,926**	$107,628	$275,000	60,000	$-
Other key management personnel of the Group					
L Andrewartha	**21,623**	$19,569	$50,000	60,000	$-
S Cope	**21,623**	$19,569	$50,000	60,000	$-
D Edgecombe	-	$-	$-	25,000	$-
R Gros	-	$-	$-	120,000	$-
A Kachellek	-	$-	$-	-	$-
D Lethbridge	**10,811**	$9,784	$25,000	-	$-
K Middleton	**21,623**	$19,569	$50,000	20,000	$-
M McKinstry	-	$-	$-	-	$-
A Muir	-	$-	$-	25,000	$-
T Sullivan	**15,134**	$13,696	$35,000	-	$-
Other Group and Company executives					
G Daher	-	$-	-	20,000	$-
R Meacham	-	$-	-	25,000	$-
A Oliver	-	$-	-	25,000	$-

* The share price used to calculate the number of Performance Rights issued to the Managing Director and Senior Executives was $2.31237, being the volume weighted average price of the Company's shares for the ten trading days commencing on the day after the announcement of the Company's full year financial results for the year ended 30 June 2010.

Shares provided on exercise of remuneration options

During the reporting period, no shares were issued on the exercise of options previously granted as compensation to key management personnel.

Additional information

Details of remuneration: Bonuses and share-based compensation benefits

For each cash bonus and grant of rights included in the tables on pages 83 – 84 and 86 - 87, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonus is payable in future years. The Performance Rights / options vest after three years, provided the vesting conditions are met (see pages 79 – 80 and 86 above). No Performance Rights / options will vest if the conditions are not satisfied, hence the minimum value of the Performance Rights / options yet to vest is $nil.

The maximum value of the Performance Rights / options yet to vest has been determined as the amount of the grant date fair value of the Performance Rights / options that is yet to be expensed.

The % of options forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest level performance criteria not being met as well as options that have lapsed due to termination of employment.

The bonus percentages comprise the percentage of the available bonus that was paid / payable in relation to the financial year, and the percentage that was forfeited because the person did not meet the performance criteria.

Remuneration report - audited (continued)

Share-based compensation (continued)

Details of remuneration: Bonuses and share-based compensation benefits (continued)

	STI		Share-based compensation benefits (Rights / options)					
Name	**Paid / Payable 2011 %**	**Forfeited 2011 %**	**Year granted**	**Vested %**	**Lapsed / Forfeited %**	**Financial years in which Rights / options may vest**	**Minimum total value of grant yet to vest $**	**Maximum total value of grant yet to vest $**
G Twartz	20%	80%	2008	-	100	2011	-	-
			2009	-	-	2012	-	-
			2011	-	-	2013	-	95,339
L Andrewartha	7%	93%	2008	-	100	2011	-	-
			2009	-	-	2012	-	-
			2011	-	-	2013	-	17,334
S Cope	46%	54%	2008	-	100	2011	-	-
			2009	-	-	2012	-	-
			2011	-	-	2013	-	17,334
D Edgecombe +	-%	-%	2009	-	100	2012	-	-
R Gros	25%	75%	2008	-	100	2011	-	-
			2009	-	100	2012	-	-
A Kachellek	100%	-%	-	-	-	-	-	-
D Lethbridge	45%	55%	2011	-	-	2013	-	8,667
K Middleton	10%	90%	2008	-	100	2011	-	-
			2009	-	-	2012	-	-
			2011	-	-	2013	-	17,334
A Muir	20%	80%	2008	-	100	2011	-	-
			2009	-	-	2012	-	-
T Sullivan	14%	86%	2011	-	-	2013	-	12,132
G Daher	100%	-%	2008	-	100	2011	-	-
			2009	-	-	2012	-	-
R Meacham	100%	-%	2008	-	100	2011	-	-
			2009	-	-	2012	-	-
A Oliver	100%	-%	2008	-	100	2011	-	-
			2009	-	-	2012	-	-

+ D Edgecombe's total remuneration did not include an STI component.

Share-based compensation: Performance Rights / Options

The movement during the reporting period, by value, of Performance Rights / options over ordinary shares in the Company held by each key management person, and each of the five named Company executives and Group executives is detailed below.

Remuneration report - audited (continued)

Share-based compensation (continued)

Name	A Performance Rights value at grant date $	B Value at exercise date $	C Options value at lapse / forfeit date $
G Twartz	107,628	-	111,600
L Andrewartha	19,569	-	111,600
S Cope	19,569	-	111,600
D Edgecombe	-	-	46,500
R Gros	-	-	223,200
A Kachellek	-	-	-
D Lethbridge	9,784	-	-
K Middleton	19,569	-	37,200
M McKinstry	-	-	-
A Muir	-	-	46,500
T Sullivan	13,696	-	-
G Daher	-	-	-
R Meacham	-	-	-
A Oliver	-	-	-

A = The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of rights granted during the year as part of remuneration.

B = The value at exercise date of Performance Rights / options that were granted as part of remuneration and were exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the Performance Rights / options were exercised after deducting the price paid to exercise the option. No Performance Rights / options were exercised in the current year.

C = The value at lapse date of Performance Rights / options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied. The value of the Performance Rights / options that lapsed/forfeited during the year represents the benefit forgone and is calculated at the date the Performance Rights / options lapsed using the method described in B above assuming the performance criteria had been achieved. The 2008 options lapsed during the year. There were no Performance Rights that lapsed during the year.

Principal activities

The principal activities of the Group during the course of the year are outlined within the Review of Operations of the Group.

Objectives

The Group's objectives are to:

- provide a safe, challenging and rewarding workplace;
- deliver superior returns to shareholders;
- increase earnings per share;
- represent quality, reliable and value for money products; and
- improve the retention rate of our outstanding people resources.

In order to meet these objectives the following targets were set for the 2011 financial year and beyond:

- increase revenue, operating activities, profits, earnings per share and return on funds employed;
- reduce operating costs;
- achieve strategic objectives;
- continue to improve our safety performance;
- continue to source cost effective supplies; and
- further develop our employees.

Dividends - Hills Holdings Limited

Dividends paid to members during the financial year were as follows:

	2011 $'000	2010 $'000
Final ordinary dividend for the year ended 30 June 2010 of 5.5 cents (year ended 30 June 2009: 2.0 cents) per fully paid share paid on 27 September 2010 (year ended 30 June 2009: 23 November 2009)	**13,623**	4,917
Final dividend foregone for Share Investment Plan	**-**	(713)
Interim ordinary dividend for the year ended 30 June 2011 of 5.5 cents (2010: 7.0 cents) per fully paid share paid on 21 March 2011 (2010: 3 March 2010)	**13,650**	17,319
	27,273	21,523

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a final ordinary dividend of approximately $11,189,000 (4.5 cents per fully paid share) to be paid on 26 September 2011 out of retained profits at 30 June 2011. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2011 and will be recognised in subsequent financial periods. For more information regarding dividends please refer to note 24.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year are set out in the Review of Operations section of the Directors' report.

Matters subsequent to the end of the financial year

On 23 August 2011 the Company announced an on-market buy-back which will give Hills the option to acquire up to 10% of its issued ordinary shares. The buy-back is for ongoing capital management purposes and will take place over the twelve months from the date of the announcement.

Apart from the matter noted above, there has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Likely developments and expected results of operations

For likely developments please refer to the Review of Operations section of the Directors' report.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

Manufacturing

The Group holds or is in the process of obtaining or renewing all required environmental licences for its manufacturing sites around Australia.

Greenhouse gas and energy data reporting requirements

The Group is subject to the reporting requirements of the *National Greenhouse and Energy Reporting Act 2007*.

The *National Greenhouse and Energy Reporting Act 2007* requires the Group to report its annual greenhouse gas emissions and energy use. Hills has implemented systems and processes for the collection and calculation of the data required. Hills triggered the corporate energy consumption threshold legislated under the *National Greenhouse and Energy Reporting Act 2007* for the year ended 30 June 2011 and will submit its initial report to the Greenhouse and Energy Data Officer in October 2011.

Environmental regulation (continued)

National Packaging Covenant

During September 2010, Hills became a signatory to the Australian Packaging Covenant (APC), which is the successor to the National Packaging Covenant (NPC). The APC is a voluntary initiative, by Government and industry, to reduce the environmental effects of packaging. Hills is working towards key performance indicators set in a five year action plan aimed at optimising packaging design, recovery, recycling and product stewardship.

Share Rights / options granted to Directors and the most highly remunerated officers

	Performance Rights granted
Directors	
G Twartz, *Group Managing Director*	118,926
	118,926
Other executives of Hills Holdings Limited	
S Cope, *CEO - Electronics and Communications*	21,623
D Lethbridge - *Company Secretary*	10,811
T Sullivan – *Group General Manager Strategy*	15,134
	47,568
Other executives of the Group	
L Andrewartha, *Managing Director - Orrcon Operations Pty Ltd*	21,623
K Middleton, *CEO- Fielders Australia Pty Ltd*	21,623
	43,246

No Performance Rights have been granted since the end of the financial year.

Shares under Rights / options

Unissued ordinary shares of the Company under Rights / option in accordance with accounting standards at the date of this report are as follows:

Date Rights / options granted	Expiry date	Exercise price of shares	Number under Rights / option
February 2001	January 2023	$2.50	50,000
February 2002	January 2024	$2.90	53,000
February 2003	January 2025	$3.23	80,000
February 2004	January 2026	$3.66	125,000
February 2005	January 2027	$4.16	195,000
February 2009	January 2032	$3.01	415,000
April 2011	June 2013	$-	209,740
			1,127,740

No Rights / option holder has any right under the Rights / options to participate in any other share issue of the Group or any other entity.

All Rights / options expire on the earlier of their expiry date or termination of the employee's employment. In addition, the ability to exercise the Rights / options is conditional on the Group achieving certain performance hurdles. Further details are included in the Remuneration report.

Shares issued on the exercise of Rights / options

During or since the end of the financial year, the Company has not issued ordinary shares as a result of the exercise of Rights / options.

Insurance of officers

Since the end of the previous financial year the Company has paid insurance premiums in respect of Directors' and officers' liability and legal expenses' insurance contracts, for current and former Directors and officers, including senior executives of the Company and Directors, senior executives and secretaries of its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

The Directors have not included details of the nature of the liabilities covered or the amount of the premiums paid in respect of the Directors' and officers' liability and legal expenses' insurance contracts as such disclosure is prohibited under the terms of the contracts.

Indemnification of officers

The Company has agreed to indemnify the Directors and officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current Directors of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor of the Group, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Compliance Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

Non-audit services (continued)

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

	Consolidated	
	2011	2010
	$	$
1. Audit services		
KPMG Australia:		
Audit and review of financial reports	**488,500**	450,000
Overseas KPMG firms - audit and review of financial reports	**31,768**	31,905
Total remuneration for audit services	**520,268**	481,905
2. Non-audit services		
Taxation services		
KPMG Australia:		
Taxation and other services	**113,838**	126,354
Overseas KPMG firms - taxation services	**26,824**	10,542
Total remuneration for taxation services	**140,662**	136,896

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 105.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors.

JH Hill-Ling
Director

GL Twartz
Director

Dated at Adelaide
this 11th day of September 2011

Corporate governance statement

This report sets out Hills Holdings Limited's (Hills) annual statement on its corporate governance framework for the year ended 30 June 2011.

Hills and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board considers that Hills' corporate governance framework and practices continue to comply with the requirements of the ASX Corporate Governance Council's (ASXCGC) Principles of Good Corporate Governance Principles and Best Practice Recommendations and meet the interests of shareholders.

A description of Hills' main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year and comply with the ASXCGC Corporate Governance Principles and Recommendations.

Full details of the location of the references in this statement which specifically sets out how Hills applies each ASXCGC Principle and Recommendation are contained in the corporate governance section within the Hills website which can be found at www.hillsholdings.com.au. This website also contains copies of the charters and policies referred to in this report.

1 Principle 1: Lay solid foundations for management and oversight

1.1 Role of the Board

The Board operates in accordance with the broad principles set out in its Board charter. The charter details the roles and responsibilities of the Board, as well as the membership and operation of the Board.

The Board's role is to provide the overall strategic direction for Hills, ensure that Hills' activities comply with its constitution and with all legal and regulatory requirements, and define the powers to be reserved to the Board and those that are delegated to its committees and management.

The Board is responsible to the shareholders for the performance of Hills in both the short and the longer term and seeks to balance sometimes competing objectives in the best interests of Hills as a whole.

1.2 Responsibilities of the Board

The responsibilities of the Board include:

- Strategy and Planning - reviewing and approving Hills' business strategies and monitoring their implementation;
- Oversight of management - the appointment, and if appropriate, the removal of the Managing Director, setting the Managing Director's terms and conditions of employment, approving the remuneration policies and practices for all Hills employees, monitoring the performance of the Managing Director and reviewing on a regular basis executive succession planning;
- Financial and Capital Management – reviewing and approving Hills annual and half yearly financial reports, monitoring Hills' financial position on an ongoing basis, overseeing Hills' accounting and financial systems, reviewing the progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments, approving capital management decisions and the dividend policy;
- Shareholders – overseeing effective communication with and reporting to shareholders;
- Other stakeholders – overseeing and approving policies that govern the relationship with other stakeholders;
- Ethics and sustainability – monitoring Hills' culture and its ethics, overseeing and approving Hills' Code of Conduct; and
- Compliance and Risk Management - overseeing Hills' systems for corporate governance, internal control and risk management.

The Board has delegated to the Managing Director the authority to manage the day to day affairs of Hills and the authority to control the affairs of Hills in relation to all matters delegated by the Board in the Hills' Delegation of Authority. These delegations are reviewed on an annual basis.

As part of the oversight of management, the Board has established a process of annual performance review and goal planning, whereby each executive is evaluated against a range of criteria, including achievement of strategic and financial goals, safety performance and business excellence. This performance assessment for senior executives was undertaken during the reporting period.

2 Principle 2: Structure the Board to add value

2.1 Board composition

The Board charter states:

- the Board will consist of a majority of non-executive independent Directors; and
- the Chairman is a non-executive Director appointed by the Board.

The Board seeks to ensure that it has, at any point in time, a board of Directors with an appropriate range of skills, experience, expertise and who have an understanding and competence to deal with current and emerging issues in Hills' business. Hills' succession plans are designed to maintain that appropriate balance of skills, experience and expertise on the Board.

2.2 Directors' independence

The Board has adopted specific principles in relation to Directors' independence. These state that when determining independence, the Board should consider whether the Director:

- is a substantial shareholder of Hills or an officer of, or otherwise associated directly with, a substantial shareholder of Hills;
- is or has been employed in an executive capacity by Hills or any other group member within three years before commencing to serve on the Board;
- within the last three years has been a principal of a material professional adviser or a material consultant to Hills or any other group member, or an employee materially associated with the service provided;
- is a material supplier or customer of Hills or any other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- has a material contractual relationship with Hills or a controlled entity other than as a Director of the Group.

In determining whether a relationship between a Director and Hills is considered to be material, the Board assesses a range of quantitative and qualitative matters including the proportion the transactions represent to both Hills and the Director and the value or strategic importance of the relationship to both Hills and the Director.

The Board regularly assesses the independence of each Director in light of the interests disclosed by them. Each Director is required to provide the Board with all relevant information for this purpose.

2.3 Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office, relationships affecting their independence and their independent status are set out in the Directors' report under the heading "Information on Directors". At the date of signing the Directors' report, there is one executive Director and six non-executive Directors, five of whom have no relationships adversely affecting independence and so are deemed independent under the principles set out above.

2.4 Non-executive Directors

The six non-executive Directors meet regularly during the year, prior to the commencement of scheduled Board meetings without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings are shared with the Managing Director.

2.5 Chairman and Managing Director

The Chairman, Ms Jennifer Hill-Ling is not considered to be an independent Director. Hills considers this departure from ASXCGC Recommendation 2.2 appropriate however given:

- The Hill-Ling family's interest in Hills; and
- Ms Hill-Ling's considerable experience within Hills.

The Chairman is responsible for the leadership and effective performance of the Board. The Chairman is independent of the role of the Managing Director of Hills.

2.6 Term of office

Hills' constitution specifies that all non-executive Directors must retire from office no later than the third annual general meeting (AGM) following their last election. A Director may stand for re-election.

2 Principle 2: Structure the Board to add value (continued)

2.7 Induction

The induction provided to new Directors and senior managers enables them to actively participate in Board decision-making as soon as possible. It ensures that they have a full understanding of Hills' financial position, strategies, operations and risk management policies. It also explains the respective rights, duties, responsibilities and roles of the Board and senior executives and Hills' meeting arrangements.

2.8 Commitment

The Board held 18 Board meetings and an additional corporate strategy workshop during the year. Seven of these meetings were held at operational sites of Hills which included a tour of the facilities and presentations from local management as part of the meeting.

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2011 and the number of meetings attended by each Director is disclosed on page 75 of the Annual Report.

2.9 Independent professional advice

Board Committees have the appropriate resources to discharge their duties and responsibilities, including authority to engage counsel, accountants or other experts as it considers appropriate. Following consultation with the Chairman, Directors are entitled to seek independent professional advice at Hills' expense. Generally, this advice is available to all Directors.

2.10 Performance assessment

The Board undertakes a regular annual assessment of its collective performance and that of individual Directors and its Committees. The Board performance evaluation process is conducted by way of questionnaires to effectively review:

- the performance of the Board and each of its Committees against the requirements of their respective charters; and
- the individual performance of the Chairman and each Director.

Management are invited to contribute to this appraisal process. The questionnaires are completed by each Director. The reports on the Board and Committee performance are provided to all Directors and discussed by the Board. The report on the Chairman's performance is discussed with the Chairman of the Nomination Committee. The Chairman of the Board meets with each Director to discuss his/her individual assessment. From time to time the Board engages external consultants to assist in this process.

The results and action plans are documented and agreed. An assessment carried out in accordance with this process was undertaken during November 2010.

Descriptions of the process for performance assessment for the Board and senior executives are available on the Company's website.

2.11 Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Currently the Board has three standing committees; these are the Nomination, Remuneration and Audit and Compliance Committees.

The committees operate principally in a review or advisory capacity. Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

Membership of the committees is based on Directors' qualifications, skills and experience. Each standing committee is comprised of:

- only non-executive Directors; and
- at least three members, the majority of whom are independent.

All Directors are entitled to attend meetings of the standing committees. Minutes of committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

Ad hoc committees are convened to consider matters of special importance or to exercise the delegated authority of the Board.

2 Principle 2: Structure the Board to add value (continued)

2.12 Nomination committee

The Nomination Committee consists of the following non-executive Directors (a majority of whom are independent):

I Elliot (Chair)
J H Hill-Ling
P Stancliffe

Details of these Directors' attendance at Nomination Committee meetings are set out in the Directors' report on page 75 of the Annual Report.

The Nomination Committee operates in accordance with its charter. The main responsibilities of the Committee are to assist and make recommendations to the Board on:

- Director selection and appointment practices;
- Board composition and tenure;
- succession planning for the Board; and
- Hills' diversity obligations.

When a new Director is to be appointed, the Committee reviews the range of skills, diversity, experience and expertise of candidates and prepares a short-list of candidates for consideration by the Board. Advice is sought from independent search consultants as required.

The Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of Hills. The Board's nomination of existing Directors for reappointment is not automatic and is contingent on their past performance, the requirements of Hills and shareholder approval. The Board is also aware of the advantages of Board renewal and succession planning.

Notices of meetings for the election of Directors comply with the ASX Corporate Governance Council's best practice recommendations.

New Directors are provided with a letter of appointment setting out Hills' expectations, their responsibilities, rights and the terms and conditions of their employment. All new Directors participate in a comprehensive, formal induction program which covers the operation of the Board, its committees and financial, strategic, operations and risk management issues.

3 Principle 3: Promote ethical and responsible decision making

3.1 Code of conduct

Hills has developed a Code of Conduct (the Code) which has been approved by the Board and applies to all Hills Directors, officers, employees, contractors, consultants and associates (collectively Hills Employees). The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in Hills' integrity and to take into account legal obligations and reasonable expectations of Hills' stakeholders.

In summary, the Code sets out the standards of behaviour Hills expects from Hills Employees and informs them of their responsibilities to Hills' shareholders, customers, employees, suppliers and the broader community.

3.2 Security Trading Policy

Hills has adopted a securities trading policy which sets out Hills' policy regarding buying and selling Hills shares and complying with the law on insider trading. The policy applies to all Hills Directors, officers and employees within the Hills group and provides that where a person possesses inside information relating to Hills shares, that person must not deal in Hills shares, procure another person to deal in the shares or pass the inside information to another person.

The policy also restricts Directors and senior employees from dealing in shares during "black out periods" commencing at midnight on 31 December for the Hills half yearly results and midnight on 30 June for the Hills annual results and continuing until midnight (Adelaide time) on the next ASX trading day after the day on which the Hills results are released to the ASX.

The policy is aligned to recent amendments to the ASX Listing Rules on trading policies.

3.3 Whistleblower Protection Policy

Hills encourages its Directors, employees and contractors to report conduct that is dishonest, fraudulent, corrupt or illegal, endangers health and safety, is a suspected breach of Hills' Code of Conduct or any Hills policy. Hills has adopted a whistleblower protection policy to ensure concerns regarding unacceptable conduct can be raised on a confidential basis without fear of reprisal, dismissal or discriminatory conduct.

3 Principle 3: Promote ethical and responsible decision making (continued)

3.4 Diversity Policy

Hills is committed to creating a diverse workplace that is fair and flexible, promotes personal and professional growth and enables employees to enhance their contribution to Hills by drawing from their different backgrounds, beliefs and experiences. Hills has developed a diversity policy, a copy of which can be found on Hills' website.

The policy provides guidance for the development and implementation of relevant plans, programs and initiatives to recognise and promote gender workforce diversity across all areas of Hills' businesses.

The Hills Board is responsible for setting specific gender diversity objectives and a range of metrics designed to measure the achievement of those objectives.

The Board and the Nomination Committee are responsible for assessing, on an annual basis, the objectives and the progress of the achievement against Hills' gender diversity objectives. In accordance with this policy and the ASX Corporate Governance Principles, the Board has established the following objectives in relation to gender diversity. The aim is to achieve these objectives over the coming 3 years as positions become vacant and appropriately skilled candidates are available.

	Objective		**Actual**	
	Number	**%**	**Number**	**%**
Number of women in senior management positions	95	20	68	14.4
Number of women in sales and marketing positions	191	25	137	17.9
Number of women employees in the whole organisation	552	20	461	16.7

A discussion of the gender diversity framework to support the diversity initiatives is set out in the Sustainability section of the Concise Annual Report.

4 Principle 4: Safeguard integrity in financial reporting

4.1 Audit and Compliance Committee

The Audit and Compliance Committee consists of the following non-executive Directors:

F Bennett (Chair)
D Spence
P Stancliffe

Details of these Directors' qualifications and attendance at Audit and Compliance Committee meetings are set out in the Directors' report on pages 72 – 75 of the Annual Report.

All members of the Audit and Compliance Committee are financially literate and have an appropriate understanding of the industries in which Hills operates.

The Audit and Compliance Committee operates in accordance with its charter. The role of the Committee is to assist the Board in:

- Reviewing Hills' financial statements and financial information distributed externally;
- Monitoring the internal control framework, procedures that are designed to ensure compliance with statutory responsibilities and other external reporting requirements, the activities of internal audit, and the adequacy of Hills' risk management framework; and
- Liaison with the external auditor.

4 Principle 4: Safeguard integrity in financial reporting (continued)

In fulfilling its responsibilities, the Committee:

- Receives regular reports from management, the internal auditor and the external auditors;
- Regularly meets with the internal auditor and external auditors;
- Reviews the processes the Managing Director and CFO have in place to support their certifications to the Board;
- Reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- Meets separately with the external auditors and the internal auditor at least once a year without the presence of management; and
- Provides the internal auditor and external auditors with a clear line of direct communication at any time to either the Chair of the Audit and Compliance Committee or the Chair of the Board.

The Audit and Compliance Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

4.2 External auditors

Hills policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. KPMG is Hills' current external auditor. It is KPMG's policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors' report and in note 37 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Board and the Audit and Compliance Committee.

The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

5 Principles 5 and 6: Make timely and balanced disclosures and respect the rights of shareholders

5.1 Continuous disclosure and shareholder communication

Hills has a Communications and Market Disclosure Policy that focuses on continuous disclosure of any information concerning Hills that a reasonable person would expect to have a material effect on the price of Hills securities. This policy also includes the arrangements Hills has in place to promote communication with shareholders and encourage effective participation at general meetings.

The Company Secretary's role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules. All information disclosed to the ASX is posted on Hills' website as soon as it is disclosed to the ASX. The website also enables users to provide feedback and has an option for shareholders to register their email address for direct email updates on Company matters.

6 Principle 7: Recognise and manage risk

6.1 Recognise and manage risk

The Board, through the Audit and Compliance Committee, is responsible for ensuring there are adequate policies in relation to risk management compliance and internal control systems. In summary, Hills' policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of Hills' business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues. Internal audit carries out regular systematic monitoring of control activities and reports to both relevant business unit management and the Audit and Compliance Committee.

6 Principle 7: Recognise and manage risk (continued)

Hills' Risk Committee consisting of the Managing Director, senior executives from the executive management group and a non executive Director assists and makes recommendations to the Audit and Compliance Committee on the design of the risk management framework, the manner in which it is implemented, the measures used to assess the framework's effectiveness and through continuous improvement, how the framework can be enhanced. Risks are considered under strategic, operational, financial and compliance categories at the enterprise and at the business level.

The Board and the Audit and Compliance Committee have received reports from the Risk Committee and management as to the effectiveness of Hills' management of material risks that may impede meeting business objectives.

During the year the Board:

- Reviewed the framework and methodology for risk identification and the degree of risk Hills is willing to accept; and
- Considered Hills' strategic objectives in the context of the enterprise risks.

6.2 Corporate reporting

In complying with ASXCGC Recommendation 7.3, the Board has received a declaration from the Managing Director, who, for the purposes of Section 295A of the *Corporations Act 2001*, has performed the chief executive function and for the period from 8 July 2011, the chief financial officer function, that:

- Hills' financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Group and are in accordance with relevant accounting standards; and
- That the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that Hills' risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

7 Principle 8: Remunerate fairly and responsibly

7.1 Remuneration Committee

The Remuneration Committee consists of the following non-executive Directors (a majority of whom are independent):

J H Hill-Ling (Chair)
I Elliot
D Spence

Details of these Directors' attendance at Remuneration Committee meetings are set out in the Directors' Report on page 75 of the Annual Report.

The current Chairman of the Committee, Ms Jennifer Hill-Ling is not considered to be an independent Director. Hills considers this departure from ASXCGC Recommendation 8.2 appropriate however given the role the Chairman of the Board has in developing and the leading the implementation of the remuneration strategy and framework for Hills.

The Remuneration Committee operates in accordance with its charter. The Remuneration Committee is responsible for developing and making recommendation to the Board on remuneration for the Chairman, the Board Committees, non executive Directors, Hills' remuneration and incentive policies and practices for the Managing Director, direct reports to the Managing Director and other senior executives.

Further information on Directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' report under the heading "Remuneration report". In accordance with Hills' Securities Trading Policy, participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements. Details of this policy can be found on Hills' website.

8 ASX Corporate Governance Council Recommendations Checklist

This table cross-references the ASXCGC Recommendations to the relevant sections of the Corporate Governance Statement and the Remuneration report.

	ASX Corporate Governance Council Recommendations	Reference	Comply
Principle 1:	**Lay solid foundations for management and oversight**		
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	1.1, 1.2	Y
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Remuneration report	Y
1.3	Companies should provide the information indicated in Guide to Reporting on Principle 1.	1.1, 1.2, Remuneration report	Y
Principle 2:	**Structure the Board to add value**		
2.1	A majority of the Board should be independent Directors.	2.1, 2.2	Y
2.2	The chair should be an independent Director.	2.5	N
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	2.5	Y
2.4	The Board should establish a Nomination Committee.	2.12	Y
2.5	Companies should disclose the process for evaluating the performance of the Board, its Committees and individual Directors.	2.10	Y
2.6	Companies should provide the information indicated in Guide to Reporting on Principle 2.	2.1, 2.2, 2.3, 2.5, 2.9, 2.10, 2.11, 2.12	Y
Principle 3:	**Promote ethical and responsible decision-making**		
3.1	Companies should establish a code of conduct and disclose the code or summary of the code as to: • the practices necessary to maintain confidence in the company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	3.1	Y
3.2	Companies should establish a policy concerning diversity and disclose the policy or summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.	3.4	Y
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	3.4	Y

	ASX Corporate Governance Council Recommendations	Reference	Comply
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	3.4	Y
3.5	Companies should provide the information indicated in Guide to Reporting on Principle 3.	3.1, 3.4	Y
Principle 4:	**Safeguard integrity in financial reporting**		
4.1	The Board should establish an Audit Committee.	4.1	Y
4.2	The Audit Committee should be structured so that it: • consists only of non-executive Directors; • consists of a majority of independent Directors; • is chaired by an independent chair, who is not chair of the Board; • has at least three members.	4.1	Y
4.3	The Audit Committee should have a formal charter.	4.1	Y
4.4	Companies should provide the information indicated in Guide to Reporting on principle 4.	4.1	Y
Principle 5:	**Make timely and balanced disclosure**		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	5.1	Y
5.2	Companies should provide the information indicated in Guide to Reporting on Principle 5.	5.1	Y
Principle 6:	**Respect the rights of shareholders**		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	5.1	Y
6.2	Companies should provide the information indicated in Guide to Reporting on Principle 6.	5.1	Y

	ASX Corporate Governance Council Recommendations	Reference	Comply
Principle 7:	**Recognise and manage risk**		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	6.1	Y
7.2	The Board should require management to design and implement the risk management and internal control systems to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	6.1	Y
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	6.2	Y
7.4	Companies should provide the information indicated in Guide to Reporting on Principle 7.	6.1, 6.2	Y
Principle 8:	**Remunerate fairly and responsibly**		
8.1	The Board should establish a remuneration committee.	7.1	Y
8.2	The remuneration committee should be structured so that it: • consists of a majority of independent Directors; • is chaired by an independent chair; and • has at least three members.	7.1	N
8.3	Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of the executive Directors and senior executives.	Remuneration report	Y
8.4	Companies should provide the information indicated in Guide to Reporting on Principle 8.	7.1, Remuneration report	Y

In the opinion of the Directors' of Hills Holdings Limited (the Company):

(a) the consolidated financial statements and notes set out on pages 2 to 67 and the Remuneration report in the Directors' report, set out on pages 76 to 89, are in accordance with the *Corporations Act 2001,* including:

  (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

  (ii) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) there are reasonable grounds to believe that the Company and the group entities identified in note 35 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declaration required by Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2011, from the chief executive officer, who has performed the chief executive function and for the period from 8 July 2011, the chief financial officer function.

This declaration is made in accordance with a resolution of the Directors.

GL Twartz
Director

Dated at Adelaide
this 11th day of September 2011

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the Directors of Hills Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

N T Faulkner
Partner

Adelaide

11 September 2011

Independent auditor's report to the members of Hills Holdings Limited

Report on the financial report

We have audited the accompanying financial report of Hills Holdings Limited (the 'Company'), which comprises the consolidated statement of financial position as at 30 June 2011, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, Notes 1 to 38 comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In Note 1(a), the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the remuneration report

We have audited the remuneration report included in pages 76 to 89 of the Directors' report for the year ended 30 June 2011. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Hills Holdings Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001.*

KPMG

KPMG

N T Faulkner
Partner

Adelaide

11 September 2011

The shareholder information set out below was applicable as at 25 August 2011.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Holding			Ordinary shares Shares	Rights/Options
1	-	1,000	4,902	-
1,001	-	5,000	9,122	-
5,001	-	10,000	4,525	-
10,001	-	100,000	3,402	6
100,001	and over		80	1
			22,031	7

There were 2,411 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares Number held	Percentage of issued shares
RBC Dexia Investor Services Australia Nominees Pty Limited (PIPOOLED A/C)	22,581,156	9.06
Poplar Pty Limited	20,286,335	8.14
Hills Associates Limited	13,455,689	5.40
JP Morgan Nominees Australia Limited	9,774,212	3.92
National Nominees Limited	7,510,239	3.01
Jacaranda Pastoral Pty Ltd	5,968,699	2.40
HSBC Custody Nominees (Australia) Limited	5,308,789	2.13
UBS Nominees Pty Ltd	4,671,979	1.88
Citicorp Nominees Pty Limited	3,577,667	1.44
Cogent Nominees Pty Limited	2,658,851	1.07
Milton Corporation Ltd	2,520,299	1.01
Queensland Investment Corporation	2,313,056	0.93
Donald Cant Pty Ltd	1,979,060	0.79
Colleen Sims Nominees Pty Ltd	1,694,798	0.68
Gwynvill Trading Pty Limited	1,400,000	0.56
RBC Dexia Investor Services Australia Nominees Pty Limited (PIIC A/C)	1,297,293	0.53
Hills Associates Limited & Poplar Pty Ltd	1,188,918	0.48
Warbont Nominees Pty Ltd (Accumulation Entrepot A/C)	1,103,958	0.44
JP Morgan Nominees Australia Limited (Cash Income A/C)	1,088,099	0.44
AMP Life Limited	932,871	0.37
	111,311,968	44.68

C. Substantial holders

Substantial holders in the Company are set out below:

Name	Ordinary shares Number held	Percentage of issued shares
RBC Dexia Investor Services Australia Nominees Pty Limited (PIPOOLED A/C)	22,581,156	9.06%
Poplar Pty Limited	20,286,335	8.14%
Hills Associates Limited	13,455,689	5.40%

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options
No voting rights.

E. On-market buy-back

An on-market buy-back was announced on 23 August 2011, as disclosed in note 38 to the financial statements.

F. Direct payment to shareholder accounts

Dividends may be paid directly to bank, building society or credit union accounts in Australia. Payments are electronically credited on the dividend date and confirmed by mailed payment advice. Shareholders who want their dividends paid this way should advise the Company's share register in writing.

G. Securities Exchange

The Company is listed on the Australian Securities Exchange. The Home exchange is Adelaide.

H. Other information

Hills Holdings Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

I. Offices and Officers

Company Secretary

Mr David Lethbridge

Registered Office

159 Port Road Hindmarsh SA 5007

Telephone: (08) 8301 3200

Facsimile: (08) 8301 3290

Web: www.hillsholdings.com.au

Location of Share Registry

Computershare Investor Services Pty Limited

Level 5, 115 Grenfell Street Adelaide, SA 5000

Telephone (within Australia): 1300 556 161

Telephone (outside Australia): +61 3 9415 4000

Facsimile (within Australia): 1300 534 987

Facsimile (outside Australia): +61 3 9473 2408

Internet address: www.computershare.com.au