

Hills Holdings Limited

Annual report

30 June 2013

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Shareholders' letter

Dear Shareholders

Financial year 2013 has been a year of significant change for Hills.

Our Group Managing Director, Ted Pretty, joined the Company in September 2012. Since then, Ted and his new team have made significant progress on the restructure, transformation and renewal of the Company with the objective of moving from a large diversified group heavily exposed to the manufacturing and steel sectors, towards a 'one Hills' company focused on innovation and the provision of integrated solutions mainly in the technology and communications sector.

We have appreciated your support during this period.

Results

The Hills Group of companies recorded a net loss after tax attributable to owners of \$(94.125 million) for the year ended 30 June 2013. This loss reflects the after tax impact of impairment and restructuring costs, fair value adjustments associated with classifying assets as 'held for sale' and other associated gains or losses on the disposal of businesses which we previously advised to the market.

The Company's underlying FY2013 result was a profit of \$19.201 million before CGU impairments, restructuring and other costs and adjustments referred to above, totalling \$113.326 million after tax (note that this is a non-IFRS measure and is not subject to audit or review). These trading results were achieved in very challenging market conditions.

The Hills Group recorded significantly improved net cash flow from operations of \$81.380 million and net debt was \$3.982 million at 30 June 2013.

Review of year

At our AGM in November 2012, we advised that due to a steeper than anticipated decline in construction activity, volumes and margins, primarily across our manufacturing businesses, our results in the first quarter had been much weaker than expected this financial year. During that period and into the second and third quarters the high Australian dollar and low levels of construction activity made for very difficult market conditions across our manufacturing businesses.

As you would expect, we firstly focused on operational performance improvement initiatives and cost reductions to ensure a stronger balance sheet, low debt levels and solid cash flow. This was achieved with stronger cash flows from operations of \$81.380 million and a low level of gearing (measured as net debt ÷ net debt plus equity) at 1.4%.

Secondly, we announced we would be taking some substantial restructuring and impairment charges, booking gains and losses on disposal of businesses and other associated impairments at 30 June. The total net charges for the year before tax were \$154.578 million, the majority of which were non-cash in nature and will not affect continuing businesses.

Thirdly, we made the decision to divest non-core assets, in particular our industrial assets including Korvest, Orrcon and Fielders. Hills sold its holding in Korvest in February 2013 to a variety of professional and institutional

investors for \$26.166 million (\$6.50 per share) and this was applied to reduce corporate debt. Orrcon and Fielders were restructured to return the businesses to profitability and were treated as 'assets held for sale'. The Company has also sold its stakes in the manufacturing of rehabilitation, mobility and hospital equipment (Hills Healthcare Equipment) and Bailey Ladders.

New strategy

During the year we also advised you that we would be reviewing our strategy and business model to look at the future and we outlined this at our EGM in April of this year.

The Company announced a new strategy which will see Hills as an integrated solutions company. It will concentrate on opportunities in technology and communications, where higher returns are available. It will at the same time retain Hills' brand connection with the home and other trusted environments such as educational institutions, government and enterprises. It will focus on delivering a number of superior services and innovative products in various higher growth markets and segments. Hills will no longer pursue its investment company role and diversification strategy.

In setting this new strategy, the Hills Board outlined its aspirational settings to be achieved by FY2016 including:

- 75% of revenues from technologies and communications;
- 20–25% of revenues from services;
- Sustained earnings growth; and
- Return of funds employed of ROFE of 13–15%.

The Board is committed to this direction.

Subsequent events

Hills announced on 19 August 2013 that it had signed interdependent agreements to sell its steel assets, Fielders and Orrcon, to Bluescope Steel Limited. The transactions are subject to customary terms and conditions precedent including ACCC approval. Completion of the transaction is targeted to occur by the end of December 2013.

Dividend payments

The Board declared a fully franked dividend of 3.25 cents per share which will be paid on 27 September 2013 to registered shareholders as at 20 September 2013.

The Board also reconfirms its intention to target on an annual basis a dividend payout ratio of 50%–75% of underlying profits attributable to owners on a fully franked basis.

Given our strong balance sheet, we continued to suspend our Dividend Reinvestment Plan and Share Investment Plans.

On-market buyback

Your Board is of the opinion that the current share price does not reflect the underlying value of our assets, our business capability and our strong capital position.

On 6 August 2013 we announced our intention to refresh our ability to undertake an on-market buyback. The extension of the buyback provides Hills with the option to acquire shares up to 10 percent (10%) of the issued capital during the next 12 months. This buyback will be earnings per share accretive and will not affect the existing dividend policy.

It is our intention to build sustainable earnings growth for the medium to longer term. It is the decisions we make now that will best position Hills as markets recover and we are confident we have the appropriate strategy, focus and management team to deliver this.

Outlook

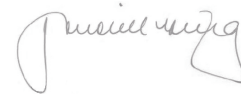
We note the Reserve Bank's recent observation that growth of economic activity is likely to remain below trend into 2014. However, Hills is well positioned. We enter 2014 with little net debt and expect to build positive momentum over the coming year.

Our path to earnings growth is now clearer and we remain committed to delivering

sustainable earnings growth and optimising shareholder value as the implementation of the new Hills vision continues.

On behalf of the Board and management we take the opportunity of thanking you, the shareholders, for your support during the year and assure you of our dedication to position the Company for growth and the delivery of superior returns and to improve the prospects and performance of your Company.

Yours sincerely



Jennifer Hill-Ling



Ted Pretty

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 2013, 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

Fiona Rosalyn Vivienne Bennett

Ian Elliot

David Moray Spence

Peter William Stancliffe

Edward Noel (Ted) Pretty was appointed as Group Managing Director and Chief Executive Officer on 3 September 2012 and continues in office at the date of this report.

Graham Lloyd Twartz was a Director from the beginning of the financial year until his retirement on 2 September 2012.

Matthew Arnold Campbell was a Director at the start of the financial year and resigned on 31 May 2013 to take an Executive Director position in the Company.

Review of operations

Overview

The Hills Group of companies recorded a net loss after tax attributable to owners of \$(94.125 million) for year ended 30 June 2013. This loss reflects the after tax impact of impairment and restructuring costs, fair value adjustments associated with classifying assets as 'held for sale' and other associated gains or losses on the disposal of businesses.

The Company's underlying FY2013 result was a profit of \$19.201 million (before CGU impairment, restructuring and closure costs and other associated impairments totalling \$113.326 million after tax). Note that this is a non-IFRS measure and is not subject to audit or review, but is relevant because it is a measure used internally by management to assess the operating performance of the business. These trading results were achieved in very challenging market conditions and the effects of a poor building and construction sector.

The Hills Group recorded significantly improved net cash-flow from operations of \$81.380 million ended 30 June 2013.

The year in review

In October 2012, Hills advised the market that the Company's first quarter trading results were being impacted by a slowing in the economy and the effects of the building and construction downturn. This saw lower results from Fielders Australia as well as flow on impacts in other businesses also leveraged to the construction and building cycle.

In November 2012, Hills announced its intention to restructure the Group with its key focus on significant cost out and supply chain transformation, working capital, the exit of certain products and businesses, reduction in the number of premises occupied and reduction in staffing levels. The Company also announced it would be taking significant impairments and restructuring charges at the half and full year. Impairment and restructuring charges as at 30 June 2013 were \$154.578 million (\$113.326 million after tax).

As a result of the restructure a number of very positive achievements have been made including:

- Early signs of a positive impact from cost reductions;
- Significant release of working capital;
- Solid progress on asset and business divestments; and
- Significant reduction of net debt.

In respect of the period to 30 June 2013, the Company achieved an underlying NPAT result slightly higher than market consensus.

New strategy

In March 2013, the Company announced a new strategy which will see Hills as an integrated solutions company. It will concentrate on opportunities in technology and communications, where higher returns are available. It will at the same time retain Hills' brand connection with the home and other trusted environments such as educational institutions, government and large, small and medium enterprises. It will focus on delivering a number of superior services and innovative products in various higher growth markets and segments. Hills will no longer pursue its investment company and diversification strategy.

In setting this new strategy, the Company outlined its aspirational settings to be achieved by FY2016 including:

- 75% of revenues from technology and communications;
- 20 – 25% of revenues from services;
- Sustained EPS growth; and
- Return on funds employed of 13 – 15%

Vision and values

Hills is an integrated solutions company. It will concentrate on opportunities in technology and communications. The Company's aim is to focus on delivering superior service and innovative products in trusted environments such as the home, to governments and to business and enterprises.

Hills values are:

- Be open – to new ideas, be innovative and experiment, listen to others, embrace different ways of doing things and always ask if it can be done better.
- Be accountable – to customers, shareholders and each other, commit to seeing things through, spend every dollar as if they were your own.
- Be safe – work safely and considerately, think ahead, act with awareness.

- Be true – act with honesty and integrity with everyone. And above all, stand by your word.
- Grow – as a person, have ambition and help to grow the business to deliver sustained earnings to shareholders.

Debt and funding

Hills' net debt as at 30 June 2013 was \$4.0 million (2012: \$92.4 million). Gearing, measured as net debt to net debt plus equity, stood at 1.4% (2012: 18.7%) at the end of the period. The earliest date for review of any of the Company's bank and debt facilities is August 2015. Hills continues to comfortably meet all of its banking covenants.

Dividends

The Board declared a fully franked dividend of 3.25 cents per share which will be paid on 27 September 2013 to registered holders as at 20 September 2013. The Board also reconfirms its intention to target on an annual basis a dividend payout ratio of 50%–75% of profits on a fully franked basis.

Given Hills' strong Balance Sheet position, the dividend reinvestment plans remain suspended.

On-market share buyback

Given Hills' low levels of debt, the Board has resolved to refresh the on-market buyback of its issued shares announced last year. The announcement of the buyback gives Hills the option to acquire up to 10% of the issued shares over the next 12 months, will be earnings per share accretive and will not affect Hills' existing dividend policy.

Likely developments

In line with the Reserve Bank's recent observation that growth of economic activity is likely to remain below trend into 2014, Hills is very well positioned for growth. The Company enters 2014 with very low net debt and expects to build positive momentum over the coming year.

Hills will continue to implement its restructure and transformation initiatives during the forthcoming year to ensure that its operations are competitive and structured in line with expected market conditions.

In view of the above, Hills is unable at this time to provide specific profit guidance for the year ending 30 June 2014. It is expected that the Company will be in a position to provide an update at its Annual General Meeting in November 2013.

Directors' report

Electronics (Technology) & Communications

The Electronics & Communications division continues to produce the highest profit margins and return on assets employed within any of the Hills segments. This segment operates in two sub-groupings called Technologies (Hills Electronic Security, Lan1, Hills SVL, Hills Antenna & TV Systems, Hills Signalmaster,) and Communications (Access Television Services, Techlife, Step Electronics, UHS (held for sale), OptiComm and Cygnus Satellite).

Hills Electronic Security

- Hills Electronic Security comprises the business operations of Pacific Communications (Pacom), Lan1 and DAS. The business unit markets an extensive range of electronic security products ranging from simple domestic alarms to more complicated integrated surveillance and access control systems. The acquisition of Lan1 has proven to be a success, with the unit exceeding its targets. The Pacom business security unit was again challenged during the period by continuing deferred capital expenditure from governments and major corporates. Nonetheless, it produced a credible result. The domestic alarm market is now commoditising with selling prices and margins remaining lower than trend due to increased competition.
- Lan1 secured a number of contracts for WiMax rollouts in Australia, Tonga and Vanuatu.
- DAS secured contracts for upgrades with Victoria Police for 363 Police stations' security, with the NSW and Victorian Education Departments and Queensland Correction.
- Pacom also secured certain key mining and construction projects.

Hills Sound Vision & Lighting (SVL)

- Hills SVL is a leading provider of professional audio, lighting and control systems to a wide range of customers in Australia and New Zealand and to export markets.
- During the period the business produced an excellent result largely based on good contracts for Creston automation products. Key projects include Fiona Stanley Hospital W.A. and Melbourne Exhibition and Convention Centre.
- Hills SVL's acquisition of certain assets and the operations of Herma Technologies has proven to be successful with the business meeting internal return hurdles.

Hills Antenna and TV Systems

- Hills Antenna and TV Systems provides a comprehensive range of reception and distribution equipment for wireless and both subscription and free-to-air television along with a range of products for the distribution of internet protocol signals. SignalMaster NZ secured a contract with Go Digital for the Targeted Assistance Package providing the supply of equipment, installation and after sales support as various regions switch over to digital broadcast. Antenna secured a contract with Royal Randwick Racecourse (Australian Turf Club) allowing IPTV to 600 outlets (TV/computer) across the venue.
- STEP Electronics has won a multi-million dollar Federal Government contract to service overseas agencies. The four-year contract is for the design, supply and installation of the Department of Foreign Affairs and Trade's (DFAT) bandwidth efficient global satellite network for 51 Australian Embassies and other overseas offices.
- Demand for free to air and satellite equipment remained steady.

Access Television Services, Signal Master, TechLife

- Access Television Services (ATS) in Australia and Signal Master in New Zealand provides subscription television installation services to AUSTAR and SKY TV respectively. Demand was not constant through the period which resulted in ATS experiencing losses. In addition, Foxtel acquired AUSTAR and advised ATS that the contract for installation services would not be renewed. This has resulted in a restructuring of ATS.
- Hills is reviewing the future of its Techlife business in light of the potential or otherwise to secure contracts to provide similar services to government and commercial customers.

OptiComm/Cygnus

- Hills has a strategy to continue to expand its exposure to communications markets but is assessing the business model to do so.
- The 50% owned OptiComm business provides fibre to the node and fibre to the home in new housing developments. Hills has commenced assessing the future potential of this business in light of mooted changes to the NBN structure if a change of Government occurs.
- The 50% owned Cygnus Satellite business provides bandwidth to rural and remote markets in Australia. Cygnus has extended its distribution relationship through Telstra Corporation Limited at lower but still attractive margins. Performance in the period was strong. Cygnus provides Telstra with the Iterra IP Satellite Communication service for Telstra's remote resource industry customers. Sales revenues for these satellite products grew significantly in FY2013.

Lifestyle & Sustainability

The Lifestyle and Sustainability division comprises Hills Home and Hardware Products operations in Australia and New Zealand. It also comprises the Hills Healthcare, Rehabilitation and Mobility business (now sold), LW Gemmell plumbing supplies (currently under a sales process) and Team Poly (now restructured as Hills Polymers).

Home & Hardware Products

- The results of the Hills traditional branded products business in sprayers and clotheslines experienced uneven performance and a decline in share during the period due to poor marketing and supply chain practices. This has been under review and an action plan developed for recovery.
- Product releases during the year included the expansion of the Garden Product range; re-establishment of our Hills brand in the UK after an absence of seven years, opened channels into five new regions – Malaysia, Thailand, Indonesia, India and Myanmar.
- Consistent with its decision to focus the Company on core business, Hills has sold the Bailey Ladders business and plant to Werner Co.
- LW Gemmell provides speciality plumbing products to the building industry. This business has faced ongoing softness in the building and construction market during the period. It is now considered a non-core asset. It is the intention to sell this business.

Hills Healthcare

- Hills Healthcare was a manufacturer of rehabilitation, mobility and hospital equipment in Australia. In January 2013 this business was sold to Anacacia Capital and is now known as KCare.
- Results in this business were unsteady during the first half of the period due to increasing import competition.

Team Poly/Hills Eco

- Hills has exited Team Poly by selling its tanks business which operated in a highly competitive market with low barriers to entry. However, the crushing plant was retained under the name Hills Polymers and this unit now delivers a modest profit. Despite some success with the innovative Smart Bar range of frontal protection systems, the results from Team Poly during the relevant period were disappointing.

Building & Industrial

The Building & Industrial Division comprises Orrcon Steel, Fielders Australia and Korvest.

Orrcon Steel

- Orrcon Steel is a leading manufacturer and distributor of steel tube and pipe in Australia. Orrcon specialises in the manufacture of precision tube, structural tube and rectangular sections and distributes a range of other steel products including oil, gas and water pipelines. The results from Orrcon Steel substantially improved over the previous year with a good focus on working capital efficiency and through securing recurring pipeline project contract work. Key contracts for major pipeline work were secured and delivered in the year including with Santos.
- There have been ongoing changes and efficiency measures to the structure at Orrcon Steel designed to meet the changing market conditions including low priced imported products which continue to present a challenge.
- This business is a now an 'asset held for sale'.

Fielders

- The Fielders roll forming roofing and flooring business is a market leader in new and innovative products. During the period, the business secured a number of major projects for its Aramax Free Span, KingFlor® and KingKlip® Free Form and Fielders Cantilevered Shelters & Walkways products. However, the decline in both domestic and commercial building activity saw lower volumes and prices available to Fielders although market share was

held nationally.

- Hills undertook significant restructuring of the business in late 2012 including the closure of its loss-making Queensland operation and the merger of its Regency Park SA operations into the nearby Mile End facility. This has driven efficiencies and returned the business to a profit in the second half of the period.
- Fielders has retained its mobile mills capabilities for use at customer sites giving great efficiencies in the erection of commercial buildings.
- This business is a now an 'asset held for sale'.

Korvest

- Hills formerly held 48.6% of Korvest which comprises the market leading Ezystrut cable and pipe support business, Korvest Galvanisers and Indax industry access equipment. The Korvest business recorded a steady performance in the first half of the year.
- As part of its new strategy, Hills sold its holding in Korvest in February 2013 to a variety of professional and institutional investors for \$26 million (\$6.50 per share) and this was applied to reduce corporate debt. As Korvest is a separately listed public company, further details are available from the Korvest website.

Subsequent events

Hills announced on 19 August 2013 that it had signed interdependent agreements to sell its steel assets, Fielders and Orrcon, to Bluescope Steel Limited. The transactions are subject to customary terms and conditions precedent including ACCC approval. Completion of the transactions is targeted to occur by the end of December 2013. See note 35 for further information.

Directors' report

Information on directors

Jennifer Helen Hill-Ling LLB (Adel) FAICD.

Chairman, Non-Independent Non-Executive Director Age 51.

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 practised law for some 25 years and was a senior partner in two Sydney law firms in that time. She is also currently a director of Hills Associates Limited and Hills Holdings NZ Limited and was formerly a director of Tower Trust Limited and MS Limited. She is a fellow of the Australian Institute of Company Directors.

Other current listed company directorships

None.

Former listed company directorships in the last three years

None.

Special responsibilities

Chairman of the Board, member of the Remuneration Committee, member of the Nomination Committee.

Interests in shares and options at the date of this report

17,251,423 ordinary shares in Hills Holdings Limited (including 1,188,918 shares owned by Hills Associates Limited and Poplar Pty Ltd (jointly held) and 14,450,548 shares owned by Hills Associates Limited of which JH Hill-Ling is a Director).

Nil options over ordinary shares in Hills Holdings Limited.

Edward Noel Pretty BA LLB (Hons).

Group Managing Director and Chief Executive Officer Age 55.

Experience and expertise

Appointed as Group Managing Director and Chief Executive Officer 3 September 2012.

Mr Pretty is a leading business executive and director with significant experience particularly in telecommunications and information technology innovation and product development. He is Australian and New Zealand Advisory Chairman of Tech Mahindra and Mahindra Satyam (part of the Indian headquartered \$14 billion diversified Mahindra Group). He spent two years in the Middle East during his tenure at Gulf Finance House as its Group Chief Executive Officer. Prior to his time at Gulf Finance, Mr Pretty was Chairman of Fujitsu Australia Limited, Chairman of the ASX listed RP Data Limited, and Executive Director at Macquarie Capital Advisers and a member of the Visy Industries Advisory Board. Prior to those roles, he was an Executive at Telstra Corporation Limited, in a number of Group Managing Director positions including Technology Innovation and Product. Mr Pretty has also served as an advisor to and director of Optus Communications and Optus vision and as a partner at media and telecommunications law firm, Gilbert & Tobin prior to joining Telstra.

Other current listed company directorships

Non-Executive Director of Next DC Limited (since 2011).

Former listed company directorships in the last three years

None.

Special responsibilities

Managing Director.

Interests in shares and options at the date of this report

250,000 ordinary shares in Hills Holdings Limited.

Nil performance rights over ordinary shares in Hills Holdings Limited.

Fiona Rosalyn Vivienne Bennett BA (Hons) FCA FAICD FAIM.

Independent Non-Executive Director Age 57.

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).

Director of Beach Energy Limited (since November 2012).

Former listed company directorships in the last three years

None.

Special responsibilities

Chairman of the Audit, Risk 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.

Ian Elliot
FAICD.

Independent Non-Executive Director Age 59.

Experience and expertise

Appointed Director in August 2003.
Appointed Lead Independent Director in December 2011.

Ian Elliot has spent 39 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 Chairman of Zenith Media Pty Ltd, Cordiant Communications Group, Allied Brands Limited, Promentum Limited and Artist & Entertainment Group Limited and Chairman and Chief Executive Officer (CEO) of George Patterson Advertising, and Director of the National Australia Day Council. He is a current Director of the Australian Rugby League Commission.

Other current listed company directorships

Director of Salmat Limited (since 2005).

Former listed company directorships in the last three 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

51,735 ordinary shares in Hills Holdings Limited.

Nil options over ordinary shares in Hills Holdings Limited.

David Moray Spence
B Com.

Independent Non-Executive Director Age 61.

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 Chief Financial Officer (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 VOCUS Communications Limited and of PayPal Australia Pty Ltd.

Other current listed company directorships

Chairman of VOCUS Communications Ltd (since June 2010).

Former listed company directorships in the last three years

None.

Special responsibilities

Chairman of the Remuneration Committee, member of the Audit, Risk and Compliance Committee.

Interests in shares and options at the date of this report

150,000 ordinary shares in Hills Holdings Limited.

Nil options over ordinary shares in Hills Holdings Limited.

Peter William Stancliffe
BE (Civil) FAICD.

Independent Non-Executive Director Age 65.

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.

Other current listed company directorships

Chairman of Korvest Ltd (since 2009).

Director of Automotive Holdings Group Limited (since 2005).

Former listed company directorships in the last three years

None.

Special responsibilities

Member of the Nomination Committee, member of the Audit, Risk and Compliance Committee.

Interests in shares and options at the date of this report

50,000 ordinary shares in Hills Holdings Limited.

Nil options over ordinary shares in Hills Holdings Limited.

Directors' report

Information on directors

Matthew Arnold Campbell.

*Former Non-Independent Executive Director
Age 59.*

Experience and expertise

Appointed Director on 19 December 2011.
Resigned as Director on 31 May 2013.

Matthew Campbell has over 30 years' experience with leading retailers and wholesalers within Australia and New Zealand. Appointments have included General Manager Merchandise with The Warehouse (New Zealand), executive roles with Rebel Sport (General Manager Merchandise, General Manager Retail and Executive Group General Manager of Supply Chain), Managing Director of Epic Records and Group General Manager of Brashes.

Mr Campbell has specialist expertise in driving sustainable growth through development and execution of business strategy, cost productivity and business 'turn around' programs.

Other current listed company directorships

None.

Former listed company directorships in the last three years

None.

Special responsibilities

None.

Graham Lloyd Twartz BA (Adel) DipAcc (Flinders).

Former Group Managing Director Age 56.

Experience and expertise

Appointed Director in July 1993. Appointed as Group Managing Director 1 July 2008. Retired as Director 2 September 2012.

Graham Twartz was the Group Managing Director and Chief Executive Officer and was responsible for Group operations. He was formerly the Finance Director and Company Secretary. Mr Twartz held senior management positions in diversified companies before joining Hills in 1993.

Other current listed company directorships

None.

Former listed company directorships in the last three years

Director of Korvest Ltd (from 1999 until 2 September 2012).

Special responsibilities

None.

Company Secretary

Gai Stephens BEC, LLB, LLM, GAICD, FCA, FTIA, FCIS.

*Director Corporate Services/
Company Secretary*

Experience and expertise

Ms Stephens was appointed to the position of Director Corporate Services on 14 November 2012 and Company Secretary on 18 December 2012.

As Company Secretary, Ms Stephens is responsible for all of the legal and compliance issues associated with Hills. Previously she held the position of Company Secretary and General Counsel at Luxottica (formerly OPSM Group) for 20 years from 1992 until 2012.

During her time at Luxottica, Ms Stephens was responsible for all legal and compliance issues. She was instrumental in numerous acquisitions ranging from single store to multi-store acquisitions and participated in global acquisitions.

In her roles at OPSM and Luxottica, some of Ms Stephens' key responsibilities were intellectual property maintenance, tax structuring, acquisitions and disposals, risk management, Company Secretarial and all corporate legal matters.

Rachel Rees, B.Bus (Acc), Grad Dip CSA, MAICD, FCA, FTIA, FCIS, was appointed to the position of Company Secretary on 1 February 2012 and held this position until 18 December 2012.

Directors' report
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 2013, and the numbers of meetings attended by each Director were:

	Meetings of Committees							
	Full Meetings of Directors		Audit, Risk and Compliance		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
JH Hill-Ling	22	22	-	-	5	5	8	8
EN Pretty~	18	18	-	-	-	-	-	-
FRV Bennett	22	22	7	7	-	-	-	-
I Elliot	19	22	-	-	5	5	7	8
DM Spence	19	22	6	7	-	-	8	8
PW Stancliffe	22	22	2	3	5	5	-	-
MA Campbell^	19	19	3	4	-	-	-	-
GL Twartz*	4	4	-	-	-	-	-	-

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 period

* = Retired as Executive Director 2 September 2012

~ = Commenced as Group Managing Director and Chief Executive Officer on 3 September 2012

^ = Retired as Director 31 May 2013 – now fully employed by Hills Holdings Limited

Directors' report

Remuneration report audited

Introduction from the Chairman of
the Remuneration Committee

Dear Shareholder

After a very tough start to the year, we embarked on a period of significant business transformation during the second half of the year following the appointment of a new CEO Ted Pretty and a much changed management team. A lot was achieved during the last six months of the 2013 year which has enabled us to again align our 2014 remuneration policy so that it supports the broader change in the business and provides clear alignment of Senior Executive remuneration with delivery of improved returns to the shareholder and a stronger business for future years.

A year of transformation

During the mid part of the year, the Company put in place a new Senior Executive structure made up of existing and newly appointed executives, developed a strategic plan for the transformation and commenced the process. The Remuneration Committee is aware that these executives have worked extremely hard to largely complete the transition by end of June and to correctly position the Company for the 2014 year and our future. We have asked them to implement a new unified culture, centralise operations, divest and acquire businesses, all the time operating in a very difficult economy. Despite this we have been able to obtain the services of some great new executives, and together with our loyal Hills employees they have delivered on a significant restructuring and transformation agenda. The revised 2013 financial outcomes, which were advised to the market in July 2013, have been substantially achieved.

The Board has engaged the Godfrey Remuneration Group to provide comparative data for the Senior Executive roles in the Hills Group. The data has confirmed that executive remuneration for Hills is competitive and reflects the levels required to attract and retain highly experienced executives, required to re-establish shareholder value through a time of significant transformation. In considering the remuneration of individual Senior Executives, the Board takes into account the particular skills and experience that they bring and how they may influence the successful transition of Hills.

2013 remuneration outcomes

The Board is cognisant that executive remuneration is an issue of significant and sustained interest for shareholders, which is rightly so. We are pleased to report that the majority of executives achieved most of their transformational goals and financial targets during the second half of the year. It has been a tough trading environment but our loyal staff together with the new executives have pulled through and delivered the result you have today. The tables that follow explain the remuneration outcomes for 2013 which are a mixture of goals set a year ago and the shorter term transitional goals set at the mid year for some of the new executives.

Future remuneration strategies

The Board reviews the Hills remuneration policy and practices annually. As part of the transformation of the Company, the Board is moving to simplify the remuneration policy and ensure strong alignment to the transformation strategic plan with an ongoing focus on improving performance and shareholder returns. We will reward true outcomes in alignment with our strategic plan and the focus on improving shareholder returns as we transition industry segment.

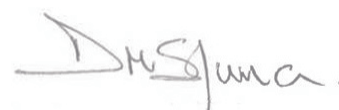
The long-term incentive scheme that has been in place for the last couple of years no longer reflects the new positioning of Hills, nor would it reward any new Senior Executives. It is therefore necessary to outline a new set of long-term incentives, as well as short-term incentives, that align with our goals. Total shareholder returns (TSR) is not a measure we will use during the transformation process as it is difficult to set true comparable measures whilst we undergo a large transformation. Our focus over the next few years is to drive the growth of earnings per share (EPS) in alignment with our strategic vision. Our future remuneration strategies will continue to be transparent and fair.

2014 focus on delivering outcomes

Our path to earnings growth is now a lot clearer. We remain committed to achieving outcomes that are in the best interest of our shareholders who have seen Hills weather the manufacturing decline in Australia, the high Australian Dollar and the significant impairment cost in achieving our transformation. We also remain committed to delivering sustainable earnings growth and optimising shareholder value as the implementation of the new Hills vision continues.

Our Short Term Incentive Program for 2014 is geared 80% towards delivering financial outcomes and 20% towards non-financial, strategic goals.

On behalf of the Board I invite you to review the following Remuneration report.



David Spence
Chairman
Remuneration Committee

Directors' report
Remuneration report audited
continued

The Directors of Hills Holdings Limited (Hills or the Group) present the Hills 2013 Remuneration Report. The Remuneration Report forms part of the Directors' Report and has been prepared in accordance with section 300A of the Corporations Act 2001 (Cth) (the Act). The information provided in this report has been audited as required by section 308(3C) of the Act. For the purposes of section 250R(2) of the Act, the Hills Remuneration Report for FY2012 was adopted without question or comment with Hills receiving more than 91.8% of "yes" votes cast on the report.

The Remuneration Report provides a summary of Hills Remuneration Policy and practice for FY2013 as they relate to the Hills Key Management Personnel, and covers:

1. Overview
2. Remuneration Governance
3. Key Management Personnel
4. Executive Remuneration Strategy
5. Executive Remuneration Framework
6. Relationship between remuneration and Group performance
7. Executive Remuneration Outcomes
8. Executive Contracts
9. Non-Executive Director Remuneration
10. Remuneration Tables

1. Overview

In alignment with the transformation strategy for Hills, FY2013 has seen a number of significant changes which have impacted Company remuneration arrangements, policy and practice:

- There have been significant changes to the Senior Executive team including the appointment of Ted Pretty as the new Managing Director and Chief Executive Officer (CEO).
- David Spence appointed Chairman of the Remuneration Committee.
- There has been a comprehensive review of Board policies and the Board Charter.
- The Remuneration Policy has been updated with a new Short Term Incentive arrangement to align to 2014 transformation goals.
- The Board is currently finalising a long-term incentive plan for the CEO.

Further details of these changes are provided in this report.

2. Remuneration Governance

The Remuneration Committee

The Remuneration Committee (Committee) is responsible for reviewing the Remuneration Policy, processes, incentive schemes and performance of the CEO and Senior Executives. The Committee provides recommendations to the Board on the direction and strategies for Director and the Senior Executive remuneration and benefits, reward and recognition and succession planning. In making its decisions, the Committee considers advice from the CEO, other members of management and external advisors, as well as feedback received from investors and shareholders.

Further information on the Committee's role, responsibilities and membership is contained in the Corporate Governance Statement included in the Annual Report. The Committee's Charter is available on Hills' website, and is reviewed annually. The Board also reviews Hills' Remuneration Policy and practices annually to assess their effectiveness in achieving the Board's objectives.

External advice

Where appropriate, the Committee seeks and considers input from external remuneration advisors. In FY2013, the Committee obtained relevant benchmarking data and recommendations of a general nature from Godfrey Remuneration Group Pty Ltd ('Godfrey') to assist it in its review of Senior Executive remuneration. The appointment terms identify that when providing benchmarking data to Hills, Godfrey report to the Board via the Committee Chairman. The Board is satisfied that the governance arrangements it has established enable Godfrey to deliver the remuneration data free from undue influence.

Directors' report

3. Key Management Personnel

Hills Non-Executive Directors, the Managing Director and those executives that have the authority and responsibility for planning, directing and controlling the activities of Hills are included for the purposes of remuneration reporting. As a result, in addition to the Non-Executive Directors listed on page 6 of the Directors' Report, the following Senior Executives are regarded as the Key Management Personnel (KMP) of Hills for FY2013:

EN Pretty	Managing Director and Chief Executive Officer	Commenced 3 September 2012.
G Logan	Chief Financial Officer	Commenced 8 August 2011.
M Campbell	Executive Director, Hills Home Living	Commenced as a Non-Executive Director on 19 December 2011. Engaged as a Contractor in a senior executive role on 11 January 2013 until 31 May 2013 when he resigned as a Non-Executive Director and a Contractor. Engaged as an employee on 3 June 2013.
L Francis	Executive Director, Hills Communications	Commenced 11 March 2013.
B Newton	Executive Director, Hills Technologies	Commenced 4 March 2013.
G Stephens	Director Corporate Services and Company Secretary	Commenced 15 November 2012.
M McKinstry	Chief Operations Officer, Building & Industrial	Commenced 6 June 2011. Will cease on 30 August 2013
G Twartz	Managing Director	Ceased as Managing Director effective 2 September 2012. ⁽¹⁾
S Cope	CEO Electronics & Communications Division	Ceased effective 1 June 2013.
R Rees	Company Secretary	Resigned from role of Company Secretary on 18 December 2012. Ceased effective 21 December 2012.
A Sullivan	Group General Manager Strategy	Ceased effective 21 December 2012.
A Kachellek	Managing Director, Korvest Ltd	Remains as Managing Director of Korvest but ceased being part of the Hills Group on sale of Korvest on 19 February 2013.

⁽¹⁾ G Twartz ceased as Managing Director on 2 September 2012, and served out a period of notice exiting Hills on 30 November 2012.

This Report incorporates the disclosure requirements of accounting standard AASB 124 *Related Party Disclosures*, as well as those prescribed by the Act. Details of equity holdings, loans and other transactions with respect to KMP are disclosed in note 24 of the financial statements. The information provided in this Report has been audited as required by section 308(3C) of the Act. No payments were made to the KMP before taking office.

4. Executive Remuneration Strategy
Background

Aligned with the transformation of the business, there has been a period of transition in the Senior Executive team with the exit of a number of Senior Executives including the former MD, and the appointment of a new CEO and four new Senior Executives. The Board considers that the leadership transition is instrumental to the successful transformation of Hills from a large diversified group with a focus on the manufacturing and steel sectors, to a company with a strategic focus on innovation and service in the technology sector.

The transition to a company with a stronger alignment to the technology sector necessitates the repositioning of Hills remuneration strategy. For FY2014 the Board has moved to simplify the Remuneration Policy and ensure strong alignment to the transformation strategic plan with an ongoing focus on improving performance and shareholder returns.

Remuneration Strategy

Hills remunerates its people fairly and responsibly. The objectives of the Senior Executive remuneration strategy are to attract and retain talent, motivate and reward outstanding performance and align Senior Executive and shareholder interests. In a time of significant business transformation, achieving the "one" Hills vision requires a remuneration strategy that balances short-term operational earnings and returns with longer term value through underlying earnings growth.

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

Competitive	<ul style="list-style-type: none"> • Remuneration position at the appropriate level relative to the market to be competitive and attract, retain and reward employees
Equitable and Motivational	<ul style="list-style-type: none"> • Employees in similar roles, making similar contributions, with similar performance, receive similar rewards • Motivates employees to deliver business results • Differentiates, but is fair and equitable in its application • The employee's particular skills and experience
Linked to Performance	<ul style="list-style-type: none"> • Directly links individual and company performance to remuneration outcomes • Employees understand what results need to be achieved • Provides an integrated remuneration and performance system framework
Aligned	<ul style="list-style-type: none"> • Align remuneration and incentive outcomes with business goals and results • Support the delivery of the transformation business strategy • Withstand external scrutiny
Straightforward	<ul style="list-style-type: none"> • Understood by all stakeholders and employees

Directors' report

5. Executive Remuneration Framework

The Executive remuneration framework consists of the following components:

Fixed Remuneration	Base Pay Superannuation Other benefits
Performance Related Remuneration	Short Term Incentive Plan (STIP) Long Term Incentive Plan (LTIP)

The above components remain appropriate during the transformation program. The Board considers a combination of a fixed and a performance related remuneration structure provides Senior Executives with a tangible incentive to meet Hills' objectives, as well as aligning the success and profitability of Hills with the interests of shareholders.

The Committee reviews the competitiveness and appropriateness of Hills Remuneration Policy on an annual basis. Individual Senior Executives have different proportions of remuneration that are fixed versus variable. The relative weightings of the three remuneration components for the Senior Executive for FY2013, based on the roles they perform, are set out in the table below. The weightings are calculated on the basis that the "at risk" components (STI and LTI) are at their maximum.

Fixed Remuneration

Fixed remuneration is determined by individual performance and is made up of base salary and superannuation. In June 2013, the Committee sought remuneration

data from Godfrey, benchmarked against ASX companies of a similar market capitalisation and sector, with consideration applied to specific roles in companies in the Industrial & Services sector, with a particular focus on the Technology sub-sector. The Godfrey advice indicated that the Hills executive group was placed well in the market and was generally accepted against market practice except for a few key roles. Remuneration for these roles was necessary to attract particular individuals to these positions.

Short Term Incentive

The STI is an at risk component of remuneration rewarding performance against the achievement of key performance indicators which are set annually. This element of remuneration is considered to be an effective tool in promoting the interests of Hills and its shareholders, and aligning Senior Executive reward with the achievement of Hills' transformation goals.

FY2013 – Short Term Incentive

Senior Executives have different STI targets as a percentage of their Fixed Remuneration depending on their role. In FY2013, due to the substantial change being driven through Hills under the transformation program, and the engagement of a number of new Senior Executives, the focus of the STIP was on the setting of, and achievement against, specific individual short-term restructuring and transformation goals. These goals were considered by the Board to be the key drivers of improved performance for the future. Based on the achievement of these goals, and individual objectives and behaviours, an STI allocation was made as described later in this Report. In determining the STI allocations, the Board also took into account the overall performance for the financial year against the revised transformation objectives for Hills.

FY2014 – Short Term Incentive Plan (STIP)

The FY2014 STIP will align Senior Executive remuneration with Hills' business objectives to drive momentum in financial outcomes with specific focus on EBIT, Working Capital and individual goals. In order to drive performance and improve morale, we are trialling half yearly STIP payments, relating to the achievement of quarterly financial goals. Senior Executives have been set challenging but attainable targets for FY2014 that are directly linked to delivering against business goals. The FY2014 STIP will be:

- measured quarterly and paid at the half year (February) and full year (August); and
- based on financial performance (80%) and individual annual non-financial (20%) measures.

	Fixed	STI	LTI ⁽¹⁾
CEO	55%	45%	0% ⁽²⁾
Other Executive/KMP			
– Range	50% – 70%	20% – 50%	0% – 17% ⁽³⁾
– Average	64%	32%	4%

(1) There was no LTI equity allocation during FY2013

(2) The Board is currently finalising a LTIP for the CEO. See LTI section on page 20.

(3) G Logan participated in a cash based LTIP during FY2013 as detailed below.

Directors' report
Remuneration report audited
continued

The following provides the structure of the STIP for FY2014:

	Business Unit Senior Executives	Corporate Senior Executives
Corporate		
– EBIT/NPAT	30%	50%
– Working Capital	15%	30%
Business Unit		
– EBIT	20%	–
– Working Capital	15%	–
Individual	20%	20%
TOTAL	100%	100%

The FY2014 STIP provides a balance between linking a significant proportion of the potential reward to achieving financial results, while maintaining a focus on key individual non-financial initiatives which are important to the transformation of Hills. The measurement and payment structure is focused on driving strong performance progressively through the year, reinforced by the potential to receive payments at the half and full year.

At the end the first half and full year of FY2014, the Board will assess performance against the set targets and determine the quantum of any payment for the period. New Senior Executives may be eligible to participate in the FY2014 STIP on a pro rata basis.

The following table summarises what will happen to potential FY2014 STIP payments should a Senior Executive cease employment with Hills:

Resignation and Retirement	Any entitlement to payment is subject to the participant being employed by Hills at the time of payment.
Company initiated termination	Any entitlement to a payment will be for completed quarters, with no pro rata for partly completed quarters. The calculation of an entitlement will be based on actual results for the quarter and paid on the scheduled date in February or August.
Summary Dismissal	If summarily dismissed, a participant will forfeit all rights to any payments under FY2014 STIP which have not already been made.

Directors' report

CEO Short Term Incentive Plan

The CEO has a similarly structured STI plan to the existing senior executives that has a number of measures encompassing NPAT, EBIT, Working Capital and other additional measures focused on the ongoing performance and transformation of the business.

Long Term Incentive

In 2010, consistent with Hills' remuneration strategy of rewarding Senior Executives for performance against business plans, and longer term shareholder returns to a level that is appropriate for the results delivered, Hills established a LTIP. The aim of the LTIP was to incentivise Senior Executives by aligning their long-term reward with the interests of shareholders. The LTIP provides that, based on specified performance conditions being achieved, eligible employees may be offered shares in Hills (to be held on trust) or performance rights.

In FY2011 and FY2012 grants of performance rights were made under this LTIP. However, all remaining performance rights allocated under this LTIP have lapsed due to non-achievement of the hurdles, termination of employment of participants, or the participants electing to lapse their entitlements.

Long Term Incentive – FY2013

In FY2013, no grant was made under the LTIP. A LTIP for the CEO was originally included on the agenda of the 2012 AGM, however, this agenda item was withdrawn prior to the meeting. This was due to the difficulty in setting meaningful long-term hurdles at that early stage in the transformation process.

Future Long Term Incentive

In FY2014 Hills plans to introduce a new LTIP which will be put to shareholders at the AGM to be held in November 2013.

Share Trading Policy

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. In addition, KMP are prohibited from trading in Hills securities for specific periods prior to the announcement of the half year and full year results. The Share Trading Policy may be viewed on Hills Corporate Governance webpage.

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. For FY2013 there was a single grant in September 2012 of 100 shares to one eligible employee who was a KMP (S Cope). The shares issued under the Plan cannot be sold until seven years after issue. The value of shares granted is the value of the allotment divided by the weighted average price at which the Group'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. The employee shares were valued using a third party valuation methodology.

6. Relationship between remuneration and Group performance

A key underlying principle of the Senior Executive remuneration strategy is that remuneration must be linked to the performance of Hills.

The following table is a summary of financial and share price information and safety performance over the last five years:

Directors' report
Remuneration report audited
continued

	FY2013	FY12	FY11	FY10	FY09
Earnings before interest and tax (EBIT) (\$'000) ¹	33,138	44,702	40,376	65,469	59,978
Shareholders' funds (\$'000)	271,018	400,963	402,307	496,499	428,520
Return on funds employed (ROFE) based on year end funds employed	11.9%	9.1%	8.2%	12.0%	10.3%
Net profit (\$'000) ²	19,201	28,822	27,126	43,095	34,201
Net profit (\$'000)	(91,387)	28,822	(73,116)	43,095	15,655
Basic earnings per share (cents) ³	7.8	10.5	10.2	16.7	14.6
Dividends (cents)	5.0	10.0	10.0	12.5	10.0
Share price (\$) as at 30 June	\$1.01	\$1.06	\$1.20	\$2.15	\$1.57
Safety (TRIFR)	5.8	10.1	19.8	34.7	41.4

¹EBIT before CGU impairment, restructure and closure costs and other associated impairments offset by profit on sale of businesses in the year ended 30 June 2013 of \$33.138 million is a non-IFRS measure calculated as: EBIT loss of the year of \$36.957 million and EBIT loss attributed to discontinued operations of \$84.483 million adjusted for CGU impairment, restructure and closure costs and other associated impairments offset by profit on sale of businesses of \$154.578M.

²Net profit after tax (NPAT) attributable to owners before CGU impairment, restructure and closure costs and other associated impairments offset by profit on sale of businesses in the year ended 30 June 2013 of \$19.201 million is a non-IFRS measure calculated as: NPAT loss attributable to owners of \$94.125 million adjusted for CGU impairment, restructure and closure costs and other associated impairments offset by profit on sale of businesses of \$113.326 million.

³Basic earnings per share before CGU impairment, restructure and closure costs and other associated impairments offset by profit on sale of businesses in the year ended 30 June 2013 is a non-IFRS measure calculated using NPAT loss attributable to owners of \$94.125 million adjusted for CGU impairment, restructure and closure costs and other associated impairments offset by profit on sale of businesses of \$113.326M.

The non-IFRS measures used by the Company are relevant because they are consistent with measures used internally by management to assess the operating performance of the business. The non-IFRS measures have not been subject to audit or review.

Directors' report

7. Executive Remuneration Outcomes

The following provides details of FY2013 remuneration outcomes for Senior Executives employed at 30 June 2013.

Short Term Incentive

For FY2013, the average percentage STIP payment to the Senior Executives was 87%. In FY2013 the Board determined that the most important outcome to be delivered upon was the restructuring and transformation of the Company to set the foundation for the delivery of financial performance in FY2014 and beyond. As such, the key drivers of the STIP results for FY2013 were the delivery of financial results in accordance with revised expectations, while at the same time incurring significant transformation costs and achieving major milestones through the transformation process during the year. The Board assessed the performance of the CEO and each Senior Executive against their individual restructuring and transformation objectives in determining payments for the year. Where individuals commenced part way through the year, payments were adjusted on a pro rata basis.

Long Term Incentive

In FY2013, two Senior Executives held equity in the LTIP which was granted in FY2011 and FY2012. These Senior Executives chose to waive their remaining rights under the LTIP for no consideration effective 28 June 2013. No allocation was made under the LTIP during FY2013. There are no further outstanding performance rights or options which have been granted to executives under the LTIP as they have now all lapsed.

CFO LTIP Outcome FY2013

Mr Logan will be granted the full amount of his LTIP for the 2013 financial year:

- Performance Component – an amount of \$75,000; and
- Retention Component – an amount of \$75,000.

Payments of both components will occur in 2015. See page 23 for details.

Senior Management remuneration mix

The following table shows the proportion weighting of each element of remuneration for each of the Senior Executives employed at the end of FY2013 based on maximum potential outcome:

Name	Fixed remuneration (%)		Maximum Short Term Incentive (%)		Maximum Long-term Incentive (%)	
	FY2013	FY2012	FY2013	FY2012	FY2013	FY2012
EN Pretty	55%	–	45%	–	–	–
G Logan	63%	64%	20%	29%	17%	7%
M McKinstry	70%	63%	30%	27%	–	10%
M Campbell	67%	–	33%	–	–	–
L Francis	67%	–	33%	–	–	–
B Newton	50%	–	50%	–	–	–
G Stephens	70%	–	30%	–	–	–

8. Executive Contracts

Senior Executives (other than the CEO)

The remuneration and other terms of employment for the Senior Executive team are covered in their individual employment contracts. Terms are summarised as follows:

- There is no guaranteed base pay increase included in any Senior Executives contract and no contract is for a fixed term.
- The contracts may be terminated by either party on notice (ranging from three to six months).
- If a Senior Executive is retrenched there is no entitlement to contractual termination payments except in the contracts of McKinstry and Logan, where termination on grounds of redundancy includes a combined total of redundancy pay and notice of six months (McKinstry) and four months (Logan).
- In the instance of serious misconduct, Hills may terminate employment at any time. The Senior Executive will only receive payment to the date of termination and any statutory entitlements.
- Retirement benefits comprise employer contributions to defined contribution superannuation funds.

CEO & Managing Director (CEO)

Mr Pretty was appointed CEO on 3 September 2012.

The following provides details of his contract terms and remuneration:

Term	The contract is for an initial period of one year and then will continue thereafter until terminated in accordance with the terms of the contract.
Fixed Remuneration	For FY2013 the CEO received Fixed Remuneration of \$900,000 pro rata for his period of employment during the year.
Short Term Incentive	An annual STI opportunity of \$750,000. The Board assesses the performance of the CEO against performance measures to determine the level of STI payment.
Long Term Incentive	A new LTIP is to be put to shareholders at the November AGM.
Termination	After completion of the initial contract term, the CEO's employment may be terminated by Hills by giving six months' notice where such notice is provided within the twelve month period following the initial term and with twelve months' notice thereafter. Mr Pretty may terminate his employment at any time after the initial period by giving Hills six months written notice.
Retirement Benefits	Provided by providing employer contributions to a defined contribution superannuation fund.

Chief Financial Officer (CFO)

In FY2013 the terms of employment of the CFO, Mr Grant Logan, were amended to include a cash based LTIP in place of the FY2014 LTIP and any other LTIP in which other Senior Executives participate. No grants were made to Mr Logan under any plan in existence prior to these amendments. Mr Logan has been offered this plan in recognition of his knowledge of Hills and the critical role that he performs in supporting the transformation of Hills and driving future financial performance. Given the short duration of the LTIP and Mr Logan's anticipated retirement in 2015 a cash based LTIP was considered most appropriate.

The LTIP has two components:

- **Performance Component:** A potential payment of \$75,000 per annum up to and including FY2015. Actual entitlement will be assessed against the same KPIs as those set by the Board for the CEO.
- **Retention Component:** An amount of \$75,000 per annum for each of the three years up to and including FY2015.

Any payment under this LTIP is subject to the CFO being employed by Hills on the date of the announcement of the Company results for FY2015. Participation in this plan is in place of any other LTIP equity plan that may be offered to other Senior Executives.

Directors' report

9. Non-Executive Director Remuneration Approach to setting Non-Executive Director fees

The Committee reviews Non-Executive Director remuneration arrangements annually, and submits its recommendations to the Board for review and approval. The Board may also consider the advice of independent remuneration consultants to ensure that Non-Executive Directors' fees and payments are appropriate and in line with the market.

Maximum aggregate fee pool

Non-Executive Directors are paid fees from a maximum aggregate fee pool of \$1.2 million. The aggregate fee pool and the Directors' fees have remained unchanged since FY2011.

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of the Directors. Non-Executive Directors receive fixed annual fees comprising a Board fee and Committee Chair fee as applicable. No incentive based payments are made to Non-Executive Directors.

Non-Executive Directors (excluding the Chairman) who chair a committee receive an additional \$10,000 per annum. The Chairman's fees are determined independently to the fees of Non-Executive Directors based on comparative roles in the external market. The Chairman's remuneration is inclusive of additional yearly fees for chairing Board committees.

While there has been no increase in the Board Fees, the Board has approved an increase in the fees for the Chairman and members of the Audit, Risk and Compliance Committee effective from 1 June 2013 in recognition of the increased workload with transformation and restructuring.

The following table provides a summary of Non-Executive Director annual fees (including superannuation contributions):

Board Fees	Chairman		Directors	
	Pre – 1 June 2013	From – 1 June 2013	Pre – 1 June 2013	From – 1 June 2013
Board	\$200,000	\$200,000	\$100,000	\$100,000
Committee Fees	Committee Chair		Committee Member	
Audit, Risk & Compliance	\$10,000	\$20,000	Nil	\$10,000
Remuneration	\$10,000	Nil	Nil	Nil
Nomination	\$10,000	Nil	Nil	Nil

Retirement allowance for Non-Executive Directors

Ms J Hill-Ling is the only 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) with a vesting period of eight years, which has been achieved. 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. The benefit is fully provided for in the financial statements.

10. Remuneration Tables

Details of the remuneration paid or payable to the Key Management Personnel (KMP), which includes Directors and Senior Executives of Hills (as defined in AASB 124 *Related Party Disclosures*) are set out in the following table.

Directors' report
Remuneration report audited
continued

2013 Name	Short-term employee benefits			Post employment benefits	Long-term benefits	Share based payments (D)			Total \$
	Cash salary and fees \$	Cash bonus (A) \$	Other (B) \$	Super annuation \$	LSL & Cash based LTIP (C) \$	Termination benefits \$	Performance rights \$	Shares \$	
Non-Executive Directors									
J Hill-Ling	191,132	–	–	17,202	–	–	–	–	208,334
F Bennett	102,446	–	–	9,220	–	–	–	–	111,666
M Campbell (1)	49,694	–	–	4,472	–	–	–	–	54,166
I Elliot	100,917	–	–	9,083	–	–	–	–	110,000
D Spence	94,801	–	–	8,532	–	–	–	–	103,333
P Stancliffe (2)	128,564	–	–	11,571	–	–	–	–	140,135
Subtotal Non-Executive Directors	667,554	–	–	60,080	–	–	–	–	727,634
Executive Directors									
E Pretty (3)	713,206	618,500	17,268	31,193	909	–	–	–	1,381,076
M Campbell (4)	273,517	–	2,816	6,483	–	–	–	–	282,816
G Twartz (5)	137,208	–	51,917	15,848	3,881	–	–	–	208,854
Other Key Management Personnel (Group)									
S Cope (6)	414,512	–	22,794	20,936	–	306,412	139	16	764,809
G Logan (7)	477,435	175,000	14,680	22,592	152,366	–	557	–	842,630
M McKinstry	415,147	50,000	15,289	23,349	–	–	836	–	504,621
L Francis	79,510	43,000	5,106	7,174	108	–	–	–	134,898
B Newton (8)	105,759	64,000	58,113	9,536	216	–	–	–	237,624
G Stephens	154,882	75,000	7,033	13,966	210	–	–	–	251,091
R Rees (9)	113,207	–	1,903	15,473	–	58,715	–	–	189,298
T Sullivan (10)	146,789	15,000	2,088	14,796	–	105,505	–	–	284,178
A Kachellek (11)	188,982	35,094	–	17,222	–	–	–	–	241,298
Total Key Management Personnel compensation (Group)	3,887,708	1,075,594	199,007	258,648	157,690	470,632	1,532	16	6,050,827

(1) M Campbell commenced as a Non-Executive Director on 19 December 2011; was engaged as a Contractor in a senior executive role on 11 January 2013 until 31 May 2013 when he resigned as a Director of the Board.

(2) P Stancliffe remuneration includes Board fees from Korvest Ltd until the sale of Korvest on 19 February 2013.

(3) EN Pretty was appointed MD & CEO 3 September 2012.

(4) M Campbell commenced as a Non-Executive Director on 19 December 2011; was engaged as a Contractor in a senior executive role on 11 January 2013 until 31 May 2013 when he resigned as a Non-Executive Director and a Contractor; and was engaged as an employee on 3 June 2013.

(5) G Twartz ceased as MD on 2 September 2012. For the period between 3 September 2012 and 30 November 2012 when he ceased to be an employee of Hills, G Twartz was not classified as a KMP. However, during this period he was paid \$205,812 while he served the balance of his notice period.

(6) S Cope ceased 1 June 2013. Includes contract redundancy benefit (\$66,412) and payments made during restraint period (\$240,000).

(7) G Logan remuneration includes a value of the cash based LTIP. No payment has been made under this plan, with the potential payment deferred until after FY2015, dependent on employment.

(8) "Other" includes a payment to B Newton of \$50,000 on his commencement with Hills. This amount was deducted from his STIP payment for FY2013.

(9) R Rees resigned from role of Company Secretary on 18 December 2012 and ceased employment with Hills on 21 December 2012. Entire termination benefit is payment in lieu of notice.

(10) T Sullivan ceased employment 21 December 2012. Entire termination benefit is payment in lieu of notice.

(11) A Kachellek remains Managing Director of Korvest but ceased being a KMP of Hills on sale of Hills interest in Korvest on 19 February 2013.

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

(B) Other comprises annual leave accrued in excess of annual leave taken in the year, payment made on commencement of employment and payment in compensation for transferring from the Company's previous defined contribution scheme.

(C) The long-term benefits remuneration comprises the long service leave component of remuneration and represents the expense relating to the provision for long service leave calculated in accordance with accounting standard AASB 119 *Employee Benefits*. It does not represent cash payments or statutory obligations. Long-term benefits also comprises the annualised value of a cash based long-term incentive which is subject to future service conditions.

(D) Share based payment remuneration comprises performance rights in the Long Term Incentive Plan and shares under the Employee Share Plan.

Directors' report

2012	Short-term employee benefits		Post employment benefits	Long-term benefits	Share based payments (D)			Total \$
	Cash salary and fees \$	Cash bonus (A) \$	Other (B) \$	Super annuation \$	LSL (C) \$	Performance rights \$	Shares \$	
Non-Executive Directors								
J Hill-Ling +	192,661	–	5,600	17,339	–	–	–	215,600
F Bennett	100,917	–	–	9,083	–	–	–	110,000
M Campbell	49,347	–	–	4,441	–	–	–	53,788
I Elliot	100,917	–	–	9,083	–	–	–	110,000
R Flynn	31,971	–	–	2,877	–	–	–	34,848
D Spence	91,743	–	–	8,257	–	–	–	100,000
P Stancliffe *	148,576	–	–	13,372	–	–	–	161,948
Subtotal Non-Executive Directors	716,132	–	5,600	64,452	–	–	–	786,184
Executive Directors								
G Twartz +	803,211	40,000	67,230	46,789	34,656	13,822	–	1,005,708
Other Key Management Personnel (Group)								
S Cope +	321,101	75,252	3,884	28,952	20,920	2,513	210	452,832
G Logan ¹	358,451	37,500	1,409	32,309	824	279	–	430,772
M McKinstry	430,214	20,000	14,753	38,719	1,358	418	–	505,462
D Lethbridge ⁴	131,462	10,000	12,314	11,832	–	628	–	166,236
A Muir ²	6,189	–	2,169	557	10,560	–	–	19,475
R Rees ⁵	95,566	5,000	7,301	8,601	213	–	–	116,681
T Sullivan ⁶	284,307	–	–	25,588	1,755	1,759	–	313,409
A Kachellek ³	250,005	138,622	350	33,472	26,033	41,168	–	489,650
Total Key Management Personnel Compensation (Group)	3,396,638	326,374	115,010	291,271	96,319	60,587	210	4,286,409

+ J Hill-Ling and G Twartz remuneration includes a dividend of \$5,600 and S Cope remuneration includes a dividend of \$1,400 paid as shareholders of Hills Associates Limited.

* P Stancliffe remuneration includes Board fees from Korvest Ltd.

¹ G Logan Chief Financial Officer commenced employment on 8 August 2011.

⁴ D Lethbridge, Company Secretary ceased employment on 14 February 2012.

² A Muir Chief Financial Officer ceased employment on 7 July 2011.

⁵ R Rees, Company Secretary commenced employment on 1 February 2012.

⁶ Group General Manager Strategy

³ Managing Director Korvest

Directors' report
Remuneration report audited
continued

In FY2013 the Board determined that the most important outcome to be delivered upon was the restructuring and transformation of the Company to set the foundation for the delivery of financial performance in FY2014 and beyond. As such, the key drivers of the STIP results for FY2013 were the delivery of financial results in accordance with revised expectations, while at the same time incurring significant transformation costs, and achieving major milestones through the transformation process during the year. The Board assessed the performance of the CEO and each Senior Executive against their individual objectives and the overall performance of Hills in determining payments for FY2013. Where individuals commenced part way through the year, payments were adjusted on a pro rata basis.

The total potential and actual STI are as follows:

Name	Full Year Potential STI	Pro rata Potential STI	Actual STI paid/ payable \$	Actual STI paid/ payable as % of Full Year potential STI	Actual STI paid/ payable as % of Pro rata potential STI	STI paid/ payable as % of fixed remuneration
E Pretty*	750,000	618,500	618,500	82%	100%	87%
G Logan	175,000	175,000	175,000	100%	100%	37%
M McKinstry	200,000	200,000	50,000	25%	25%	12%
L Francis*	140,000	43,000	43,000	31%	100%	54%
B Newton*	350,000	64,000	64,000	18%	100%	61%
G Stephens*	120,000	75,000	75,000	63%	100%	48%
M Campbell	-	-	-	-	-	-
G Twartz	-	-	-	-	-	-
S Cope	-	-	-	-	-	-

* Pretty, Francis, Newton and Stephens joined Hills during the 2012/13 financial year, and therefore have less than 12 months' service. STI payments and targets have been pro-rated accordingly.

The proportion of actual STI and LTI compared to fixed remuneration as a proportion of remuneration is as follows:

Name	Fixed Remuneration %	At Risk/STI Paid Payable %	Value of Performance Rights/Options/Cash LTI as a proportion %
E Pretty	54.6%	45.4%	0.0%
M Campbell	100.0%	0.0%	0.0%
G Logan	63.0%	20.0%	17.0%
M McKinstry	89.8%	10.2%	0.0%
L Francis	66.8%	33.2%	0.0%
B Newton	64.3%	35.7%	0.0%
G Stephens	69.2%	30.8%	0.0%
G Twartz	100.0%	0.0%	0.0%
S Cope	100.0%	0.0%	0.0%

Directors' report

Details of share based compensation and bonuses

(j) Performance rights

The terms and conditions of each grant of performance rights under the LTIP affecting remuneration in the current or a future reporting period are as follows:

Grant date	Date exercisable/ vested	Expiry date	Exercise price	Value per right at grant date	Performance achieved	% Vested
30 April 2011	30 June 2013	30 June 2013	\$0.00	\$0.905	Nil	0%
19 Dec 2011	30 June 2014	30 June 2014	\$0.00	\$0.450	Nil	0%

All performance rights held by Senior Executives, that had not previously vested, either lapsed on termination of employment of the participating executive, or the participating executive elected to lapse their entitlement to the performance rights during FY2013 and they were cancelled for no consideration on 28 June 2013.

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 performance rights hurdle was:

- EPS hurdle: \$n/a (2012: \$0.86)
- TSR hurdle: \$n/a (2012: \$0.04)

The fair value at grant date is independently determined using a Black Scholes methodology for the non-market hurdles and a Monte Carlo valuation methodology for the market hurdles. Details of the assumptions underlying the valuation are set out in note 23 to the financial statements.

No performance rights were granted during FY2013 and none have been granted since the end of the financial year.

No terms of equity settled share based payment transactions (including options and rights granted as compensation to a KMP) 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 Hills provided as remuneration to each KMP are set out below. When vested, each performance right is convertible into one ordinary share of Hills Holdings Limited. Further information on the options is set out above and in note 23 to the financial statements.

No performance rights vested during FY2013.

Directors' report
Remuneration report audited
continued

Name	Number of performance rights granted during the year	Fair value of performance rights at grant date calculated in accordance with AASB 2	Number of options vested during the period	Number of performance rights/options lapsed/cancelled/forfeited during the year	Value at lapse/cancellation/forfeit date ⁽¹⁾
G Logan	–	–	–	41,806	42,224
G Twartz ⁽²⁾	–	–	25,000	526,859	629,596
S Cope	–	–	–	63,429	65,966
M McKinstry	–	–	–	62,709	63,336
T Sullivan	–	–	–	44,398	37,738

(1) The value at lapse date of rights/options that were granted as part of remuneration and that were forfeited or 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.

(2) G Twartz exercised 25,000 options under the previous executive share option plan. In a previous financial year the conditions for exercise of options had been met and the shares then issued were being acquired via a non-recourse loan from the Company. For Accounting Standards purposes shares subject to a non-recourse loan are treated as options until the loan is extinguished, at which point the shares are recognised. This occurred in FY2013.

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 KMP. 25,000 shares which had previously been issued and were subject to a non-recourse loan (so were considered options under Accounting Standards) were exercised during the period by G Twartz. For Accounting Standards this was accounted for as the exercise of options. The value at the exercise date of options that were granted as part of remuneration and were exercised during the period was \$30,100.

Share based compensation benefits

For each grant of rights included in the tables on pages 25 to 27 and 28 to 29, the percentage of the available grant that vested in the financial year, and the percentage that was forfeited because the person did not meet the service criteria are set out below. The performance rights vest after three years, provided the vesting conditions are met (see page above). No performance rights did vest as the conditions are not satisfied, hence the minimum value of the performance rights yet to vest is \$nil.

The percentage of rights forfeited in the year represents the reduction from the maximum number of rights available to vest due to the highest level performance criteria not being met, rights which current executives elected to lapse, as well as rights that have lapsed due to termination of employment.

Name	Financial year granted	Number granted	Value per share	Vested in current year	Number vested	Forfeited/Cancelled/Lapsed	Financial years on which rights originally may vest	Maximum value yet to vest
G Logan	2012	41,806	0.450	0%	–	100%	2014	–
G Twartz	2011	118,926	0.905	0%	–	100%	2013	–
G Twartz	2012	229,933	0.450	0%	–	100%	2014	–
S Cope	2011	21,623	0.905	0%	–	100%	2013	–
S Cope	2012	41,806	0.450	0%	–	100%	2014	–
M McKinstry	2012	62,709	0.450	0%	–	100%	2014	–
T Sullivan	2011	15,134	0.905	0%	–	100%	2013	–
T Sullivan	2012	29,264	0.450	0%	–	100%	2014	–

Directors' report

Principal activities

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

Hills 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 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

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

	2013 \$'000	2012 \$'000
Final ordinary dividend for the year ended 30 June 2012 of 5.0 cents (year ended 30 June 2011: 4.5 cents) per fully paid ordinary share paid on 26 September 2012 (26 September 2011)	12,298	11,190
Interim ordinary dividend ended 30 June 2013 of 0.0 cents (2012: 5.0 cents per fully paid share paid on 30 March 2012)	–	12,293
	12,298	23,483

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 \$8.011 million (3.25 cents per fully paid share) to be paid on 27 September 2013 out of profits for the year ending 30 June 2014 to shareholders on the register as at 20 September 2013. The financial effect of these dividends has not been brought to account in the financial statements ended 30 June 2013 and will be recognised in subsequent financial periods. For more information regarding dividends please refer to note 21 of the financial statements.

Significant changes in the state of affairs

Significant changes in the state of affairs of Hills 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

Hills announced on 19 August 2013 that it had signed interdependent agreements to sell its steel assets, Fielders and Orrcon, to Bluescope Steel Limited. The transactions are subject to customary terms and conditions precedent including ACCC approval. Completion of the transactions is targeted to occur by the end of December 2013. See note 35 for further information.

Apart from the matters 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.

Environmental regulation

Manufacturing

Hills holds all required environmental licences, registrations and permits for its manufacturing sites around Australia. No significant environmental incidents were reported over the 2012–13 financial year and Hills continued to meet or exceed the requirements specified in relevant licences and authorisations.

Greenhouse gas and energy data reporting requirements

The *National Greenhouse and Energy Reporting Act 2007* (NGER Act) requires Hills to report its annual greenhouse gas (GHG) emissions and energy use from facilities over which Hills has operational control. As a result, systems and processes for the collection and calculation of the required data have been established.

Hills first triggered the NGER reporting threshold based on its total corporate group energy consumption during the 2010–11 financial year and has since submitted two annual reports to the Clean Energy Regulator. Hills will not trigger the reporting threshold of 200TJ for the 2012–13 financial year.

National Packaging Covenant

The Australian Packaging Covenant (APC) is a voluntary initiative by Government and industry to reduce the environmental impact of packaging. Hills became a signatory to the APC in 2010 and has established a five year action plan aimed at optimising packaging design, material recovery, recycling and product stewardship. Hills have been formally recognised as the highest performing signatory in the 'Hardware and Homewares – large company' category following the submission of its second annual report during March 2013.

Shares issued on the exercise of 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 Hills Group of Companies, 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.

Directors' report

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 Hills are important.

Details of the amounts paid or payable to the auditor of Hills, 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, Risk 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, Risk 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 fees increased due to significant additional work performed in relation to the Company's restructure and transformation. Non-audit fees will return to normal levels in the next financial year.

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

	Consolidated	
	2013 \$	2012 \$
Audit services		
KPMG:		
KPMG Australia – audit and review of financial statements	520,000	492,000
Overseas KPMG firms – audit and review of financial statements	32,610	32,909
Total remuneration for audit services	552,610	524,909
Taxation services		
KPMG:		
KPMG Australia – taxation and other services	79,641	141,015
Overseas KPMG firms – taxation services	8,772	14,316
Total remuneration for taxation services	88,413	155,331
Other services		
KPMG:		
Financial advisory services	296,516	–
Software implementation assurance services	12,316	76,257
Forensic accounting services	–	46,179
Other consulting services	65,310	40,504
Total remuneration for other services	374,142	162,940
Total remuneration for audit and non-audit services	1,015,165	843,180

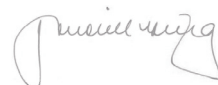
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 33.

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.



Jennifer Helen Hill-Ling
Director



Edward Noel Pretty
Director
Adelaide
20 August 2013



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 2013 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

N T Faulkner
Partner

Adelaide
20 August 2013

Corporate governance statement

This report sets out Hills Holdings Limited's (Hills) annual statement on its corporate governance framework for year ended 30 June 2013 and should be read in conjunction with the Directors' Report and Remuneration Report at pages 6 to 32 of the Annual Report. The Board considers that Hills' corporate governance framework and practices continue to comply with the requirements of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, 2nd Edition (Principles and Recommendations) and meet the interests of shareholders.

Principle 1: Lay solid foundations for management and oversight

The Board has adopted a formal Board Charter which sets out the roles, responsibilities, structure and composition of the Board of Directors of Hills. The matters which require approval by the Board are included. A copy of the Board Charter is available on the Corporate Governance section of the Hills website ('the Hills website').

By providing the overall strategic direction for Hills, the Board ensures that Hills' activities comply with its constitution, and with all legal and regulatory requirements, and defines the powers to be reserved to the Board and those that are delegated to its committees and management.

A summary of duties for the Chairman and the Group Managing Director are reviewed and agreed by the Board. The Board has

delegated to the Group Managing Director the authority to manage the day-to-day affairs of Hills. Hills has comprehensive performance guidelines in place. For the period, each Senior Executive has had their performance assessed against clearly defined objectives and measures developed through the overall process of performance management.

Principle 2: Structure the Board to add value

Ms Jennifer Hill-Ling holds the position of Chairman and is responsible for the leadership and effective performance of the Board. Given the depth of her Company experience and her industry standing she is considered to be excellently placed to serve as Chairman, notwithstanding that pursuant to the ASX recommendation she is not considered an 'independent' Chairman. The Board is composed of four additional Non-Executive Directors and one Executive-Director. The Board regularly assesses the independence of each Non-Executive Director and considers the remaining Non-Executive Directors to be independent. Mr Ian Elliot is the Lead Independent Director. The Non-Executive Directors regularly meet without the Group Managing Director, who is an Executive Director, or other management present. The Chairman is independent of the role of the Group Managing Director of Hills. For these reasons the ASX recommendation for an independent Chairman has not been adopted.

Hills does not consider length of tenure a relevant disqualifying matter for independence and values the experience gained by the Directors in serving on the Board.

The Board has established a Nominations Committee which consists of a majority of independent Non-Executive Directors including Mr Ian Elliot as the Committee Chairman. Details of other members of the Committee are provided in the Directors' Report.

A copy of the Committee's Charter is available on the Hills website. The Board's policy for the nomination and appointment of Directors is to fulfil its responsibilities to shareholders having regard to the law and high standards of governance by ensuring that the Board is comprised of individuals with an appropriate range of skills, experience, expertise, and that the Board benefits from diversity of gender. Pages 10 to 12 of the Annual Report sets out the qualifications, expertise and experience of each Director and their period in office.

There is a procedure in place which provides for Directors to take independent advice at the expense of the entity.

On an annual basis the Board conducts a review of Board, Committee and individual member performance along with a review of Director independence. The Process for the Evaluation of Board Performance is available on the Hills website.

Principle 3: Promote ethical and responsible decision making

The Hills Code of Conduct (the Code) provides guidance on what is acceptable behaviour, requiring all Directors, managers and employees to maintain the highest standards of integrity and honesty.

Hills expects its Directors, management and staff to report conduct that is dishonest, fraudulent, corrupt or illegal, endangers health and safety, or is a suspected breach of the Code 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.

Hills has adopted a policy with respect to trading in Hills shares by Directors, management and staff in compliance with the ASX Listing Rules requirements.

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. The Board has adopted a diversity policy which requires the setting of specific gender diversity objectives and a range of metrics designed to measure the achievement of those objectives. These objectives and metrics are assessed annually by the Board and the Nomination Committee.

The Board established a set of gender diversity objectives with the aim of achieving the objectives over a period of two years. Previously, these objectives were provided as absolute numbers as well as percentages. During FY2013, due to the major business transformation of Hills which is underway, the FY2014 'numbers' (but not 'percentage' targets) were adjusted to reflect the current structure of Hills. Given this, the table below provides details of the percentage targets only. In addition to the above, two of five (40%) Non-Executive Directors are women.

	Objective %	Actual at 2013 %
Number of women in management positions (including Board members)	20	15.5
Number of women in sales and marketing positions	25	17.2
Number of women employees in the organisation	20	18.5

Hills is committed to achievement of these objectives in the year ahead, and will focus on increasing opportunities for women within Hills.

The Code and other Policies referenced above are regularly reviewed and copies are available on Hills website.

Principle 4: Safeguard integrity in financial reporting

Hills is committed to maintaining a transparent system for auditing and reporting of Hills financial performance. The Board has established an Audit, Risk and Compliance Committee which performs a central function in achieving this goal. The Chairman of the Committee is Ms Fiona Bennett and all members of the Committee are independent, Non-Executive Directors. The composition and structure of the Committee and membership attendance at meetings of the Committee are set out in the Directors' Report. The Committee has the opportunity to meet with the external auditors without management present as required. A copy of the Committee's Charter and the procedure for the appointment of external auditors are available on the Hills website.

Principle 5: Make timely and balanced disclosures

Hills has established, and complies with the Communication and Market Disclosure Policy to ensure the market is informed of matters in compliance with the ASX Listing Rules disclosure requirements. A copy of the policy is available on the Hills website.

Principle 6: Respect the rights of shareholders

Hills provides its shareholders with high quality, relevant, factual and useful information in a timely manner and encourages shareholders to access this information primarily from the Hills website. Shareholders are encouraged to make their views known to Hills and to directly raise matters of concern. The Annual General Meeting remains the main opportunity for shareholders to comment and to question the Hills Board and management, and shareholders are encouraged to attend.

Principle 7: Recognise and manage risk

Hills has established policies for the oversight of material business risks. These policies are designed to ensure that strategic, operational, compliance, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of Hills business objectives.

The Board has directed management to design, assess, monitor and review the risk management and internal control framework in place to manage risks. Detailed control procedures cover management accounting,

financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues.

The Board requires management to provide reports during the financial year as to effective management of material business risks. During the financial year, the Audit Risk and Compliance Committee, the Board and relevant management were provided with reports on material risks, including an assessment of the inherent risks, and the effectiveness of controls in place to manage such risks where possible.

The CEO and the Chief Financial Officer have provided the Board with a written declaration in accordance with s295A of the *Corporations Act* that the full year financial statements are founded on a sound system of risk management and internal control, which implements the policies adopted by the Board, and that Hills' risk management and internal control systems are operating efficiently and effectively in all material respects in relation to financial reporting risks.

Principle 8: Remunerate fairly and responsibly

The Remuneration Report at pages 14 to 29 details Hills' remuneration policy and practices for Non-Executive Directors and Senior Executives.

The Board has established a Remuneration Committee whose primary responsibility is to consider remuneration strategy and policy and to make recommendations to the Board that are in the best interests of Hills and its shareholders. The Remuneration Committee operates in accordance with its charter, which is available on the Hills website. The Committee monitors recruitment and development policies which encourage workplace diversity across individual characteristics, backgrounds and skill levels. The composition and structure of the Committee and membership attendance at meetings of the Committee are set out in the Directors' Report.

The current Chairman of the Committee is Mr David Spence who is an independent Director. Details of other members of the Committee are provided in the Directors' Report. Further information on Directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' Report on pages 14 to 29.

Full details of the location of the references in this statement which set out how Hills applies each Principle and Recommendation, and copies of the Charters and Policies referenced above, are contained under 'Corporate Governance' on the Hills website.

Hills Holdings Limited

ABN 35 007 573 417

Annual Report

30 June 2013

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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 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 6 to 9, which is not part of these financial statements. The financial statements were authorised for issue by the Directors on 20 August 2013. The Directors have the power to amend and reissue the financial statements.

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

For queries in relation to corporate reporting please call +61 8 8301 3200 or email info@hillsholdings.com.au

Consolidated income statement

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
Revenue from continuing operations	3	492,520	473,942
Other income	4	15,030	2,220
		507,550	476,162
Expenses excluding finance costs	5	(544,507)	(435,646)
(Loss)/profit before net finance expense and income tax		(36,957)	40,516
Finance income		857	609
Finance expenses		(3,902)	(6,563)
Net finance expense	5	(3,045)	(5,954)
(Loss)/profit before income tax		(40,002)	34,562
Income tax benefit/(expense) from continuing operations	6	11,073	(8,511)
(Loss)/profit from continuing operations		(28,929)	26,051
(Loss)/profit from discontinued operations	7	(62,458)	2,771
(Loss)/profit for the year		(91,387)	28,822
(Loss)/profit is attributable to:			
Owners of Hills Holdings Limited		(94,125)	26,021
Non-controlling interests		2,738	2,801
		(91,387)	28,822
		Cents	Cents
Earnings per share for (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	22	(12.9)	9.4
Diluted earnings per share	22	(12.9)	9.4
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share (cents)	22	(38.2)	10.5
Diluted earnings per share (cents)	22	(38.2)	10.5

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

Consolidated statement of comprehensive income

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
(Loss)/profit for the year		(91,387)	28,822
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges	20	2,162	(2,295)
Exchange differences on translation of foreign operations	20	978	191
Income tax relating to these items	6	(649)	689
Other comprehensive income/(loss) for the year that may be reclassified to profit or loss, net of tax		2,491	(1,415)
<i>Items that will not be reclassified to profit or loss</i>			
(Loss) on revaluation of land and buildings	20	(12,595)	(917)
Income tax relating to these items	6	4,231	103
Other comprehensive (loss) for the year that will not be reclassified to profit or loss, net of tax		(8,364)	(814)
Other comprehensive (loss)/income for the year, net of tax		(5,873)	(2,229)
Total comprehensive (loss)/income for the year		(97,260)	26,593
Total comprehensive (loss)/income for the year is attributable to:			
Owners of Hills Holdings Limited		(99,998)	23,792
Non-controlling interests		2,738	2,801
Total comprehensive (loss)/income for the year		(97,260)	26,593
Total comprehensive (loss)/income for the year attributable to owners of Hills Holdings Limited arises from:			
Continuing operations		(37,540)	21,021
Discontinued operations		(62,458)	2,771
		(99,998)	23,792

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

Consolidated statement of financial position

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	61,480	24,638
Trade and other receivables	9	84,694	177,482
Inventories	10	42,470	165,287
Derivative financial instruments	15	703	–
Current tax receivables	6	6	5,692
Assets classified as held for sale	7	146,075	–
Total current assets		335,428	373,099
Non-current assets			
Investments	11	2	2
Property, plant and equipment	12	78,748	188,027
Intangible assets	13	44,784	65,444
Deferred tax assets	14	60,395	21,905
Total non-current assets		183,929	275,378
Total assets		519,357	648,477
LIABILITIES			
Current liabilities			
Trade and other payables	16	56,818	87,725
Borrowings	17	141	1,333
Provisions	18	34,611	33,239
Derivative financial instruments	15	631	606
Liabilities directly associated with assets classified as held for sale	7	75,854	–
Total current liabilities		168,055	122,903
Non-current liabilities			
Borrowings	17	65,321	115,677
Provisions	18	12,514	4,828
Derivative financial instruments	15	2,449	4,106
Total non-current liabilities		80,284	124,611
Total liabilities		248,339	247,514
Net assets		271,018	400,963
EQUITY			
Contributed equity	19	303,890	303,805
Reserves	20	32,589	43,203
(Accumulated losses)/retained earnings		(66,359)	35,896
Capital and reserves attributable to owners of Hills Holdings Limited		270,120	382,904
Non-controlling interests		898	18,059
Total equity		271,018	400,963

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

Consolidated statement of changes in equity

Attributable to owners of Hills Holding Limited

Consolidated entity

	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings/ (accumulated losses) \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
Balance at 1 July 2011		306,790	57,245	21,504	385,539	16,768	402,307
Total comprehensive income for the year		–	(2,229)	26,021	23,792	2,801	26,593
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs and tax	19	128	–	–	128	–	128
Buyback of shares, net of tax	19	(3,113)	–	–	(3,113)	–	(3,113)
Transactions with non-controlling interests		–	(48)	–	(48)	118	70
Dividends provided for or paid	21	–	–	(23,483)	(23,483)	–	(23,483)
Dividends paid to non-controlling interests in subsidiaries		–	–	–	–	(1,698)	(1,698)
Employee share options – value of employee services	20	–	89	–	89	70	159
Transfer from reserves	20	–	(11,854)	11,854	–	–	–
		(2,985)	(11,813)	(11,629)	(26,427)	(1,510)	(27,937)
Balance at 30 June 2012		303,805	43,203	35,896	382,904	18,059	400,963
Balance at 1 July 2012		303,805	43,203	35,896	382,904	18,059	400,963
Total comprehensive income for the year		–	(5,873)	(94,125)	(99,998)	2,738	(97,260)
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs and tax	19	85	–	–	85	–	85
Dividends paid to non-controlling interests in subsidiaries		–	–	–	–	(1,342)	(1,342)
Dividends provided for or paid	21	–	–	(12,298)	(12,298)	–	(12,298)
Employee share options – value of employee services	20	–	46	–	46	33	79
Transfer from reserves	20	–	(4,168)	4,168	–	–	–
Disposal of subsidiary		–	(619)	–	(619)	(18,590)	(19,209)
		85	(4,741)	(8,130)	(12,786)	(19,899)	(32,685)
Balance at 30 June 2013		303,890	32,589	(66,359)	270,120	898	271,018

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

Consolidated statement of cash flows

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		1,128,303	1,196,701
Payments to suppliers and employees (inclusive of goods and services tax)		(1,048,699)	(1,132,491)
		79,604	64,210
Interest received		808	520
Interest paid		(3,902)	(6,426)
Income taxes refunded/(paid)		4,870	(5,635)
Net cash inflow from operating activities	33	81,380	52,669
Cash flows from investing activities			
Payments for acquisition of business operations, net of cash acquired	29	(5,160)	(2,011)
Payments for property, plant and equipment	12	(10,828)	(12,881)
Payments for software development and other intangible assets		(12,007)	(16,066)
Proceeds from sale of assets classified as held for sale		–	2,702
Rent received		790	787
Proceeds from sale of patents and trademarks		145	–
Proceeds from sale of businesses, net of cash disposed		38,383	–
Proceeds from sale of property, plant and equipment		9,064	1,830
Net cash inflow/(outflow) from investing activities		20,387	(25,639)
Cash flows from financing activities			
Proceeds from borrowings		–	25,000
Payments for shares bought back		–	(3,113)
Repayment of borrowings		(50,218)	–
Dividends paid to Company's shareholders	21	(12,298)	(23,483)
Dividends paid to non-controlling interests in subsidiaries		(1,342)	(1,698)
Loans (paid to)/received from other entities		–	(1,066)
Net cash (outflow) from financing activities		(63,858)	(4,360)
Net increase in cash and cash equivalents		37,909	22,670
Cash and cash equivalents at the beginning of the financial year		23,305	646
Effects of exchange rate changes on cash and cash equivalents		266	(11)
Cash and cash equivalents at end of year	8	61,480	23,305

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

Notes to the consolidated financial statements

I Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated 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), other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001*. Hills Holdings Limited is a for profit entity for the purpose of preparing the financial statements.

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

(i) Compliance with IFRS

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

(ii) New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 *Presentation of Financial Statements* effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

(iii) Early adoption of standards

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

(iv) Historical cost convention

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

- financial instruments (derivatives) 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), 12 and 28.

(v) 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 7 – assets and disposal groups held for sale and discontinued operations
- notes 12 and 13 – valuation of land and buildings and measurement of the useful lives of property, plant and equipment and intangible assets
- note 13 – measurement of the recoverable amounts of cash generating units containing goodwill
- note 15 – derivative financial instruments
- notes 18 and 26 – provisions and contingencies

- note 23 – measurement of share based payments
- note 29 – business combinations

(b) Parent entity financial information

The financial information for the parent entity, Hills Holdings Limited, disclosed in note 31 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 2013 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

Notes to the consolidated financial statements

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. This fair value becomes 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.

(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 translated 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) Sale of goods

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).

(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 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.

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.

(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 27). 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.

(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 interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value 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 a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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.

Notes to the consolidated financial statements

(j) Impairment of 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 the end of each reporting period.

(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. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

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.

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 weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price 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 and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(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 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 are measured at amortised cost using the effective interest method.

Details on how the fair value of financial instruments is determined are disclosed in note 28.

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 measured 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.

(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 15. Movements in the hedging reserve in shareholder's equity are shown in note 20. 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. Trading derivatives are classified as a current asset or liability.

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 hedges

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 plant and equipment) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset.

Notes to the consolidated financial statements

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 plant and equipment.

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.

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 (current and comparative periods):

Buildings	0.75%
Plant and equipment	5.0% to 40.0%
Leasehold improvements	20.0% to 66.67%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 the 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 retained earnings.

(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, identified according to operating segments (note 2).

Notes to the consolidated financial statements
I Summary of significant accounting policies
continued

(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) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 10 years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

(iv) 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.

(v) Fair value

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 and discontinued operations

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 and a sale is considered highly probable. 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.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the Consolidated income statement.

(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.

Notes to the consolidated financial statements

(u) Provisions

Provisions for legal claims, service warranties and make good obligations 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. Warranty provisions are recognised when the underlying products or services are sold. Restructuring provisions are recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or been announced publicly. 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 the 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.

(v) Employee benefits

(i) Short-term obligations

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) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service 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.

The obligations are presented as current liabilities in the Consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when settlement is expected to occur.

(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 and the Employee Share Plan. Information relating to these schemes is set out in note 23.

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 granted under the Long Term Incentive Share 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 granted, measured at the grant date, which includes any market performance conditions and the impact of any non-vesting conditions but includes the probability of meeting any service and non-market performance vesting conditions.

The valuation method takes into account the exercise price of the performance right, the life of the performance right, 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.

Non-market vesting conditions are included in assumptions about the number of rights 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 rights 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.

Notes to the consolidated financial statements
i 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 Company reacquires its own equity instruments, for example as the result of a share buyback, 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) 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.

(z) 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.

(aa) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(ab) 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.

(ac) 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.

(ad) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods and have not yet been applied in the financial statements. The Group’s assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments, AASB 2009–11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010–7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012–6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (effective from 1 January 2015)

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 2015 but is available for early adoption. The Group has not yet decided when to adopt AASB 9 and has not yet determined the potential effect of the standard.

Notes to the consolidated financial statements

I Summary of significant accounting policies

(ii) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 2011–7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* and AASB 2012–10 *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have power, rights and exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The new standard will not have any impact on the composition of the Group.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. The new standard will not have any impact on the amounts recognised in the financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

The Group will adopt the new standards from their operative date. They will therefore be applied in the financial statements for the annual reporting period ending 30 June 2014.

(iii) AASB 13 *Fair Value Measurement* and AASB 2011–8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures.

The Group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the consolidated financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

(iv) AASB 2011–4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual Key Management Personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Notes to the consolidated financial statements

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 indoor and outdoor clothes driers, ladders (until sale of the Bailey Ladders business on 28 June 2013), ironing boards, laundry trolleys, security doors, garden sprayers, rehabilitation and mobility products (until sale of Hills Healthcare Equipment business on 31 January 2013), water tanks (until sale of the water tanks business on 31 March 2013) and other rotationally moulded products, solar hot water products (closed during the financial year), 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

Comprised the business of Korvest Ltd (until sale of the Group's interest in Korvest Ltd on 19 February 2013) and included 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 was managed separately by a divisional CEO (until 28 February 2013) and is now managed by the Director of Hills Technologies and the Director of Hills Communications, and the Lifestyle & Sustainability division is managed by the Executive Director HHP.

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 comprised the operations of Orrcon, Fielders and Korvest. The Group considers these businesses to be 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 did 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 and customers in Europe, The Middle East, South Africa and North America.

Notes to the consolidated financial statements

(b) Segment information

	Electronics & Communications \$'000	Lifestyle & Sustainability \$'000	Building & Industrial \$'000	Korvest Ltd \$'000	Total \$'000
2013					
Total segment revenue	376,081	116,722	489,409	36,508	1,018,720
Inter-segment revenue	–	–	(982)	(91)	(1,073)
Total segment revenue	376,081	116,722	488,427	36,417	1,017,647
Segment EBIT	27,723	1,345	1,800	2,748	33,616
Depreciation and amortisation	3,615	2,839	6,275	929	13,658
Total segment assets	164,087	48,171	128,838	–	341,096
Total assets includes:					
Additions to non-current assets (other than financial assets and deferred tax)	2,453	2,626	2,123	704	7,906
Total segment liabilities	70,041	23,953	57,042	–	151,036
2012					
Total segment revenue	337,111	138,115	536,007	72,323	1,083,556
Inter-segment revenue	–	–	(1,969)	(102)	(2,071)
Revenue from external customers	337,111	138,115	534,038	72,221	1,081,485
Segment EBIT	29,401	10,473	(2,791)	7,925	45,008
Depreciation and amortisation	3,727	3,871	10,095	1,542	19,235
Total segment assets	148,777	106,107	255,170	40,813	550,867
Total assets includes:					
Additions to non-current assets (other than financial assets and deferred tax)	5,418	2,549	8,263	1,801	18,031
Total segment liabilities	44,595	16,263	46,860	7,062	114,780

Notes to the consolidated financial statements

2 Segment information

continued

(c) Other segment information

(i) Segment revenue

Sales between segments are priced on a "cost plus" basis and are eliminated on consolidation. The revenue from external parties reported to the Group Managing Director is measured in a manner consistent with that in the Consolidated income statement.

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

	Consolidated	
	2013 \$'000	2012 \$'000
Total segment revenue	1,018,720	1,083,556
Intersegment eliminations	(1,073)	(2,071)
Other revenue	790	787
Less discontinued operations revenue	(525,917)	(608,330)
Total revenue from continuing operations (note 3)	492,520	473,942

The Group is domiciled in Australia. The amount of its revenue (including revenue from discontinued operations) from external customers in Australia is \$975.467 million (2012: \$1,039.758 million), and the total of revenue from external customers in other countries is \$42.180 million (2012: \$41.727 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.

(ii) Segment EBIT

The Group Managing Director assesses the performance of the operating segments based on a measure of adjusted EBIT. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs and goodwill impairments when the impairment is the result of an isolated, non-recurring event. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

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

	Consolidated	
	2013 \$'000	2012 \$'000
Segment EBIT	33,616	45,008
Interest revenue	703	319
Finance costs	(3,902)	(6,426)
Fair value profit on interest rate swaps and forward exchange contracts	154	153
Other	(218)	(104)
Restructure and impairment costs	(168,040)	–
Gains on sale of businesses	13,462	–
Less discontinued operations profit before tax and restructuring costs	(13,559)	(4,388)
Add back restructuring and impairment costs relating to discontinued operations	97,782	–
(Loss)/profit before income tax from continuing operations	(40,002)	34,562

Notes to the consolidated financial statements

2 Segment information

(iii) 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	
	2013 \$'000	2012 \$'000
Segment assets	341,096	550,867
Cash	61,480	24,638
Current tax receivables	6	5,692
Deferred tax assets	60,395	21,905
Investments	2	2
Derivative financial instruments	703	–
Corporate assets	55,675	45,373
Total assets as per the Consolidated statement of financial position	519,357	648,477

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is \$126.679 million (2012: \$246.620 million), and the total of these non-current assets located in other countries is \$0.462 million (2012: \$6.851 million). Segment assets are allocated to countries based on where the assets are located.

Additions to non-current assets (other than financial assets and deferred tax) for the Group totalled \$22.835 million (2012: \$28.947 million). This comprised \$7.906 million (2012: \$18.031 million) allocated to segments and \$14.929 million (2012: \$10.916 million) not allocated to segments and corporate additions.

Depreciation and amortisation expense for the Group totalled \$15.577 million (2012: \$21.100 million). This comprised \$13.658 million (2012: \$19.235 million) allocated to segments and \$1.919 million (2012: \$1.865 million) related to corporate assets.

(iv) 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.

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

	Consolidated	
	2013 \$'000	2012 \$'000
Segment liabilities	151,036	114,780
Unallocated:		
Tax liabilities (including GST payable)	5,129	5,116
Borrowings	65,462	117,010
Derivative financial instruments	3,080	4,712
Corporate liabilities	23,632	5,896
Total liabilities as per the Consolidated statement of financial position	248,339	247,514

Notes to the consolidated financial statements

3 Revenue

4 Other income

3 Revenue

	Consolidated	
	2013 \$'000	2012 \$'000
Revenue from continuing operations		
<i>Sales revenue</i>		
Sale of goods	422,046	405,791
Services	69,684	67,364
	491,730	473,155
<i>Other revenue</i>		
Rents and sub-lease rentals	790	787
	492,520	473,942
From discontinued operations (note 7)		
Revenue – sales	525,917	608,330

4 Other income

	Consolidated	
	2013 \$'000	2012 \$'000
Net gain on disposal of property, plant and equipment	127	238
Net gain on disposal of businesses	13,462	–
Other income	1,441	1,982
	15,030	2,220

Notes to the consolidated financial statements

5 Expenses

	Consolidated	
	2013	2012
	\$'000	\$'000
Cost of goods sold	655,931	689,764
Cost of services provided	57,594	60,591
Other expenses from ordinary activities:		
Distribution expenses	81,906	90,372
Sales and marketing expenses	119,829	136,713
Administration expenses	71,549	62,744
Other expenses	168,040	–
Transfer to discontinued operations	(610,342)	(604,538)
	544,507	435,646

(Loss)/profit before income tax includes the following specific expenses:

Depreciation

Buildings	1,471	1,911
Plant and equipment	12,791	18,008
Total depreciation	14,262	19,919

Amortisation

Patents and trademarks	978	1,141
Software	34	–
Development costs	303	40
Total amortisation	1,315	1,181
Total depreciation and amortisation	15,577	21,100

Employee benefits expenses

Wages and salaries	166,250	186,459
Defined contribution superannuation expense	14,682	16,266
Other employee benefit expenses	15,694	16,742
Equity settled share based payment transactions	167	264
Total employee benefits expenses	196,793	219,731

Notes to the consolidated financial statements

5 Expenses

continued

	Consolidated	
	2013	2012
	\$'000	\$'000
<i>Finance costs</i>		
Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss	3,902	6,426
Ineffective portion of changes in fair value of cash flow hedges	–	137
	3,902	6,563
<i>Finance income</i>		
Interest income	(703)	(319)
Fair value gains on derivatives	(154)	(290)
	(857)	(609)
Net finance costs expensed	3,045	5,954
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	26,369	27,240
Research and development	230	123
<i>Impairment of financial and other assets</i>		
Plant and equipment	53,806	–
Inventories	31,886	(2,030)
Receivables	4,546	2,069
Intangible assets	33,306	–
Total impairment losses – other assets	123,544	39

Significant items

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

(a) Fielders impairment, restructuring and closure costs	49,492	–
Less: Applicable income tax benefit	(10,842)	–
	38,650	–
(b) Orrcon impairment, restructuring and closure costs	57,034	–
Less: Applicable income tax benefit	(15,163)	–
	41,871	–
(c) Team Poly impairment, restructuring and closure costs	9,313	–
Less: Applicable income tax benefit	(2,794)	–
	6,519	–
(d) Healthcare impairment	7,671	–
Less: Applicable income tax benefit	(222)	–
	7,449	–

Notes to the consolidated financial statements

	Consolidated	
	2013 \$'000	2012 \$'000
Significant items continued		
(e) Antenna impairment, restructuring and closure costs	6,298	–
Less: Applicable income tax benefit	(1,889)	–
	4,409	–
(f) Home and Hardware impairment, restructuring and closure costs	3,853	–
Less: Applicable income tax benefit	(1,156)	–
	2,697	–
(g) Hills Solar impairment, restructuring and closure costs	3,252	–
Less: Applicable income tax benefit	(976)	–
	2,276	–
(h) Group impairment, restructuring and closure costs, net of gains on sale of businesses	17,665	–
Less: Applicable income tax benefit	(8,210)	–
	9,455	–
Total cash generating unit impairment, restructure and closure costs and other associated impairments net of gains on disposal of businesses	154,578	–
Less: Applicable income tax benefit	(41,252)	–
	113,326	–

Significant items discussion

The significant items at 30 June 2013, disclosed within Other expenses, and within note 7 for discontinued operations, are set out in the table to the left and detailed below.

During the financial year the Group undertook a comprehensive review of all operations, including a review of the carrying value of assets and goodwill. Through the second half of the financial year the Group also commenced various transformation initiatives and sold the Korvest, Healthcare and Bailey businesses. This resulted in total impairment, restructuring and closure costs (net of gains on sale of businesses) of \$154.578 million as detailed in the table to the left. The after tax impact is \$113.326 million. The details of the restructuring were announced on 1 November 2012 with further updates provided following the release of the 31 December 2012 half-year results and at subsequent points during the financial year via releases on the ASX. Where impairments of assets were determined on a fair value less costs to sell basis, fair values were determined using the best market information available.

Total impairment, restructuring and closure costs (net of gains on sale of businesses) of \$154.578 million, comprised goodwill impairment \$16.719 million, plant and equipment and other intangibles impairment \$71.647 million, inventory \$31.658 million, other assets \$3.510 million, redundancies \$12.201 million, onerous lease and make good \$19.880 million, warranty \$3.501 million and other costs of \$8.924 million. Gains on sale of businesses were \$13.462 million.

Notes to the consolidated financial statements

5 Expenses

continued

Fielders

Fielders impairment, restructuring and closure costs relate to the closure, consolidation or downsizing of underperforming operations and other general restructuring and redundancy costs. This resulted in total impairment of assets (plant and equipment \$1.806 million, inventories \$2.843 million and other assets \$0.933 million) of \$5.582 million, recognition of onerous lease provisions of \$5.830 million, redundancy costs of \$3.074 million and other general restructuring costs of \$3.555 million. The impairment of specific plant and equipment was determined on a fair value less costs to sell basis.

At 30 June 2013, Fielders is a disposal group and has been classified as a discontinued operation with its assets classified as held for sale – refer note 7. Accordingly, Fielders assets have been classified on the basis of fair value less costs to sell.

The recoverable amount of the cash-generating unit was estimated based on its fair value less costs to sell. Based on this, goodwill of \$7.789 million was impaired. The remaining assets were impaired by a further \$23.662 million. Fielders forms part of the Building & Industrial segment.

Orrcon

Orrcon impairment, restructuring and closure costs relate to the exit of certain assets, closure of underperforming branches and other general restructuring and redundancy costs. This resulted in total impairment of assets (plant and equipment \$9.009 million and inventories and spare parts \$1.747 million) of \$10.756 million, recognition of onerous lease provisions of \$6.630 million, redundancy costs of \$0.670 million and other general restructuring costs of \$0.450 million. The impairment of specific plant and equipment was determined on a fair value less costs to sell basis.

At 30 June 2013, Orrcon is a disposal group and has been classified as a discontinued operation with its assets classified as held for sale – refer note 7. Accordingly, Orrcon assets have been classified on the basis of fair value less costs to sell.

This resulted in an impairment of assets of \$38.528 million. Orrcon forms part of the Building & Industrial segment.

Hills Polymers (formerly Team Poly)

Team Poly impairment, restructuring and closure costs relate to the sale of its tank business. This resulted in total impairment of assets (plant and equipment \$3.468 million, inventories \$2.755 million and other assets \$0.278 million) on a fair value less costs to sell basis of \$6.501 million, recognition of onerous lease provisions of \$0.768 million, redundancy costs of \$0.182 million and other general restructuring costs of \$1.862 million. Hills Polymers forms part of the Lifestyle & Sustainability segment.

Healthcare

The Healthcare business was sold effective 31 January 2013. The recoverable amount of the assets of the CGU were assessed on a fair value less costs to sell basis, resulting in specific asset impairments and restructure costs of \$0.741 million and general impairment of assets of \$6.930 million. In accordance with Accounting Standards the general impairment was allocated against goodwill. Healthcare formed part of the Lifestyle and Sustainability segment.

Antenna

Antenna restructuring and closure costs related to the restructuring and closure of underperforming operations. This resulted in total impairment of assets (plant and equipment \$1.605 million, inventories \$0.155 million and other assets \$0.055 million) of \$1.815 million, recognition of onerous lease provisions of \$0.574 million, redundancy costs of \$2.230 million and other general restructuring and closure costs of \$1.679 million. Antenna forms part of the Electronics & Communications segment.

Home & Hardware

Home & Hardware impairment, restructuring and closure costs related to the closure of underperforming operations, consolidation of certain operations and specific asset impairments. This resulted in total impairment of assets (plant and equipment \$0.371 million, inventories \$1.271 million and other assets \$0.451 million) of \$2.093 million, recognition of onerous lease provisions of \$0.941 million, redundancy costs of \$0.795 million and other general restructuring costs of \$0.024 million. Home & Hardware forms part of the Lifestyle & Sustainability segment.

Hills Solar

Hills Solar impairment, restructuring and closure costs related to the closure of this business. This resulted in total impairment of assets (plant and equipment \$0.059 million, inventories \$1.201 million and other assets \$0.231 million) on a fair value less costs to sell basis of \$1.491 million, recognition of redundancy costs of \$0.175 million and other general restructuring costs of \$1.586 million. The impairment of specific plant and equipment was determined on the basis of an exit from this business. Hills Solar forms part of the Lifestyle & Sustainability segment.

Group impairment and restructuring costs

Group impairment and restructuring costs totalled \$31.128 million and related to transformation initiatives, corporate restructuring and specific asset impairments. This was offset by gains on sale of businesses of \$13.462 million.

Costs arising from transformation initiatives and corporate restructuring totalled \$20.053 million and comprised impairment of assets (plant and equipment \$1.646 million and inventories \$4.667 million) of \$6.313 million, onerous lease provisions of \$5.125 million, redundancy costs of \$4.988 million and other restructuring costs of \$3.627 million.

Notes to the consolidated financial statements

5 Expenses

6 Income tax expense

5 Expenses continued

Additionally, specific asset impairments totalled \$11.075 million and related to:

- impairment of software development costs of \$6.588 million. Following the Group-wide review and restructuring, it was identified that certain software costs capitalised within intangible assets would have no future benefit to the Group and in accordance with Accounting Standards these costs were impaired.
- impairment of plant and equipment of \$0.727 million arising from sale and leaseback of assets.
- revaluation decrement on land and buildings of \$0.578 million. At 31 December 2012, the Group's land and buildings were revalued to fair value (refer note 12). The revaluation decrement on one property exceeded the previous revaluation surplus carried in the asset revaluation reserve. In accordance with Accounting Standards, the excess of the decrement over the previous revaluation reserve surplus was charged to profit or loss.
- decrement on land and buildings subsequently reclassified as held for sale of \$1.182 million. The decrement on one property reclassified as held for sale exceeded the previous revaluation surplus carried in the asset revaluation reserve. In accordance with Accounting Standards, the excess of the decrement over the previous revaluation reserve surplus was charged to profit or loss.
- impairment of goodwill in relation to business reclassified as held for sale of \$2.000 million – refer to further discussion in note 13.

6 Income tax expense

	Consolidated	
	2013	2012
	\$'000	\$'000
(a) Income tax (benefit)/expense		
Current tax	1,135	1,946
Deferred tax	(33,872)	10,433
Adjustments for current and deferred tax of prior periods	(101)	(2,252)
	(32,838)	10,127
Income tax (benefit)/expense is attributable to:		
(Loss)/profit from continuing operations	(11,073)	8,511
(Loss)/profit from discontinued operations	(21,765)	1,616
Aggregate income tax (benefit)/expense	(32,838)	10,127
(b) Numerical reconciliation of income tax (benefit)/expense to prima facie tax payable		
(Loss)/profit from continuing operations before income tax (benefit)/expense	(40,002)	38,949
(Loss)/profit from discontinuing operations before income tax (benefit)/expense	(84,223)	–
	(124,225)	38,949
Tax at the Australian tax rate of 30.0% (2012: 30.0%)	(37,267)	11,685
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Goodwill impairment	5,016	–
Non-deductible expenses	767	646
Research and development allowances	(261)	(30)
Gains on sale of businesses	(1,185)	–
Impairment of land and buildings	528	–
Derecognition of deferred tax assets on provisions associated with assets held for sale	3,616	–
	(28,786)	12,301
Difference in overseas tax rates	(45)	(53)
Adjustments for current tax of prior periods	(101)	(2,252)
Previously unrecognised capital losses	(3,906)	–
Tax losses not recognised	–	131
Total income tax (benefit)/expense	(32,838)	10,127

Notes to the consolidated financial statements

6 Income tax expense

continued

	Consolidated	
	2013 \$'000	2012 \$'000
(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:		
Net deferred tax – debited/(credited) directly to equity	–	(61)
(d) Tax (benefit)/expense 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:		
(Losses)/gains on revaluation of land and buildings	(4,231)	(103)
Gains/(losses) on cash flow hedges	649	(689)
	(3,582)	(792)
(e) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	24,138	41,320
Potential tax benefit at 30.0%	7,241	12,396

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 \$0.943 million (2012: \$4.929 million). The potential deferred tax asset not recognised totals \$0.283 million (2012: \$1.479 million).

Revenue tax losses for which a deferred tax asset has been recognised total \$4.705 million (2012: \$2.868 million).

(f) Current tax assets and liabilities

The current tax asset for the Group of \$0.006 million (2012: \$5.692 million) represents the amount of income taxes receivable 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 the Company for any current tax payable assumed and are compensated by the Company for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are

transferred to the Company 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.

Notes to the consolidated financial statements

7 Assets and liabilities classified as held for sale and discontinued operations

The significant operations of Fielders Australia Pty Ltd (Fielders) and Orrcon Operations Pty Ltd (Orrcon) are presented as disposal groups held for sale and as discontinued operations, and the operations of LW Gemmell and UHS are presented as disposal groups held for sale, following the decision of the Directors, in the second half of the financial year ended 30 June 2013, to sell these businesses. Efforts to sell the disposal groups have commenced and sales are expected to be completed within the next twelve months. Refer also to note 35 for details of the sale of Orrcon and Fielders subsequent to 30 June 2013. The assets of Fielders and Orrcon are presented within the total assets of the Building and Industrial segment in note 2. The assets of LW Gemmell are presented within the total assets of the Lifestyle and Sustainability segment in note 2. The assets of UHS are presented within the total assets of the Electronics and Communications segment in note 2.

Certain land and buildings have been classified as held for sale at 30 June 2013. These assets are being actively marketed for sale and the sales are expected to be completed within the next twelve months.

	Consolidated	
	2013 \$'000	2012 \$'000
(a) Assets classified as held for sale		
Disposal group held for sale (discontinued operation – see (c) below)		
Trade and other receivables	70,827	–
Inventories	56,771	–
Property, plant and equipment	234	–
Goodwill	6,875	–
Total assets of disposal group held for sale	134,707	–
Non-current assets held for sale		
Land and buildings	11,368	–
Total assets classified as held for sale	146,075	–

	Consolidated	
	2013 \$'000	2012 \$'000
(b) Liabilities directly associated with assets classified as held for sale		
Disposal group held for sale (discontinued operation – see (c) below)		
Trade and other payables	49,911	–
Provisions	25,943	–
	75,854	–

(c) Discontinued operations

(i) Description

Korvest Ltd

On 19 February 2013, the Group announced that it had sold its shares in Korvest Ltd. Korvest Ltd is reported in these financial statements as a discontinued operation. Financial information relating to the discontinued operation for the previous financial year and the period to the date of disposal is set out below.

Fielders and Orrcon

As set out in (a) above, the Group has announced its intention to sell the operations of Fielders and Orrcon. Accordingly they are reported in these financial statements as discontinued operations. Financial information relating to the discontinued operations for the previous financial year and the current financial year is set out below.

(ii) Financial performance and cash flow information

Korvest, Fielders and Orrcon were not discontinued operations as at 30 June 2012 and the comparative consolidated income statement and consolidated statement of comprehensive income has been re-presented to show the discontinued operations separately from continuing operations. The financial performance and cash flow information presented are for the period to 19 February 2013 (Korvest) and year ended 30 June 2013 (Fielders and Orrcon) (2013 column) and the year ended 30 June 2012.

Notes to the consolidated financial statements
7 Assets and liabilities classified as held for sale
and discontinued operations
continued

	Consolidated	
	2013	2012
	\$'000	\$'000
Revenue (note 3)	525,917	608,330
Expenses	(610,342)	(604,538)
Other income	96	395
Finance income	106	201
(Loss)/profit before income tax	(84,223)	4,388
Income tax (benefit)/expense	21,765	(1,617)
(Loss)/profit after income tax of discontinued operation	(62,458)	2,771
Net cash inflow from operating activities	31,547	13,892
Net cash inflow/(outflow) from investing activities	(1,839)	(6,032)
Net cash (outflow) from financing activities	(9,604)	(10,298)
Net increase in cash generated by the discontinued operations	20,104	(2,438)

An after tax impairment loss of \$21.273 million on the remeasurement of the disposal groups to the lower of their carrying amounts and fair value less costs to sell has been included in Loss from discontinued operations in the consolidated income statement (see note 5).

There are no cumulative income or expenses included in other comprehensive income relating to the disposal groups.

(iii) Details of the sale of Korvest Ltd

Effect of the disposal on the financial position of the Group:

	Consolidated	
	2013	2012
	\$'000	\$'000
Consideration received or receivable:		
Cash	26,166	–
Carrying amount of net assets sold	(16,655)	–
Gain on sale before income tax	9,511	–
Income tax expense	–	–
Gain on sale after income tax	9,511	–

Notes to the consolidated financial statements

7 Assets and liabilities classified as held for sale and discontinued operations

There was no income tax expense in relation to the disposal of Korvest as a result of the Group utilising carry forward capital losses that had not been recognised.

The carrying amounts of assets and liabilities as at the date of sale (19 February 2013) were:

	19 February 2013 \$'000
Cash and cash equivalents	6,120
Trade and other receivables	11,137
Inventories	8,742
Property, plant and equipment	17,082
Tax assets	1,167
Total assets	44,248
Trade and other payables	(3,674)
Provisions	(2,291)
Tax liabilities	(2,392)
Total liabilities	(8,357)
Net assets	35,891

The Group's share of the net assets of Korvest Ltd was \$16.655 million.

(d) Disposal of businesses

During the financial year the Group sold the Healthcare and Bailey businesses. These businesses have not been reclassified as discontinued operations as they were not significant separate major lines of business. Details of the sales are set out below.

(i) Healthcare

On 31 January 2013 the Company sold its Hills Healthcare Equipment division for net consideration of \$9.815 million. The carrying amount of the net assets was \$9.728 million and the gain on sale was \$0.087 million.

(ii) Bailey

On 28 June 2013 the Company sold its Bailey Ladders division for net consideration of \$8.522 million. The carrying amount of the net assets was \$4.658 million and the gain on sale was \$3.864 million.

Notes to the consolidated financial statements

8 Current assets – Cash and cash equivalents

	Consolidated	
	2013 \$'000	2012 \$'000
Cash at bank and in hand	45,407	12,983
Deposits at call	16,073	11,655
	61,480	24,638

(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	
	2013 \$'000	2012 \$'000
Balances as above	61,480	24,638
Bank overdrafts	-	(1,333)
Balances per Consolidated statement of cash flows	61,480	23,305

(b) Risk exposure

The Group's exposure to interest rate risk is discussed in note 28. The maximum exposure to credit risk at the end of the 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 its fair value.

Notes to the consolidated financial statements

9 Current assets – Trade and other receivables

	Consolidated	
	2013 \$'000	2012 \$'000
Trade receivables	82,951	176,309
Provision for impairment of receivables (a)	(3,332)	(6,770)
	79,619	169,539
Other receivables	3,409	5,667
Prepayments	1,666	2,276
	84,694	177,482

(a) Impaired trade receivables

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

	Consolidated	
	2013 \$'000	2012 \$'000
Not past due	48,234	87,839
Past due 0 – 30 days	20,498	59,346
Past due 31 – 90 days	9,697	16,737
Past due more than 90 days	4,522	12,387
	82,951	176,309

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

	Consolidated	
	2013 \$'000	2012 \$'000
At 1 July	6,770	9,180
Provision for impairment recognised during the year	4,546	2,069
Receivables written off during the year as uncollectible	(2,507)	(4,479)
Decrease on business disposal	(1,182)	–
Transferred to held for sale	(4,295)	–
At 30 June	3,332	6,770

Based on low 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 \$3.332 million (2012: \$6.770 million) 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 28.

(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 28 for more information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

Notes to the consolidated financial statements

10 Current assets – Inventories

11 Non-current assets – Investments

10 Current assets – Inventories

	Consolidated	
	2013 \$'000	2012 \$'000
Raw materials and stores	3,280	39,241
Work in progress	1,591	6,064
Finished goods	37,599	119,982
	42,470	165,287

(a) Inventory expense

Write-downs of inventories to net present value recognised as an expense during the year ended 30 June 2013 amounted to \$31.886 million (2012: \$3.758 million). The expense has been included in cost of sales (\$0.228 million) and other expenses or expenses of discontinued operations (\$31.658 million). In 2012 the expense was included in cost of sales.

11 Non-current assets – Investments

	Consolidated	
	2013 \$'000	2012 \$'000
Equity securities	2	2

Notes to the consolidated financial statements

12 Non-current assets – Property, plant and equipment

Consolidated entity	Land \$'000	Buildings \$'000	Plant and equipment \$'000	Total \$'000
At 1 July 2011				
Cost or fair value	54,426	57,838	230,248	342,512
Accumulated depreciation	–	(5,382)	(140,090)	(145,472)
Net book amount	54,426	52,456	90,158	197,040
Year ended 30 June 2012				
Opening net book amount	54,426	52,456	90,158	197,040
Exchange differences	60	39	9	108
Revaluation to fair value	(548)	(369)	–	(917)
Acquisition through business combinations	–	–	104	104
Additions	–	2,138	10,743	12,881
Disposals	–	(464)	(806)	(1,270)
Depreciation charge	–	(1,911)	(18,008)	(19,919)
Closing net book amount	53,938	51,889	82,200	188,027
At 30 June 2012				
Cost or fair value	53,938	58,741	234,205	346,884
Accumulated depreciation	–	(6,852)	(152,005)	(158,857)
Net book amount	53,938	51,889	82,200	188,027

Consolidated entity	Land \$'000	Buildings \$'000	Plant and equipment \$'000	Total \$'000
Year ended 30 June 2013				
Opening net book amount	53,938	51,889	82,200	188,027
Exchange differences	98	45	38	181
Revaluation to fair value	(3,530)	(9,065)	–	(12,595)
Acquisition through business combinations	–	–	4	4
Additions	–	3,962	6,866	10,828
Disposals	(3,694)	(1,791)	(3,437)	(8,922)
Assets included in a disposal group classified as held for sale and other disposals	(7,847)	(9,071)	(13,789)	(30,707)
Depreciation charge	–	(1,471)	(12,791)	(14,262)
Impairment loss	(1,760)	(2,951)	(49,095)	(53,806)
Closing net book amount	37,205	31,547	9,996	78,748
At 30 June 2013				
Cost	37,783	34,974	77,045	149,802
Accumulated depreciation and impairment	(578)	(3,427)	(67,049)	(71,054)
Net book amount	37,205	31,547	9,996	78,748

Notes to the consolidated financial statements
12 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	
	2013	2012
	\$'000	\$'000
Property, furniture, fittings, plant and equipment	113	6,878

(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. During the current financial year, valuations were undertaken for land and buildings based on independent assessments by a member of the Australian Property Institute as at 31 December 2012.

The revaluation decrement recorded at that time of \$7,959,000 was credited to the asset revaluation reserve in shareholders' equity. The revaluation decrement of \$578,000 on one property exceeded the previous revaluation surplus carried in the asset revaluation reserve and was charged to profit or loss.

At 30 June 2013, the Directors considered the fair value of land and buildings in accordance with the December 2012 valuation and subsequent market assessments and the asset class was revalued. This resulted in a further revaluation decrement of \$3.918 million, which was credited to the asset revaluation reserve in shareholders' equity. The revaluation decrement exceeded the revaluation surplus by \$1.182 million and this amount was charged to profit or loss. As a result of the Group's restructuring, a property was transferred to held for sale.

(c) Impairment losses

Property, plant and equipment impairment losses recorded in the year ended 30 June 2013 are discussed in note 5.

Notes to the consolidated financial statements

13 Non-current assets – Intangible assets

	Goodwill \$'000	Patents, trademarks and other rights \$'000	Software* \$'000	Development costs \$'000	Total \$'000
At 1 July 2011					
Cost	122,461	6,250	–	200	128,911
Accumulation amortisation and impairment	(77,225)	(2,393)	–	(80)	(79,698)
Net book amount	45,236	3,857	–	120	49,213
Year ended 30 June 2012					
Opening net book amount	45,236	3,857	–	120	49,213
Additions	–	4	14,962	1,100	16,066
Acquisition of business	1,316	57	–	–	1,373
Amortisation charge	–	(1,141)	–	(40)	(1,181)
Derecognised on disposal	–	(27)	–	–	(27)
Closing net book amount	46,552	2,750	14,962	1,180	65,444
At 30 June 2013					
Cost	121,858	6,267	14,962	1,300	144,387
Accumulation amortisation and impairment	(75,306)	(3,517)	–	(120)	(78,943)
Net book amount	46,552	2,750	14,962	1,180	65,444
Year ended 30 June 2013					
Opening net book amount	46,552	2,750	14,962	1,180	65,444
Additions	–	2	12,005	–	12,007
Acquisition of business	14,342	–	117	–	14,459
Amortisation charge	–	(978)	(34)	(303)	(1,315)
Impairment charge	(16,719)	–	(16,587)	–	(33,306)
Derecognised on disposal	(4,909)	(721)	–	–	(5,630)
Derecognised on transfer to assets held for sale	(6,617)	(14)	–	(244)	(6,875)
Closing net book amount	32,649	1,039	10,463	633	44,784
At 30 June 2013					
Cost	107,336	3,355	27,095	800	138,586
Accumulated amortisation	(74,687)	(2,316)	(16,632)	(167)	(93,802)
Net book amount	32,649	1,039	10,463	633	44,784

* Software includes capitalised development costs being an internally generated intangible asset. Borrowing costs capitalised during the year were \$0.872 million.

Notes to the consolidated financial statements
13 Non-current assets – Intangible assets
continued

(a) Impairment tests for goodwill

During the year ended 30 June 2013, the Group recognised an impairment of goodwill in relation to the Fielders and Healthcare cash generating units (CGUs). During the year ended 30 June 2012, the Group determined that there was no impairment of any of its cash generating units (CGU) containing goodwill or intangible assets with indefinite useful lives.

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).

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

2013	Building and Industrial \$'000	Electronics and Communications \$'000	Lifestyle and Sustainability \$'000	Total \$'000
Hills SVL	–	17,553	–	17,553
OptiComm	–	754	–	754
Lan 1	–	14,342	–	14,342
	–	32,649	–	32,649

2012	Building and Industrial \$'000	Electronics and Communications \$'000	Lifestyle and Sustainability \$'000	Total \$'000
Hills SVL	–	17,553	–	17,553
Hills Healthcare	–	–	11,839	11,839
LW Gemmell	–	–	3,324	3,324
Fielders	7,789	–	–	7,789
OptiComm	–	754	–	754
UHS	–	5,293	–	5,293
	7,789	23,600	15,163	46,552

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 the five year forecast period 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 3.0% (2012: 2.5% – 3.0%), 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 14.91% (2012: 13.7% and 14.91%), 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) Impairment charge

As set out in note 5, during the year ended 30 June 2013, the goodwill totalling \$16.719 million was impaired, predominantly in relation to Fielders and Healthcare. Further explanation is provided in that note. Following the sale of Healthcare effective 31 January 2013, the remaining Healthcare goodwill was derecognised.

(c) Impact of possible changes in key assumptions

A reasonably possible change in any of the key assumptions would not cause the carrying amount of the CGUs to exceed their recoverable amount.

Notes to the consolidated financial statements

14 Non-current assets – Deferred tax assets

	Consolidated	
	2013 \$'000	2012 \$'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	18,022	(2,136)
Inventories	7,389	2,086
Employee benefits	5,430	10,965
Receivables	2,313	2,030
Loans and borrowings	1,228	1,265
Provisions	10,754	1,455
Other accruals	4,029	1,100
Derivative financial instruments	599	1,384
Tax losses	5,551	2,868
Software	4,980	–
Other	100	888
	60,395	21,905

	Balance at 1 July \$'000	Recognised in profit or loss \$'000	Recognised in other comprehensive income \$'000	Recognised in equity \$'000	Balance at 30 June \$'000
Movements 2012					
Property, plant and equipment	5,368	(7,607)	103	–	(2,136)
Inventories	4,869	(2,783)	–	–	2,086
Employee benefits	10,737	228	–	–	10,965
Receivables	2,811	(781)	–	–	2,030
Loans and borrowings	1,218	47	–	–	1,265
Provisions	2,201	(746)	–	–	1,455
Other accruals	2,293	(1,193)	–	–	1,100
Derivative financial instruments	1,303	(608)	689	–	1,384
Tax losses	–	2,868	–	–	2,868
Other items	685	142	–	61	888
	31,485	(10,433)	792	61	21,905

Notes to the consolidated financial statements
14 Non-current assets – Deferred tax assets
continued

	Balance at 1 July \$'000	Recognised in profit or loss \$'000	Recognised in other comprehensive income \$'000	Recognised in equity \$'000	Acquisition/ disposal of business/ subsidiary \$'000	Balance at 30 June \$'000
Movements 2013						
Property, plant and equipment	(2,136)	13,842	4,231	–	2,085	18,022
Inventories	2,086	5,349	–	–	(46)	7,389
Employee benefits	10,965	(4,984)	–	–	(551)	5,430
Receivables	2,030	625	–	–	(342)	2,313
Loans and borrowings	1,265	(37)	–	–	–	1,228
Provisions	1,455	9,409	–	–	(110)	10,754
Other accruals	1,100	2,929	–	–	–	4,029
Derivative financial instruments	1,384	(136)	(649)	–	–	599
Tax losses	2,868	2,683	–	–	–	5,551
Software	–	4,980	–	–	–	4,980
Other items	888	(788)	–	–	–	100
	21,905	33,872	3,582	–	1,036	60,395

Notes to the consolidated financial statements

15 Derivative financial instruments

	Consolidated	
	2013 \$'000	2012 \$'000
Current assets		
Forward foreign exchange contracts – cash flow hedges	703	–
Total current derivative financial instrument assets	703	–
Current liabilities		
Interest rate swap contracts – cash flow hedges	551	–
Forward foreign exchange contracts – cash flow hedges	–	507
Forward foreign exchange contracts – held for trading	80	99
Total current derivative financial instrument liabilities	631	606
Non-current liabilities		
Interest rate swap contracts – cash flow hedges	2,449	4,106
Total non-current derivative financial instrument liabilities	2,449	4,106
Total derivative financial instrument liabilities	(2,377)	(4,712)

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 28).

(a) Instruments used by the Group

(i) Interest rate swap contracts – cash flow hedges

Bank loans to the Group at 30 June 2013 bear an average variable interest rate of 2.9% (2012: 3.8%). 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 2013 cover approximately 100% (2012: 57%) of the loan principal outstanding and are taken out with terms of between three and seven years. The fixed interest rates average 6.0% (2012: 6.0%).

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 2013 a profit of \$49,000 was reclassified into profit or loss (2012: loss of \$137,000) and included in finance cost due to hedge ineffectiveness in the current or prior year and a gain of \$105,000 was reclassified into profit or loss (2012: \$290,000) to offset net interest expense paid.

(ii) Forward 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 Consolidated statement of financial position by removing the related amount from other comprehensive income.

During the year ended 30 June 2013 a gain of \$1,000 was recognised in profit or loss for the ineffective portion of these hedging contracts (2012: \$3,000).

(iii) Forward exchange contracts – 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 28 for details. However, they are accounted for as held for trading.

(b) 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 28. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial assets mentioned above.

Notes to the consolidated financial statements

16 Current liabilities – Trade and other payables

17 Borrowings

16 Current liabilities – Trade and other payables

	Consolidated	
	2013 \$'000	2012 \$'000
Trade payables	19,091	51,129
Other trade payables and accrued expenses	37,727	36,596
	56,818	87,725

(a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 28.

17 Borrowings

	2013		Consolidated			Total \$'000
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	2012 Non-current \$'000	
Secured						
Bank overdrafts	-	-	-	1,333	-	1,333
Total secured borrowings	-	-	-	1,333	-	1,333
Unsecured						
Other loans	141	321	462	-	677	677
Bills payable	-	65,000	65,000	-	115,000	115,000
Total unsecured borrowings	141	65,321	65,462	-	115,677	115,677
Total borrowings	141	65,321	65,462	1,333	115,677	117,010

Notes to the consolidated financial statements

17 Borrowings

(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 million (2012: \$1.000 million); the Company's New Zealand subsidiary has a separate bank overdraft facility of \$1.895 million (2012: \$1.762 million); and a partially owned subsidiary has a bank overdraft facility of \$0.500 million (2012: \$0.500 million).

Unsecured bank loans

The Group has its banking facilities jointly with Commonwealth Bank, National Australia Bank and Westpac Banking Corporation through a Common Deed. The total facility is \$196 million, comprising Tranche A \$81 million, expiring in two years (16 August 2015), Tranche B \$69 million, expiring in three years (16 August 2016), and Tranche C \$46 million, expiring in two years (but subject to annual review) (16 August 2015). Tranches A and B comprise bank loans and Tranche C comprises bank guarantees, letters of credit and cash advances. 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 its ownership interest. An assessment of the contractual maturities of financial liabilities is provided in note 28.

Standby letter of credit

The standby letter of credit facility forms part of the 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.

(b) Fair value

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

Consolidated entity	2013		2012	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
On-balance sheet				
Non-traded financial liabilities				
Bank overdrafts	–	–	1,333	1,333
Bill payable	65,000	65,000	115,000	115,000
Other loans	462	462	677	677
	65,462	65,462	117,010	117,010

(c) Risk exposures

Information about the Group's exposure to interest rate and foreign exchange risk is provided in note 28.

Notes to the consolidated financial statements

18 Provisions

	Consolidated					
	2013		Total \$'000	2012		Total \$'000
	Current \$'000	Non-current \$'000		Current \$'000	Non-current \$'000	
Employee benefits	11,511	2,023	13,534	29,160	4,175	33,335
Outstanding claims	4,069	1,330	5,399	3,538	–	3,538
Restructuring costs	13,708	2,589	16,297	–	–	–
Contingent consideration	4,657	5,950	10,607	–	–	–
Other provisions	666	622	1,288	541	653	1,194
	34,611	12,514	47,125	33,239	4,828	38,067

(a) Description of provisions

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.

Restructuring costs

The restructuring costs provision comprises onerous lease costs, redundancy costs and other costs of closing and restructuring businesses. For further detail, see note 5.

Contingent consideration

The contingent consideration provision relates to the acquisition of Lan1 Pty Ltd. For further detail, see note 29.

Other provisions

Other provisions comprise mainly provisions for site restoration.

Notes to the consolidated financial statements

18 Provisions

(b) Movements in provisions

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

2012	Outstanding claims \$'000	Other \$'000	Total \$'000
Carrying amount at the start of the year	3,339	911	4,250
Charged/(credited) to profit or loss – additional provisions recognised	199	367	566
Amounts used during the year	–	(84)	(84)
Carrying amount at end of year	3,538	1,194	4,732

2013	Outstanding claims \$'000	Restructuring costs \$'000	Contingent consideration \$'000	Other \$'000	Total \$'000
Carrying amount at the start of the year	3,538	–	–	1,194	4,732
Charged/(credited) to profit or loss – additional provisions recognised	4,742	41,749	10,607	490	57,588
Amounts used during the year	(2,601)	(12,667)	–	(63)	(15,331)
Transferred to liabilities associated with assets held for sale	(280)	(12,785)	–	–	(13,065)
Decrease through disposal of business	–	–	–	(333)	(333)
Carrying amount at end of year	5,399	16,297	10,607	1,288	33,591

Notes to the consolidated financial statements

19 Contributed equity

(a) Share capital

	2013 Shares '000	2012 Shares '000	2013 \$'000	2012 \$'000
Ordinary shares – fully paid	246,220	246,017	303,890	303,805

(b) Movements in ordinary share capital

Date	Details	Number of shares '000	\$'000
1 July 2011	Opening balance	248,636	306,790
	Issued under the employee share bonus scheme	283	67
	Share buyback	(2,902)	(3,113)
	Movement in deferred tax asset relating to transaction costs arising on share issue	–	61
	Closing balance	246,017	303,805
1 July 2012	Opening balance	246,017	303,805
	Exercise of executive share options	61	62
	Issued under the employee share bonus scheme	142	23
	Closing balance	246,220	303,890

Notes to the consolidated financial statements

19 Contributed equity

(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. The Company does not have a limited amount of authorised capital.

(d) Dividend reinvestment plan

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

(e) Employee share scheme

The Company made one issue 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 were 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 23.

(g) Share buyback

On 23 August 2011 the Company announced an on-market buyback giving the Company the option to acquire up to 10% of its issued ordinary shares. The buyback was for ongoing capital management purposes and was to take place over the twelve months from the date of the announcement. In the previous financial year, the Company bought back 2.902 million shares at an average price of \$1.07 per share, with prices ranging from \$0.98 to \$1.155 per share. The total cost of \$3.113 million, including transaction costs of \$12,000, was deducted from shareholders equity. On 13 August 2012 the Directors resolved to extend the on-market buyback by a further twelve months. No shares have been bought back during the current financial year. On 6 August 2013 the Directors resolved to extend the on-market buyback by a further twelve months.

(h) 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 net debt plus total capital. Net debt is calculated as total borrowings as shown in the Consolidated statement of financial position less cash and cash equivalents. Total capital is equity as shown in the Consolidated statement of financial position (including non-controlling interests).

During 2013, the Group's strategy, which was unchanged from 2012, was to maintain a target gearing ratio (calculated as net debt divided by net debt plus equity) of less than 40%. The gearing ratios at 30 June 2013 and 30 June 2012 were as follows:

		Consolidated	
	Notes	2013	2012
		\$'000	\$'000
Total borrowings	17	65,462	117,010
Less: cash and cash equivalents	8	(61,480)	(24,638)
Net debt		3,982	92,372
Total equity		271,018	400,963
Gearing ratio		1.4%	18.7%

Notes to the consolidated financial statements

20 Reserves

(a) Reserves	Notes	Consolidated	
		2013 \$'000	2012 \$'000
<i>Asset revaluation reserve</i>		32,820	46,227
Hedging reserve – cash flow hedges		(1,397)	(2,910)
Equity compensation reserve		658	736
Non–controlling interests acquisition reserve		1,551	1,171
Foreign currency translation reserve		(1,043)	(2,021)
		32,589	43,203
Movements:			
<i>Asset revaluation reserve</i>			
Opening balance		46,227	47,041
Revaluation – gross	12	(12,595)	(917)
Deferred tax		4,231	103
Reserves reduction on disposal of subsidiary		(875)	–
Transfer to retained earnings		(4,168)	–
Balance 30 June		32,820	46,227
<i>Asset realisation reserve</i>			
Opening balance		–	11,854
Transfer (to) retained earnings		–	(11,854)
Balance 30 June		–	–
<i>Hedging reserve cash flow hedges</i>			
Opening balance		(2,910)	(1,304)
Revaluation – gross		2,162	(2,295)
Deferred tax	6, 14	(649)	689
Balance 30 June		(1,397)	(2,910)
<i>Equity compensation reserve</i>			
Opening balance		736	647
Employee share plan expense		46	89
Reserves reduction on disposal of subsidiary		(124)	–
Balance 30 June		658	736
<i>Non–controlling interests acquisition reserve</i>			
Opening balance		1,171	1,219
Adjustment to non–controlling interest upon change in Group shareholding		380	(48)
Balance 30 June		1,551	1,171

Notes to the consolidated financial statements

20 Reserves

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
<i>Foreign currency translation reserve</i>			
Opening balance		(2,021)	(2,212)
Currency translation differences arising during the year		978	191
Balance 30 June		(1,043)	(2,021)

(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).

(ii) 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. Amounts transferred to the asset realisation reserve may subsequently be transferred to retained earnings. During the previous financial year the Board resolved to transfer the balance of the asset realisation reserve to retained earnings. This reserve will no longer be used.

(iii) 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.

(iv) 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.

(v) 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.

(vi) Foreign currency translation

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.

Notes to the consolidated financial statements

21 Dividends

(a) Ordinary shares

	Consolidated	
	2013	2012
	\$'000	\$'000
Final dividend for the year ended 30 June 2012 of 4.5 cents (2011: 4.5 cents) per fully paid share paid on 26 September 2012 (year ended 30 June 2011: 26 September 2011)		
Fully franked based on tax paid at 30%	12,298	11,190
Interim dividend ended 30 June 2013 of 0.0 cents (2012: 5.0 cents) per fully paid share paid on (2012: 30 March 2012)		
Fully franked based on tax paid at 30.0%	–	12,293
Total dividends provided for or paid	12,298	23,483

(b) Dividends not recognised at the end of the reporting period

	Consolidated	
	2013	2012
	\$'000	\$'000
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 3.25 cents per fully paid ordinary share (2012: 5.0 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 27 September 2013, but not recognised as a liability at year end, is \$8.0 million.	8,011	12,301

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

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2013 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2014.

	Consolidated	
	2013	2012
	\$'000	\$'000
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2012: 30.0%)	7,011	17,405

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 \$3.433 million (2012: \$5.272 million).

Notes to the consolidated financial statements

22 Earnings per share

(a) Basic earnings per share

	Consolidated	
	2013 Cents	2012 Cents
From (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	(12.9)	9.4
From discontinued operations	(25.3)	1.1
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company	(38.2)	10.5
From profit before CGU impairment, restructure and closure costs and other associated impairments net of gains on sale of businesses attributable to the ordinary equity holders of the Company	7.8	10.5

(b) Diluted earnings per share

	Consolidated	
	2013 Cents	2012 Cents
From (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	(12.9)	9.4
From discontinued operations	(25.3)	1.1
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company	(38.2)	10.5
From profit before CGU impairment, restructure and closure costs and other associated impairments net of gains on sale of businesses attributable to the ordinary equity holders of the Company	7.8	10.5

Basic and diluted earnings per share before CGU impairment, restructure and closure costs and other associated impairments net of gains on sale of businesses in the year ended 30 June 2013 is a non-IFRS measure calculated using loss attributable to owners of \$94.125 million adjusted for CGU impairment, restructure and closure costs and other

associated impairments net of gains on sale of businesses of \$113.326 million. The non-IFRS measures used by the Company are relevant because they are consistent with measures used internally by management to assess the operating performance of the business. The non-IFRS measures have not been subject to audit or review.

Notes to the consolidated financial statements

22 Earnings per share

continued

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

	Consolidated	
	2013	2012
	\$'000	\$'000
<i>Basic earnings per share</i>		
(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(31,667)	26,021
From discontinued operations	(62,458)	–
	(94,125)	26,021
<i>Diluted earnings per share</i>		
(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	(31,667)	26,021
From discontinued operations	(62,458)	–
Used in calculating diluted earnings per share	(94,125)	26,021
(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(94,125)	26,021
CGU impairment, restructure and closure costs and other associated impairments net of gains on sale of businesses – refer note 5	113,326	–
Profit before CGU impairment, restructure and closure costs and other associated impairments net of gains on sale of businesses attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	19,201	26,021

(d) Weighted average number of shares used as denominator

	Consolidated	
	2013	2012
	\$'000	\$'000
Adjustments for calculation of diluted earnings per share:		
Weighted average number of ordinary shares used as a denominator in calculating basic earnings per share	246,186	246,764
Effect of share options and rights on issue	–	285
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	246,186	247,049

The 280,000 (2012: 483,000) share options granted between 2003 and 2007 are not included in the calculation of diluted earnings per share because they are antidilutive ended 30 June 2013 (year ended 30 June 2012). These options could potentially dilute basic earnings per share in the future.

Notes to the consolidated financial statements

23 Share based payments

(a) Employee Option Plan

In 2010 the Group established the Hills Holdings Limited Long Term Incentive Share Plan (LTIP). The Plan was designed to provide long-term incentives to eligible senior employees in the Group and entitled 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). The rights issued under the Plan were cancelled for no consideration on 28 June 2013. Accordingly, the remaining unvested options of \$0.002 million were expensed immediately to profit or loss.

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.

Details of performance rights and options under the current and previous scheme are as follows:

Grant date	Expiry date	Exercise price	Balance at start of the year number	Granted during the year number	Exercised during the year number	Forfeited/cancelled during the year number	Balance at end of the year number	Vested and exercisable at end of the year number
2013								
28 April 2011	30 June 2013	–	198,929	–	–	(198,929)	–	–
19 December 2011	30 June 2014	–	405,518	–	–	(405,518)	–	–
1 February 2001	1 January 2023	\$2.50	50,000	–	(25,000)	–	25,000	25,000
1 February 2002	1 January 2024	\$2.90	53,000	–	–	(18,000)	35,000	35,000
1 February 2003	1 January 2025	\$3.23	80,000	–	–	(40,000)	40,000	40,000
1 February 2004	1 January 2026	\$3.66	115,000	–	–	(60,000)	55,000	55,000
1 February 2005	1 January 2027	\$4.16	185,000	–	–	(60,000)	125,000	125,000
			1,087,447	–	(25,000)	(782,447)	280,000	280,000
Weighted average exercise price			\$3.58	–	\$2.50	\$3.66	\$3.62	\$3.62

Notes to the consolidated financial statements

23 Share based payments

continued

Grant date	Expiry date	Exercise price	Balance at start of the year number	Granted during the year number	Exercised during the year number	Forfeited/cancelled during the year number	Balance at end of the year number	Vested and exercisable at end of the year number
2012								
28 April 2011	30 June 2013	–	209,740	–	–	(10,811)	198,929	–
19 December 2011	30 June 2014	–	–	426,421	–	(20,903)	405,518	–
1 February 2001	1 January 2023	\$2.50	50,000	–	–	–	50,000	50,000
1 February 2002	1 January 2024	\$2.90	53,000	–	–	–	53,000	53,000
1 February 2003	1 January 2025	\$3.23	80,000	–	–	–	80,000	80,000
1 February 2004	1 January 2026	\$3.66	125,000	–	–	(10,000)	115,000	115,000
1 February 2005	1 January 2027	\$4.16	195,000	–	–	(10,000)	185,000	185,000
1 February 2009	1 January 2032	\$3.01	415,000	–	–	(415,000)	–	–
			1,127,740	426,421	–	(466,714)	1,087,447	483,000
Weighted average exercise price			\$3.33	–	–	\$3.05	\$3.58	\$3.58

Fair value of options granted

No performance rights were granted during the current financial year.

The share price used to calculate the number of performance rights issued in the previous financial year was \$1.1960, 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 2011.

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 2012 was 45.0 cents per performance right. The fair value at grant date was independently determined using a Black Scholes methodology for the non-market hurdles and a Monte Carlo valuation methodology for the market hurdles, that took 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 and the risk-free interest rate for the term of the performance rights.

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 2012 included:

- exercise price: \$0.00
- vesting period: three years
- grant date (for Accounting Standards): 19 December 2011
- expiry date: 30 June 2014
- share price at grant date: \$1.11
- expected price volatility of the Company's shares: 40%
- expected dividend yield: 9.0%
- risk free interest rate: 3.01%

Notes to the consolidated financial statements

23 Share based payments

(b) Employee share scheme

The Hills Employee Share Bonus Plan provides that eligible employees may receive up to \$1,000 of Hills ordinary shares for no consideration. In the current financial year, shares were allotted under the plan in November 2012. In the previous financial year, shares were allotted under the plan in two tranches, (March 2012 and September 2011). 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. Due to the Company's performance, participants were issued with 100 shares in each tranche, based on the weighted average market price of \$0.76 (2012: \$1.09 (March 2012 issue) and in the previous financial year \$1.01 (September 2011 issue).

	Consolidated	
	2013	2012
	\$'000	\$'000
Number of shares issued under the plan to participating employees on 2 November 2012 (2012: 30 September 2011)	142	153
Number of shares issued under the plan to participating employees in the previous financial year on 26 March 2012	–	151
	142	304

(c) 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	
	2013	2012
	\$'000	\$'000
Performance rights/options issued under Long Term Incentive Plans	121	170
Shares issued under Employee Share Bonus Plan	46	119
	167	289

Notes to the consolidated financial statements

24 Key Management Personnel disclosures

(a) Key Management Personnel compensation

	Consolidated	
	2013 \$'000	2012 \$'000
Short-term employee benefits (fixed and STI remuneration)	5,162,309	3,838,022
Post-employment benefits (superannuation)	258,648	291,271
Long-term benefits (cash LTI and accrued long service leave)	157,690	96,319
Termination benefits	470,632	–
Share based payments (LTI expense and employee share bonus plan expense)	1,548	60,797
	6,050,827	4,286,409

Detailed remuneration disclosures are provided in the remuneration report on pages 14 to 29.

(b) Equity instrument disclosures relating to Key Management Personnel

Rights and options provided as remuneration

Details of options and rights to deferred shares granted as remuneration, together with their terms and conditions, can be found in the Remuneration Report on pages 14 to 29. The report also shows shares issued on the exercise of such options and on vesting of the rights.

Rights and 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 on page 92.

Notes to the consolidated financial statements

2013

Name	Balance at start of the year	Granted as compensation	Exercised	Rights/ options lapsed/ forfeited/ cancelled	Balance at end of the year	Vested and exercisable	Unvested
Directors of Hills Holdings Limited							
G Twartz	551,859	–	(25,000)	(526,859)	–	–	–
Other Key Management Personnel of the Group							
S Cope	63,429	–	–	(63,429)	–	–	–
G Logan	41,806	–	–	(41,806)	–	–	–
M McKinstry	62,709	–	–	(62,709)	–	–	–
T Sullivan	44,398	–	–	(44,398)	–	–	–

2012

Name	Balance at start of the year	Granted as compensation	Exercised	Rights/ options lapsed/ forfeited/ cancelled	Balance at end of the year	Vested and exercisable	Unvested
Directors of Hills Holdings Limited							
G Twartz	421,926	229,933	–	(100,000)	551,859	203,000	348,859
Other Key Management Personnel of the Group							
S Cope	81,623	41,806	–	(60,000)	63,429	–	63,429
D Lethbridge	10,811	20,903	–	(31,714)	–	–	–
G Logan	–	41,806	–	–	41,806	–	41,806
M McKinstry	–	62,709	–	–	62,709	–	62,709
A Muir	80,000	–	–	(80,000)	–	–	–
T Sullivan	15,134	29,264	–	–	44,398	–	44,398

Notes to the consolidated financial statements
24 Key Management Personnel disclosures
continued

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 (2012: 1,188,918) shares owned by Hills Associates Limited & Poplar Pty Ltd (jointly held) and 15,889,441 (2012: 14,450,548) shares owned by Hills Associates Limited, of which JH Hill-Ling is a Director.

Other changes during the year for JH Hill-Ling comprises the acquisition of 1,438,893 (2012: 994,859) shares in Hills Holdings Limited by Hills Associates Limited.

Other changes during the financial year for G Twartz comprises the removal of the disclosure of his shareholdings in the Company, as G Twartz ceased to be a Director of the Company on 2 September 2012.

Other changes during the previous financial year for R Flynn comprises the removal of the disclosure of his shareholdings in the Company, as R Flynn ceased to be a Director of the Company on 4 November 2011.

2013

Name	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
<i>Directors of Hills Holdings Limited</i>				
Ordinary shares				
JH Hill-Ling	15,812,530	–	1,438,893	17,251,423
E Pretty	–	–	250,000	250,000
G Twartz	4,342	25,000	(29,342)	–
F Bennett	4,000	–	–	4,000
I Elliot	6,235	–	45,500	51,735
D Spence	19,000	–	131,000	150,000
P Stancliffe	19,104	–	30,896	50,000
<i>Other Key Management Personnel of the Group</i>				
Ordinary shares				
M Campbell	1,000	–	–	1,000
S Cope	1,178	–	(1,178)	–
G Stephens	–	–	50,000	50,000

Notes to the consolidated financial statements

24 Key Management Personnel disclosures

2012

Name	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
<i>Directors of Hills Holdings Limited</i>				
Ordinary shares				
JH Hill-Ling	14,817,671	–	994,859	15,812,530
G Twarz	4,342	–	–	4,342
F Bennett	4,000	–	–	4,000
M Campbell	–	–	1,000	1,000
I Elliot	6,235	–	–	6,235
R Flynn	35,665	–	(35,665)	–
D Spence	19,000	–	–	19,000
P Stancliffe	19,104	–	–	19,104
<i>Other Key Management Personnel of the Group</i>				
Ordinary shares				
S Cope	978	200	–	1,178
A Muir	5,278	–	(5,278)	–

(c) Loans to Key Management Personnel

There were no loans outstanding at the reporting date to Key Management Personnel and their related parties.

(d) 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.

Alfred Health, an entity associated with F Bennett, purchased goods during the previous financial year from the Hills Group. Amounts were billed and payable under normal commercial terms and conditions. The total amount recognised as an expense during the previous financial year was \$30,977.

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 (2012: \$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.

Notes to the consolidated financial statements

25 Related party transactions

26 Contingencies

25 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 30.

(c) Key Management Personnel

Disclosures relating to Key Management Personnel are set out in note 24.

(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 \$15.585 million (2012: \$24.917 million).

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 \$0.185 million (2012: \$0.410 million).

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 \$1.749 million (2012: \$2.278 million).

Group entities charge an administration fee for services rendered which during the year was \$6.915 million (2012: \$14.277 million).

Inter-entity dividends paid and received during the year amounted to \$4.405 million (2012: \$16.168 million).

Other related parties

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

(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 2013, the Group current assets and liabilities that were eliminated were \$224.114 million (2012: \$265.682 million) and the Group non-current assets and liabilities that were eliminated were \$3.211 million (2012: \$0.336 million).

26 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities at 30 June 2013 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 or remediation cannot be reliably estimated and no provision has been made.

(ii) Guarantees

(a) Letters of credit established in favour of suppliers/creditors amounting to \$1.036 million (2012: \$19.955 million).

(b) Bank guarantees in favour of customers and suppliers amounting to \$13.216 million (2012: \$16.953 million).

(c) Performance guarantees have been given to a customer of a partially owned subsidiary. Should that subsidiary fail to perform under the contracts, the Company will assume responsibility for performance of current work in progress.

The Group has various commercial legal claims common to businesses of its type which constitute contingent liabilities, none of which is material to the Group's 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.

Notes to the consolidated financial statements

27 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated	
	2013 \$'000	2012 \$'000
Property, plant and equipment	2,827	4,866

(b) Lease commitments: Group as lessee

(i) Non-cancellable operating leases

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

The leases run for a period ranging from 1 to 10 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.

	Consolidated	
	2013 \$'000	2012 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	21,750	24,865
Later than one year but not later than five years	49,197	60,972
Later than five years	16,523	29,410
	87,470	115,247

(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	
	2013 \$'000	2012 \$'000
Within one year	679	187
Later than one year but not later than five years	2,718	–
Later than five years	170	–
	3,567	187

Notes to the consolidated financial statements

28 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, i.e. 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 ageing 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 cooperation 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	
	2013	2012
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	61,480	24,638
Trade and other receivables	84,694	175,206
Derivative financial instruments	703	–
Investments	–	2
	146,877	199,846
Financial liabilities		
Trade and other payables	56,818	87,725
Borrowings	65,462	117,010
Derivative financial instruments	3,080	4,712
	125,360	209,447

Notes to the consolidated financial statements

(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:

Consolidated entity	30 June 2013					30 June 2012			
	USD \$'000	NZD \$'000	Euro '000	JPY '000	GBP '000	USD \$'000	NZD \$'000	Euro '000	JPY '000
Trade receivables	2,222	–	6	–	166	1,419	–	–	–
Cash at bank	(279)	21	–	–	4	331	–	–	–
Trade payables	(22,581)	(70)	(445)	(13,869)	(133)	(23,672)	(211)	(226)	(22,867)
Forward exchange contracts									
– buy foreign currency (cash flow hedges)	(17,061)	–	–	–	–	(47,060)	–	–	–
– buy foreign currency (FVTPL)	(1,621)	–	–	–	–	(4,327)	–	–	–

Notes to the consolidated financial statements
28 Financial risk management
continued

Group sensitivity

Based on the financial instruments held at 30 June 2013, 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 \$2,155,000 lower/\$1,764,000 higher (2012: \$1,880,000 lower/\$1,537,000 higher), 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 2013 than 2012 because of the increased amount of US dollar denominated trade receivables.

Other components of equity would have been \$1,989,000 higher/\$1,677,000 lower (2012: \$5,125,000 higher/\$4,193,000 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 2013 and 2012, the Group's borrowings at variable rate were denominated in Australian dollars and NZ dollars.

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.

As at the end of the reporting period, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	30 June 2013		30 June 2012	
	Weighted Average Interest Rate %	Balance \$'000	Weighted Average Interest Rate %	Balance \$'000
Bank overdrafts and bank loans	2.8%	(65,000)	3.8%	(116,333)
Cash and cash equivalents	2.9%	61,480	3.2%	24,638
Other loans	2.6%	(462)	2.6%	(556)
Interest rate swaps (notional principal amount)	6.0%	65,000	6.0%	65,000

An analysis by maturities is provided in note 28(c).

Notes to the consolidated financial statements

Sensitivity

At 30 June 2013, if interest rates had increased by 100 basis points 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 \$40,000 higher/\$40,000 lower (2012: \$1,159,000 higher/\$925,000 lower), mainly as a result of higher interest income from cash and cash equivalents and lower interest expense from borrowings. Other components of equity

would have been \$928,000 higher/\$948,000 lower (2012: \$1,300,000 higher/\$1,586,000 lower) mainly as a result of an increase in the fair value of the cash flow hedges of borrowings.

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	Carrying amount '000	Interest rate risk				Foreign exchange risk			
		-100 bps		+100 bps		-10%		+10%	
		Profit \$'000	Other equity \$'000	Profit \$'000	Other equity \$'000	Profit \$'000	Other equity \$'000	Profit \$'000	Other equity \$'000
At 30 June 2013									
Financial assets									
Cash and cash equivalents	61,480	615	-	(615)	-	(31)	-	25	-
Trade and other receivables	84,694	-	-	-	-	267	-	(218)	-
Derivatives – cash flow hedges	703	-	-	-	-	60	1,989	(48)	(1,677)
Financial liabilities									
Derivatives – cash flow hedges	(3,000)	-	(948)	-	928	-	-	-	-
Derivatives – fair value through profit or loss	(80)	-	-	-	-	371	-	(304)	-
Trade payables	(56,818)	-	-	-	-	(2,822)	-	2,309	-
Borrowings	(65,462)	(655)	-	655	-	-	-	-	-
Total increase/decrease		(40)	(948)	40	928	(2,155)	1,989	1,764	(1,677)

Notes to the consolidated financial statements
28 Financial risk management
continued

Consolidated	Carrying amount '000	Interest rate risk				Foreign exchange risk			
		-100 bps		+100 bps		-10%		+10%	
At 30 June 2013		Profit \$'000	Other equity \$'000	Profit \$'000	Other equity \$'000	Profit \$'000	Other equity \$'000	Profit \$'000	Other equity \$'000
Financial assets									
Cash and cash equivalents	24,638	239	-	(239)	-	39	-	(32)	-
Trade and other receivables	175,206	-	-	-	-	164	-	(134)	-
Total increase/(decrease) in financial assets		239	-	(239)	-	203	-	(166)	-
Financial liabilities									
Derivatives – cash flow hedges	(4,613)	-	(1,586)	234	1,300	-	5,125	(1)	(4,193)
Derivatives – fair value through profit or loss	(99)	-	-	-	-	595	-	(487)	-
Trade payables	(87,725)	-	-	-	-	(2,678)	-	2,191	-
Borrowings	(117,010)	(1,164)	-	1,164	-	-	-	-	-
Total increase/decrease in financial liabilities		(1,164)	(1,586)	1,398	1,300	(2,083)	5,125	1,703	(4,193)
Total increase/(decrease)		(925)	(1,586)	1,159	1,300	(1,880)	5,125	1,537	(4,193)

(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, ageing 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 9.

Notes to the consolidated financial statements

(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.

Financing arrangements

At 30 June 2013 the Group had banking facilities totalling \$196 million, through a Common Deed with Commonwealth Bank, National Australia Bank and Westpac Banking Corporation. The facility comprises Tranche A \$81 million, expiring in two years (16 August 2015), Tranche B \$69 million, expiring in three years (16 August 2016), and Tranche C \$46 million, expiring in two years (but subject to annual review) (16 August 2015). Tranches A and B comprise bank loans and Tranche C comprises bank guarantees, letters of credit and cash advances.

At 30 June 2012 the Group had multi-option financing facilities totalling \$220.0 million of which \$65.0 million had been approved until 1 July 2013, a further \$75.0 million had been approved until 30 July 2013 and the remainder of the facility had been approved until 30 November 2013.

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

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.

	Consolidated	
	2013	2012
	\$'000	\$'000
Floating rate		
Expiring within one year (bank overdraft and short-term money market)	39,437	6,929
Expiring beyond one year (bank loans and standby letters of credit)	83,964	70,031
	123,401	76,960

Notes to the consolidated financial statements
28 Financial risk management
continued

Contractual maturities of financial liabilities	Less than 6 months \$'000	6 to 12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying amount (assets)/ liabilities \$'000
At 30 June 2013							
Non-derivatives							
Trade payables	56,818	–	–	–	–	56,818	56,818
Borrowings	1,115	938	1,877	65,235	320	69,485	65,462
Total non-derivatives	57,933	938	1,877	65,235	320	126,303	122,280
Derivatives							
Net settled (interest rate swaps and forward exchange contracts)	1,070	1,037	1,040	196	–	3,343	3,080
At 30 June 2012							
Non-derivatives							
Trade payables	87,725	–	–	–	–	87,725	87,725
Borrowings	3,765	2,397	116,146	–	121	122,429	117,010
Total non-derivatives	91,490	2,397	116,146	–	121	210,154	204,735
Derivatives							
Net settled (interest rate swaps and forward exchange contracts)	1,376	997	1,773	959	–	5,105	4,712

Notes to the consolidated financial statements

28 Financial risk management

d) Fair value measurements

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 2013 and 30 June 2012:

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. There have been no movements between levels during the year ended 30 June 2013.

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.

Consolidated entity – at 30 June 2013	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivatives for hedging	–	703	–	703
Total assets	–	703	–	703
Liabilities				
Derivatives used for hedging	–	3,080	–	3,080
Total liabilities	–	3,080	–	3,080

Consolidated entity – at 30 June 2012	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Total assets	–	–	–	–
Liabilities				
Derivatives used for hedging	–	4,712	–	4,712
Total liabilities	–	4,712	–	4,712

Notes to the consolidated financial statements

29 Business combination

(a) Summary of acquisition

Current period

Lan1 Pty Ltd

On 26 October 2012 the Group acquired 100% of the issued shares in Lan1 Pty Ltd. The acquisition complements the Group's Electronics, Video and Security division within the Electronics & Communications segment.

Since acquisition, the acquired business contributed revenues of \$24.503 million and net profit of \$1.693 million. If the acquisition had occurred on 1 July 2012, the contribution to consolidated revenue and consolidated loss ended 30 June 2013 would have been \$36.000 million and \$2.400 million respectively.

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

	\$'000
Purchase consideration (refer to 29(b)):	
Cash paid	5,160
Contingent consideration	10,606
Total purchase consideration	15,766

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

	Fair value \$'000
Sundry receivables	6
Inventories	1,417
Plant and equipment	4
Deferred tax asset	51
Intangible assets: software	117
Provision for employee benefits	(171)
Net identifiable assets acquired	1,424
Add: goodwill	14,342
Net assets acquired	15,766

The goodwill is attributable to the synergies expected to arise within the Electronics, Video and Security division.

Notes to the consolidated financial statements

Contingent consideration

In the event that earnings before interest, tax, depreciation and amortisation (EBITDA) exceeds \$2.012 million in the first twelve months post acquisition, an amount calculated as 25% of five times EBITDA less debt funding is payable to the former owners. In the event that EBITDA in the second twelve months post acquisition exceeds \$2.012 million and EBITDA achieved in the previous year, an amount calculated as 25% of five times second year EBITDA less debt funding is payable to the former owners. If these conditions are not met a lower amount payable is calculated. The maximum amount of the payment in each year is dependent upon EBITDA.

Prior period

Herma Technologies

On 1 February 2012 the Group acquired certain assets of the operations of Herma Technologies Pty Ltd.

The acquired business contributed revenues of \$1.628 million and net profit of \$0.074 million to the Group for the period from 1 February 2012 to 30 June 2012. If the acquisition had occurred on 1 July 2011, consolidated revenue and consolidated profit for the year ended 30 June 2012 would have been \$1,084.550 million and \$28.925 million respectively. These amounts have been calculated using the Group's accounting policies.

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

	\$'000
Purchase consideration (refer to 29 (b)):	
Cash paid	2,011

Notes to the consolidated financial statements
29 Business combination
continued

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

	Fair value \$'000
Inventories	575
Plant and equipment	104
Other assets	27
Intangible assets: patents and trademarks	57
Provision for employee benefits	(68)
Net identifiable assets acquired	695
Add: goodwill	1,316
Net assets acquired	2,011

(b) Purchase consideration – cash outflow

	2013 \$'000	2012 \$'000
Outflow of cash to acquire subsidiary, net of cash acquired:		
Cash consideration	5,160	2,011

Acquisition-related costs

Acquisition related costs of \$0.392 million (2012: \$0.057 million) are included in expenses in profit or loss and in operating cash flows in the Consolidated statement of cash flows.

Notes to the consolidated financial statements

30 Subsidiaries and transactions with non-controlling interests

(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	
			2013 %	2012 %
Hills Finance Pty Ltd	Australia	Ordinary	100	100
Hills Holdings NZ Limited	New Zealand	Ordinary	100	100
Korvest Limited (i) (note (b))	Australia	Ordinary	–	49
Hills Hoists Pty Ltd	Australia	Ordinary	100	100
Bailey Aluminium Products Pty Ltd	Australia	Ordinary	100	100
Hills Industries Pty Ltd	Australia	Ordinary	100	100
ACN 089 622 622 Pty Ltd	Australia	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	Australia	Ordinary	100	100
Audio Telex Communications Pty Ltd	Australia	Ordinary	100	100
Crestron Control Solutions Pty Ltd	Australia	Ordinary	100	100
Hills Polymers Pty Ltd (formerly 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
Hills Nominees Pty Ltd	Australia	Ordinary	100	100
DAS Security Wholesalers Pty Ltd	Australia	Ordinary	100	100
Pacific Communications 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	100	100
UHS Systems Pty Ltd	Australia	Ordinary	51	51
UHS Pty Ltd	Australia	Ordinary	100	100
Cygnus Satellite Pty Ltd (i)	Australia	Ordinary	50	50
Lan 1 Pty Ltd	Australia	Ordinary	100	–
ACN 159 817 955 Pty Ltd	Australia	Ordinary	100	–

(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.

Notes to the consolidated financial statements
30 Subsidiaries and transactions
with non-controlling interests
31 Parent entity financial information

(b) Transactions with non-controlling interests

During the period that Korvest was part of the Group, Korvest made one issue (2012: two issues) of shares to its employees under its employee share plan. These issues had the effect of diluting the Company's shareholding in Korvest. The shares were issued for no consideration.

	2013	2012
	\$'000	\$'000
Carrying amount of non-controlling interests acquired/(diluted)	(9)	(48)
Consideration paid to non-controlling interests	–	–
Impact of dilution recognised in the transactions with non-controlling interests reserve within equity	(9)	(48)

31 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2013	2012
	\$'000	\$'000
Balance sheet		
Current assets	246,815	343,821
Non-current assets	174,483	285,059
Total assets	421,298	628,880
Current liabilities	153,341	120,825
Non-current liabilities	77,892	121,339
Total liabilities	231,233	242,164
Net assets	190,065	386,716
<i>Shareholders' equity</i>		
Contributed equity	303,890	303,805
Reserves		
Asset revaluation reserve	27,882	45,034
Hedging reserve – cash flow hedges	(1,397)	(2,910)
Equity compensation reserve	658	643
Retained earnings	(140,968)	40,144
	190,065	386,716
Profit or loss for the year	(178,869)	38,706
Total comprehensive income	(184,222)	37,099

Notes to the consolidated financial statements

31 Parent entity financial information

32 Deed of cross guarantee

(b) Guarantees entered into by the parent entity

Bank guarantees given by the Company in favour of customers and suppliers amounted to \$5.245 million (2012: \$8.696 million).

Cross guarantees are given by the Company and its wholly owned subsidiaries as described in note 32. 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 \$246.335 million (2012: \$241.339 million). No material deficiency in net tangible assets exists in these companies at reporting date with net tangible assets amounting to \$167.791 million (2012: \$288.815 million).

(c) Contingent liabilities of the parent entity

The parent entity had a contingent liability in respect of claims, as disclosed in note 26. 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 2013, the Company had contractual commitments for the acquisition of property, plant or equipment totalling \$2.047 million (2012: \$3.030 million).

These commitments are not recognised as liabilities as the relevant assets have not yet been received.

32 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
Orrcon Operations Pty Ltd
Orrcon Holdings Pty Ltd
Greenwattle Investments Pty Ltd (Alquip)
Audio Telex Communications Pty Ltd
Hills Polymers Pty Ltd
(formerly 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.

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. Hills Polymers Pty Ltd (formerly 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'.

Notes to the consolidated financial statements
32 Deed of cross guarantee
continued

Set out below is a Consolidated income statement, a Consolidated statement of comprehensive income, a summary of movements in consolidated retained earnings ended 30 June 2013 and a Consolidated statement of financial position as at 30 June 2013 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

	2013 \$'000	2012 \$'000
<i>Consolidated income statement</i>		
Revenue from continuing operations	408,731	967,166
Other income	28,695	4,853
Finance costs	(3,045)	(5,835)
Other expenses	(475,126)	(934,545)
(Loss)/profit before income tax	(40,745)	31,639
Income tax benefit/(expense)	12,111	(7,009)
Loss from discontinued operations	(64,770)	–
(Loss)/profit for the year	(93,404)	24,630
Consolidated statement of comprehensive income		
(Loss)/profit for the year	(93,404)	24,630
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges	2,162	(2,296)
Income tax relating to these items	(649)	689
Other comprehensive income/(loss) for the year that may be reclassified to profit or loss, net of tax	1,513	(1,607)
<i>Items that will not be reclassified to profit or loss</i>		
Loss on revaluation of land and buildings	(11,186)	–
Income tax relating to these items	3,524	–
Other comprehensive (loss) for the year that will not be reclassified to profit or loss, net of tax	(7,662)	–
Other comprehensive loss for the period, net of tax	(6,149)	(1,607)
Total comprehensive (loss)/income for the year	(99,553)	23,023
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	12,927	23
(Loss)/profit for the year	(93,404)	24,630
Transfers from reserves	(398)	11,757
Dividends provided for or paid	(12,302)	(23,483)
Retained earnings at the end of the financial year	(93,177)	12,927

Notes to the consolidated financial statements

32 Deed of cross guarantee
continued

(b) Consolidated statement of financial position

	2013 \$'000	2012 \$'000
Current assets		
Cash and cash equivalents	53,630	16,448
Trade and other receivables	84,921	177,426
Inventories	34,588	149,625
Derivative financial instruments	703	–
Current tax receivables	–	6,984
Assets held for sale	139,074	–
Total current assets	312,916	350,483
Non-current assets		
Investments	21,940	12,453
Property, plant and equipment	76,973	162,605
Deferred tax assets	59,472	23,429
Intangible assets	19,379	48,469
Total non-current assets	177,764	246,956
Total assets	490,680	597,439
Current liabilities		
Trade and other payables	58,603	79,351
Borrowings	141	7,138
Provisions	42,333	32,419
Derivative financial instruments	551	507
Liabilities associated with assets held for sale	73,975	–
Total current liabilities	175,603	119,415
Non-current liabilities		
Borrowings	65,000	115,557
Provisions	3,283	2,261
Derivative financial instruments	2,449	4,106
Total non-current liabilities	70,732	121,924
Total liabilities	246,335	241,339
Net assets	244,345	356,100
Equity		
Contributed equity	303,890	303,805
Reserves	33,632	39,368
Retained earnings	(93,177)	12,927
Total equity	244,345	356,100

Notes to the consolidated financial statements

33 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	
	2013	2012
	\$'000	\$'000
(Loss)/profit for the year	(91,387)	28,822
Depreciation and amortisation	15,577	21,100
Impairment of goodwill	16,719	–
Impairment of trade receivables	4,547	2,069
Impairment of inventories	31,886	(2,030)
Impairment of property, plant and equipment	53,806	–
Impairment of software	16,587	–
Gain on repayment of government loans at net present value	–	(386)
Non-cash employee benefits expense – share based payments	167	289
Net (gain)/loss on sale of non-current assets	(272)	(533)
(Gain) on disposal of businesses	(13,462)	–
Fair value adjustment to derivatives	(173)	(161)
Rent received	(790)	(787)
Amounts set aside to provisions	62,802	16,562
Change in operating assets and liabilities, net of effects from purchases and sales of controlled entities and business operations:	1,015,165	843,180
Decrease in trade and other receivables	6,119	4,632
Decrease in inventories	19,296	5,371
(Increase)/decrease in deferred tax assets	(33,891)	10,427
Increase/(decrease) in trade and other creditors	22,589	(10,667)
Increase/(decrease) in provision for income taxes payable	5,918	(5,935)
(Decrease) in other provisions	(34,658)	(16,104)
Net cash inflow/(outflow) from operating activities	81,380	52,669

Notes to the consolidated financial statements

34 Remuneration of auditors

35 Events occurring after the reporting period

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	
	2013 \$'000	2012 \$'000
KPMG audit and non-audit services		
Audit and other assurance services		
KPMG Australia – audit and review of financial statements	520,000	492,000
Overseas KPMG firms – audit and review of financial statements	32,610	32,909
Total remuneration for audit and other assurance services	552,610	524,909
Taxation services		
KPMG Australia – taxation and other services	79,641	141,015
Overseas KPMG firms – taxation services	8,772	14,316
Total remuneration for taxation services	88,413	155,331
Other services		
Financial advisory services	296,516	–
Software implementation assurance services	12,316	76,257
Forensic accounting services	–	46,179
Other consulting services	65,310	40,504
Total remuneration for other services	374,142	162,940
Total remuneration of KPMG	1,015,165	843,180

35 Events occurring after the reporting period

As at 31 December 2012, the Group announced that its Orrcon and Fielders steel assets may be sold. At that time, these assets were not classified as assets held for sale. On 4 July 2013, the Group announced that the sale process for Orrcon and Fielders had, as at 30 June 2013, developed to the point that the Board had become satisfied that the assets should be classified as assets held for sale. This resulted in the assets being carried on the Group balance sheet at fair value less costs to sell as at 30 June 2013 with the operations of Orrcon and Fielders classified as discontinued operations. On 19 August 2013, Hills Holdings Limited entered into interdependent agreements with BlueScope Steel Limited to sell certain assets and liabilities comprising the operations of its Orrcon and Fielders businesses for a combined purchase price of \$87.5 million. The transactions are subject to customary terms and conditions precedent including Australian Competition and Consumer

Commission (ACCC) approval. Completion of the interdependent transactions is targeted to occur by the end of December 2013.

As the interdependent asset sale and purchase agreements were signed after 30 June 2013 but before the financial statements were approved by the Directors, the transaction is a post balance sheet event. Furthermore, as the signed contract provides information about a condition that existed as at 30 June 2013, namely the fair value of the assets held for sale, the signing of the contract is an adjusting post balance sheet event. Accordingly, the assets and liabilities classified as held for sale have been adjusted to their fair values with reference to the combined purchase price less estimated incremental costs to sell that are directly attributable to the disposal of the assets. Incremental costs to sell include but are not limited to transaction costs and other costs to prepare the assets for sale in the manner agreed to in the contract.

As the carrying value of the assets held for sale were adjusted to fair value less cost to sell as at 30 June 2013, the results of the Group ended 30 June 2013 include the impact of the agreement to sell Orrcon and Fielders in the form of adjustments to the fair value of the related assets held for sale. In the 2014 financial year, assuming the sale transaction completes, the impact on the results is not expected to be material given that the relevant assets and liabilities are carried at fair value considering both the expected proceeds and costs to sell.

Apart from the matters 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' declaration

In the opinion of the Directors of Hills Holdings Limited (the Company):

- (a) the consolidated financial statements and notes set out on pages 37 to 114 and the Remuneration report on pages 14 to 29 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2013 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 32 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 declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.



Edward Noel Pretty
Director
Adelaide
20 August 2013



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 2013, 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 35 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 control 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 control 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 control. 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.

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 2013 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 14 to 29 of the Directors' report for the year ended 30 June 2013. 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 2013, complies with Section 300A of the *Corporations Act 2001*.



KPMG



N T Faulkner
Partner

Adelaide
20 August 2013

Shareholder information

The shareholder information set out below was applicable as at 14 August 2013.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Holding	Class of equity security Ordinary shares	
	Shares	Options
1 – 1000	4,368	–
1,001 – 5,000	7,800	–
5,001 – 10,000	3,587	–
10,001 – 100,000	2,941	3
100,001 and over	93	–
	18,789	3

There were 2,014 holders of less than a marketable parcel of ordinary shares.

B. 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
HSBC Custody Nominees (Australia) Limited	17,363,350	7.04
National Nominees Limited	16,659,272	6.76
Poplar Pty Ltd	16,550,845	6.71
Hills Associates Limited	15,789,441	6.41
JP Morgan Nominees Australia Limited	12,259,127	4.97
Citicorp Nominees Pty Limited	10,835,859	4.40
RBC Investor Services Australia Nominees Pty Limited (BKCUST A/C)	7,557,770	3.07
Jacaranda Pastoral Pty Ltd	5,968,699	2.42
Greybox Holdings Pty Ltd	4,367,195	1.77
JP Morgan Nominees Australia Limited (Cash Income A/C)	3,523,528	1.43
Donald Cant Pty Ltd	1,979,060	0.80
Colleen Sims Nominees Pty Ltd	1,694,798	0.69
Gwynvill Trading Pty Limited	1,260,000	0.51
Hills Associates Limited and Poplar Pty Ltd	1,188,918	0.48
QIC Limited	948,393	0.38
BNP Paribas Noms (NZ) Ltd (DRP)	888,500	0.36
Aust Executor Trustees SA Ltd (Tea Custodians Limited)	766,540	0.31
Bond Street Custodians Ltd (Macquarie Smaller Co's A/C)	654,999	0.27
Tamarisk Pty Ltd	603,865	0.24
Mr John Gassner & Mr Nathan Rothchild	501,251	0.20
	121,361,410	49.22

C. Substantial holders

Substantial holders in the Company are set out below:

Holding	Number held	Percentage
Poplar Pty Ltd ¹	17,739,763	7.25%
Hills Associates Limited ²	15,789,441	6.41%

¹ The total number of shares held includes the joint shareholding held by Poplar Pty Ltd and Hills Associates Limited.

² In addition, various other minor parties associated with Poplar Pty Ltd and Hills Associates Limited hold a further 0.4% of issued shares.

Shareholder information

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.

Rights/Options

No voting rights.

E. On-market buyback

Details of the on-market buyback are disclosed in note 19.

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

Ms Gai Stephens

Principal Registered Office

159 Port Road, Hindmarsh SA 5007

Telephone: (08) 8301 3200

Facsimile: (08) 8301 3290

Website: www.hillsholdings.com.au

Locations of Share Registries

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

Website: www.computershare.com.au

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