Hills Limited
Annual report
30 June 2014

Hills Limited Annual report 30 June 2014

contents

ABN 35 007 573 417

Shareholders' letter

Dear Shareholders

Financial year 2014 has been a year of solid performance for Hills and we have appreciated your support during this period.

During the year we made significant progress on our strategy as we completed our restructuring and transformation and undertook major non-core asset sales. We invested some of the sale proceeds into new growth businesses. Hills is now firmly focused on innovation and the provision of integrated solutions mainly in the technology and communications sectors including security, health, automation, access control, lighting and AV, audio and networking.

Results

The Hills Group of companies recorded a statutory net profit after tax attributable to owners of $24.8 million for the year ended 30 June 2014. This profit reflects our results post the after tax impact of any adjustments including costs of acquisitions and other associated gains or losses on the disposal of businesses which we previously advised to the market.

The Company's underlying FY14 result was a profit of $27.3 million before adjustments and other costs (note that this is a non IFRS measure and is not subject to audit or review but is reconciled to the equivalent IFRS measure at note 22(c) in the Annual Report). The Company's underlying EPS was up 46 per cent against last year.

We completed the year with a net cash surplus (ie no debt) of $8.5 million at 30 June 2014.

Review of year

At our Annual General Meeting in November 2013 we advised that during FY14 Hills would focus on completing the projects we started in FY13. This included continuing to improve the existing technology and communications businesses which underpin our core earnings, build out our Hills brand and product and service positioning, seek to acquire new businesses in key growth sectors such as healthcare, education, public safety, security and technology services and deliver solid returns to our shareholders. We are pleased to report we met these objectives.

During the year we completed the purchase of HTR (Hospital Television Rentals) and Merlon. In February 2014, we completed the divestment of our Fielders and Orrcon steel businesses to BlueScope, in March the sale of UHS Systems to UTC and in April the sale of OptiComm to our joint venture partner. Consistent with our new strategy, between March and June we acquired Open Platform Systems, Intek Security and the majority of the assets of Questek. These acquisitions will strengthen our core business.

The Federal election, the first Coalition budget and the strong Australian dollar and modest levels of construction activity made for mixed market conditions across our continuing businesses during the year. However we are pleased to report that our results displayed strong revenue growth and steady returns.

We continued to make improvements in operational performance and undertook cost reductions to ensure a stronger balance sheet, low debt and solid cash flow. This was achieved with strong continuing cash flows from operations and zero gearing.

Strategic settings

At the beginning of FY14 the Hills Board confirmed our aspirational settings to be achieved by FY16 including:

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

We are well on the way to meeting these targets. In particular in FY14:

- We achieved a return on funds employed (ROFE) in excess of 20% in the period; and
- Our revenues from technology and communications were greater than 75%

Strategic update

Hills continues to be a company with a brand that attracts market attention. During FY14 we focused on building on this trust.

The strategy of the Company remains based on creating value by being focused on delivering technology-based solutions into trusted government, enterprise, business and residential markets. This includes supplying access control and video security, automation and control, audio visual and lighting solutions into hospitals, aged care facilities, schools, universities, banks, retailers, public transport and private logistic providers.

We recently completed bolt-on acquisitions to support our core security and automation solutions and undertook the first of a number of anticipated acquisitions in the healthcare segment. We have a high conviction that security, well-being and health have strong domestic growth potential. Our further acquisitions in security and healthcare have been well received, further reflecting the trust and faith placed in us.

The Board continues with management to fine tune our strategy and objectives and we intend to provide an update at the Annual General Meeting in October this year.

Hills is now well positioned for growth with the proceeds from asset sales and divestments providing a very strong balance sheet. Our strategic objective for FY15 is to make a transformational acquisition in the health or security sectors.

Innovation

In May 2014, we opened two new innovation centres, jointly funded by Hills and the South Australian State Government.

The Lance Hill Design Centre and Hills D-Shop have been created in collaboration with UniSA, Flinders University and the University of Adelaide to drive innovation as well as support and foster start-ups.

Brand

Hills (Hills Hoist) was also recognised by the Reader's Digest Survey, for the second consecutive year, as the Most Trusted Iconic Brand. It is our objective that this applies to all Hills technology based products into the future.

Subsequent events

Since 30 June 2014 we have completed the acquisition of Audio Products Group (APG).

Dividend payments

The Board declared a fully franked dividend of 3.6 cents per share, which will be paid on 26 September 2014 to registered shareholders as at 12 September 2014. This represents a year on year increase in dividend per share of 40 per cent.

The Board has an intention, subject to acquisitions and working capital requirements, to target on an annual basis a dividend payout ratio of 50–75 per cent of underlying profits attributable to owners franked to the maximum extent possible.

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

On-market buyback

During FY14, the Company acquired 12.3 million shares for a total consideration of $22.3 million (an average price of $1.81). This equates to 5 per cent of the issued capital being bought back in FY14.

Your Board remains of the opinion that the current share price does not necessarily reflect the underlying value of our assets, our business capability and our strong capital position. On 15 August 2014, 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 ten per cent (10%) of the issued capital during the next 12 months. However any decision to proceed with the buyback will be subject to cash required for acquisitions and dividends.

It is our intention to build for sustainable earnings growth for the medium to longer term.

Outlook

We note the Reserve Bank's recent observation that notwithstanding a pick-up in growth around the turn of 2014, GDP growth is expected to be below trend over the next year or so, rising gradually thereafter. While the continuing subdued commercial construction sector does impact building related technologies, Hills remains very well positioned for the year ahead.

We have entered FY15 with a very strong balance sheet, reduced structural and operating complexity and a lower operating risk profile. We have ample capacity for further acquisitions that are accretive to our core and / or offer medium to long-term growth opportunities.

The outlook for FY15 of necessity must be based on continuing businesses (including FY14 acquisitions and the recently acquired business of APG). Hills current guidance is for an underlying FY15 NPAT attributable to owners of $22-24 million (before further acquisitions), reflecting expectations of underlying growth in our continuing technologies business. Hills also intends to seek larger acquisitions in the security and healthcare technology sectors.

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 performance.

Yours sincerely

Jennifer Hill–Ling
Chairman

Ted Pretty
Group Managing Director and
Chief Executive Officer

Directors' report

The Directors present their report on the consolidated entity (referred to hereafter as the Group or Hills) consisting of Hills Limited (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2014, 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

Edward (Ted) Noel Pretty

Fiona Rosalyn Vivienne Bennett

Ian Elliot

David Moray Spence

Peter William Stancliffe

The Board has appointed Mr Philip Bullock as a non-executive Director of the Company, effective 23 June 2014.

Mr Bullock was formerly Vice President of the Systems and Technology Group, IBM Asia Pacific, based in Shanghai, China. Prior to that he was CEO and Managing Director of IBM Australia and New Zealand. Mr Bullock is a non-executive Director of Perpetual Limited, CSG Limited and formerly of Healthscope Limited. He has also provided advice to the Federal Government, through a number of organisations, most notably as Chair of Skills Australia.

Mr Bullock will stand for election at this year's Annual General Meeting.

The Chairman of Hills, Ms Jennifer Hill-Ling, also advised that long-serving Director Mr Peter Stancliffe will retire from the Board at the Annual General Meeting scheduled for 31 October 2014 after 11 years of service.

Principal activities

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

Review of operations

Overview

The Hills Group of companies recorded a net profit after tax attributable to owners of $24.8 million for the year ended 30 June 2014. This profit reflects our results post the after tax impact of any adjustments including costs of acquisitions and other associated gains or losses on the disposal of businesses which we previously advised to the market.

The Company's underlying FY14 result was a profit of $27.3 million before adjustments and other costs (note that this is a non IFRS measure and is not subject to audit or review but is reconciled to the equivalent IFRS measure at note 22(c) in the Consolidated financial statements). We completed the year with a net cash surplus (ie no debt) of $8.5 million at 30 June 2014.

The reconciliation between statutory and underlying profit is set out below:

	2014 $'000	2013 $'000
Net profit / (loss) after tax attributable to the owners of the Company	**24,798**	(94,125)
Adjust for business combination acquisition transaction costs after tax offset by one-off income tax credits associated with business sales (refer note 22(c) in the Annual Report)	**2,479**	–
Adjust for CGU impairment, restructure and closure costs and other associated impairments (refer note 22(c) in the Annual Report)	**–**	113,326
Underlying net profit after tax attributable to the owners of the Company	**27,277**	19,201

The year in review

At the Annual General Meeting in November 2013 we advised that during FY14 we would focus on completing the projects we started in FY13. This included continuing to improve the existing technology and communications businesses that underpin our core earnings, build the Hills brand and product and service positioning, seek to acquire new businesses in key growth sectors such as healthcare, education, public safety, security and technology services and deliver solid returns to our shareholders. We are pleased to report we met these objectives.

During the year we completed the purchase of HTR (Hospital Television Rentals) and Merlon. In February 2014 we completed the divestment of the Fielders and Orrcon steel businesses to BlueScope, in March the sale of UHS Systems to UTC and in April the sale of OptiComm to the joint venture partner. Consistent with our new strategy, between March and June we acquired Open Platform Systems, Intek Security and the majority of assets of Questek. These acquisitions will strengthen our core business.

The Federal election, the first Coalition budget and the strong Australian dollar and modest levels of construction activity made for mixed market conditions across the continuing businesses during the year. However we are pleased to report that the results displayed strong revenue growth and steady returns.

We continued to make improvements in operational performance and undertook cost reductions to ensure a stronger balance sheet, low debt and solid cash flow. This was achieved with strong continuing cash flows from operations and zero gearing.

In respect of the period to 30 June 2014, the Company achieved an Underlying NPAT result within the revised upward market consensus issued at the half year.

Strategic settings

At the beginning of FY14, the Hills Board confirmed the aspirational settings to be achieved by FY16 including:

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

We are well on the way to meeting these targets. In particular in FY14 we achieved a return on funds employed (ROFE) in excess of 20 per cent in the period and our revenue from technology and communication was greater than 75 per cent.

Strategic update

Hills continues to be a company with a brand that attracts market attention. During FY14 we focused on building on this trust.

The strategy of the Company remains based on creating value by being focused on delivering technology-based solutions into trusted government, enterprise, business and residential markets. This includes supplying access control and video security, automation and control, audio visual and lighting solutions into hospitals, aged care facilities, schools, universities, banks, retailers, public transport and private logistic providers.

We recently completed bolt on acquisitions to support our core security and automation solutions and undertook the first of a number of anticipated acquisitions in the healthcare segment. We have a high conviction that security, well-being and health have strong domestic growth potential. Our further acquisitions in security and healthcare have been well received and that reflects the trust and faith placed in us.

Hills is now well positioned for growth with the proceeds from asset sales and divestments providing a very strong balance sheet. Our strategic objective for FY15 is to make a transformational acquisition in the health or security sectors.

The Board continues with management to fine tune our strategy and objectives and we intend to provide an update to Shareholders at this year's Annual General Meeting.

Vision and values

Our vision is to have a Hills innovation in every business, government and home. Our mission is to deliver technology driven products and services into trusted environments. Our strategy as One Hills is firmly focused on technology and innovation including security, health, automation, access control, lighting and AV, audio and networking.

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 it be done better.
- Be accountable – to our customers, our shareholders and ourselves, commit to seeing things through, and spend every dollar as if it 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 cash as at 30 June 2014 was $8.5 million (2013: net debt of $4.0 million). Gearing, measured as net debt to net debt plus equity, stood at 1.4% in 2013 and was zero at 30 June 2014. 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.

Directors' report

Dividends

The Board declared a fully franked dividend of 3.6 cents per share, which will be paid on 26 September 2014 to registered shareholders as at 12 September 2014. This follows the fully franked interim dividend of 3.4 cents per share paid to Hills Shareholders on 31 March 2014. Given that Hills does not expect to be in a tax paying position it is unlikely that future dividends will be franked in the near term.

The intention of the Hills Board, subject to acquisitions and working capital requirements, is to target on an annual basis a dividend payout ratio of 50–75 per cent of underlying profits attributable to owners franked to the maximum extent possible.

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

On-market share buyback

During FY14 the Company acquired 12.3 million shares for a total consideration of $22.3 million (an average price of $1.81 per share). This equates to 5 per cent of the issued capital being bought back in FY14.

Your Board remains of the opinion that the current share price does not necessarily reflect the underlying value of our assets, our business capability and our strong capital position. On 15 August 2014, 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 ten per cent (10%) of the issued capital during the next 12 months. However any decision to proceed with the buyback will be subject to cash required for acquisitions and dividends.

It is our intention to build for sustainable earnings growth for the medium to longer term.

Change of segments

As a result of the Group's restructure and transformation programs and after the disposal of its Building and Industrial Segment, the Group reviewed the way it presents segment information under AASB8 *Operating Segments*.

The Group has determined that its chief operating decision maker (CODM) is the Board of Hills Limited. This is on the basis that it is the Board of Hills Limited that ultimately makes decisions regarding the allocation of resources to the operating segments of Hills and ultimately is the Group's "chief operating decision maker" within the meaning of AASB8.

While Hills has a number of operating segments, after the restructure and transformation program, all of its remaining operating segments have characteristics that are so similar in nature that they can reasonably be expected to have the same prospects. Hills operating segments have similar economic characteristics, provide similar products and services, have a similar production process, similar types of customers, similar methods for distribution and are subject to a similar regulatory environment. Hills operating segments have therefore been aggregated into one reportable segment under AASB8 called the Hills Technologies Segment. This is also borne out by the fact that after its restructure and transformation program, Hills has actively consolidated its operating structure into what is known as a 'One Hills' approach where the business operates as an integrated business rather than a holding company owning disparate operations. The previously reported Lifestyle and Sustainability segment is no longer a material reportable segment and has been aggregated into the Hills Technologies Segment while the previously reported Building and Industrial Segment has been sold.

In terms of reviewing the Group as it has gone through its restructuring and transformation program, the CODM has been presented with information that separates Hills results into its continuing business (the Hills Technologies Segment) and discontinuing business results in two categories: the Discontinuing Building and Industrial Segment (which is also the discontinuing operations under IFRS) and Other Discontinued Hills Businesses (which are businesses that have been closed or sold and regardless of whether these are classified as discontinuing under IFRS or not). That information 'through the eyes of management' has been presented in the Segment note in the financial statements in accordance with the principles of AASB8.

Description of segments

The Group currently has one reportable segment, the Hills Technologies Segment. The following summary describes the operations of the Group's reportable segment:

Hills Technologies

Includes electronic security systems, closed circuit television systems, home and commercial automation and control systems, professional audio products, consumer electronic equipment, communications related products and services, domestic and commercial antennas, master antenna television systems, communications antennas, amplifiers, health technology solutions and subscription TV installation services. The segment also includes the sale of lifestyle products, services and home technology solutions. This segment contains the continuing operations of the Group.

Other Hills businesses sold or closed

In presenting results to the CODM, businesses that have been closed or sold (and regardless of whether these are classified as discontinuing under IFRS or not), are shown separately to enable the CODM to assess the true continuing operations of the Group which are shown within the Hills Technologies segment. That information assists the CODM in making its own resource allocation decisions. That information, 'through the eyes of management' has been presented in the Segment note in accordance with the principles of AASB8.

Building and Industrial (Discontinued operations under IFRS)

In presenting results to the CODM, the Building and Industrial Segment that has been sold (and is treated as a separate discontinuing operation under IFRS), is shown separately to enable the CODM to assess the true continuing operations of the Group, which are shown within the Hills Technologies segment. That information assists the CODM in making its own resource allocation decisions. That information, 'through the eyes of management' has been presented in this Segment note in accordance with the principles of AASB8.

Hills Technologies segment

The Hills Technologies segment continues to deliver strong revenue growth, profit margins and return on assets employed. This reportable segment consists of the aggregation of a number of operating segments: Hills Electronic Security, Pacom, Lan1, Intek, OPS, Hills SVL, Audio Products Group, Hills Antenna & TV Systems, Hills Signalmaster, Hills Health Solutions (Questek, Merlon and HTR) and Hills Connection Solutions, STEP Electronics and Cygnus Satellite. The Hills Technologies segment also includes the operations of Hills Home Living on the basis that these operations are not a separately reportable segment based on materiality.

The Hills Technologies segment reported revenue of $415.5 million for the year (FY13: $356.2 million), an increase of 16.6 per cent. Segment underlying EBITDA was $42.9 million for the year (FY13: $30.3 million), an increase of 41.5 per cent. Segment underlying EBITDA as a percentage of revenue increased to 10.3 per cent in FY14 from 8.5 per cent in FY13.

Hills Electronic Security comprises the business operations of Pacific Communications (Pacom), Lan1, DAS, Intek and OPS. The business unit markets an extensive range of electronic security products in Australia and New Zealand ranging from simple domestic alarms to more complicated integrated surveillance and access control systems. The acquisition of Intek in New Zealand and Open Platform Systems (OPS) were completed late in the year and have met expectations. The domestic alarm market is now commoditising with selling prices and margins remaining lower than trend due to increased competition. However we have launched new CCTV products for the home to address this market. During the year we sold UHS Systems to United Technologies.

Lan1 secured a number of major contracts including for NBN Earth Stations, Defence, BHP mines, and Roads and Maritime Services. DAS secured contracts for security and access upgrades for Westpac, Logan Hospital and Woolworths. Pacom also secured certain key surveillance prison, utility, banking and health projects.

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 included installations for major universities and corporate board rooms including UTS, Department of Premier & Cabinet, Flinders University and Fiona Stanley Hospital (Phase 2). We are confident Hills acquisition of Audio Products Group will strengthen our offerings in that market.

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. STEP provides secure communications solutions with key deployments including an extension to the Government DFAT Contract to supply further equipment. STEP also won solid Civil and Defence Satellite business during FY14. Demand for free-to-air and satellite equipment remained steady.

Hills Connection Solutions in Australia and Signal Master in New Zealand provide subscription television and fixed wireless installation services. Local management have improved the returns from the business in light of the potential to secure contracts to provide similar services to government and commercial customers.

During the year, Hills sold its 50 per cent owned OptiComm business, which provides fibre to the node and fibre to the home in new housing developments. The 50 per cent owned Cygnus Satellite business provides bandwidth to rural and remote markets in Australia. Cygnus also provides Telstra with the Iterra IP Satellite Communication service for Telstra's remote resource industry customers. Performance in the period was steady year on year.

Hills Health Solutions now comprises the nurse call and patient infotainment businesses of Merlon, HTR and Questek. They are focused on the supply of nurse call, patient infotainment and other related solutions including security, WiFi and telephony to the health and aged care sectors. Results in these businesses were on plan with key milestones and initiatives including Merlon securing the nurse call contract for the 800-bed new Royal Adelaide Hospital; and HTR now has a digital patient infotainment offering available through a distribution agreement with Lincor, the global leader in patient engagement technology with 40,000 beds installed across 20 countries. The three businesses are now co-located and sales leads are being shared across the teams.

Hills traditional branded products business in sprayers and clotheslines achieved reasonable revenue growth but profitability continued to be a challenge. Given the value in the Hills brand the continuing support of this relatively small division remains important. However as the brand shifts to new technologies and our push into the health sector, we intend to review the viability of some of the product lines.

Hills Polymers comprises the polymer processing plant and SmartBar range of frontal protection systems. The results were not significant.

Directors' report

Other Hills businesses sold or closed segment

Businesses shown in this segment in the current and comparative period include: Healthcare, Baileys, Solar, LW Gemmell, ATS, OptiComm and UHS.

The other businesses sold or closed segment reported revenue of $32.8 million for the year (FY13: $136.3 million), a decrease of 75.9 per cent. Segment underlying EBITDA was $3.3 million for the year (FY13: $5.3 million), a decrease of 37.7 per cent.

Building and Industrial Segment (Discontinued operations under IFRS)

The Building and Industrial segment comprised Orrcon Steel and Fielders Australia. These businesses were previously classified as 'assets held for sale'. On 28 February 2014 Hills completed the divestment of Orrcon and Fielders to BlueScope Limited.

The Building and Industrial segment reported revenue of $288.9 million for the year (FY13: $525.9 million), a decrease of 45.1 per cent. Segment underlying EBITDA was $4.7 million for the year (FY13: $11.7 million), a decrease of 59 per cent. The reduction from year to year was as a result of the disposal of the segment during FY14 in line with Hills restructure and transformation program.

Subsequent events

On 1 July 2014 the Group acquired 100 per cent of the issued shares in EMG Finance Pty Ltd and Audio Products Group Pty Ltd for $15 million. The acquisition complements and extends the Group's building technologies business in the specialised audio market.

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.

Dividends

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

	2014 $'000	2013 $'000
Dividend of 3.25 cents fully franked based on tax paid at 30% (2013: 5.0 cents fully franked based on tax paid 30%) per fully paid share paid on 27 September 2013 (2013: 26 September 2012)	**8,000**	12,298
Dividend of 3.4 cents fully franked based on tax paid at 30% (2013: 0.0 cents) per fully paid share paid on 31 March 2014.	**8,037**	–
	16,037	12,298

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 $8.420 million (3.6 cents per fully paid share) to be paid on 26 September 2014 out of profits for the year ending 30 June 2014 to shareholders on the register as at 12 September 2014. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2014 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.

Likely developments and expected results of operations

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

Directors' report

Information on Directors

Jennifer Helen Hill–Ling
LLB (Adel) FAICD.

Chairman, non-independent non-executive Director Age 52.

Experience and expertise

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

Jennifer Hill-Ling has extensive experience in corporate and commercial law, specialising in corporate and business structuring, mergers and acquisitions, joint ventures and related commercial transactions. She practiced law for some 25 years and was a senior partner in two Sydney law firms in that time. She 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 past 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

17,596,377 ordinary shares in Hills Limited (including 1,188,918 shares owned by Hills Associates Limited and Poplar Pty Ltd (jointly held) and 16,239,441 shares owned by Hills Associates Limited of which JH Hill-Ling is a Director).

Nil options over ordinary shares in Hills Limited.

Edward (Ted) Noel Pretty
BA LLB (Hons).

Group Managing Director and Chief Executive Officer Age 57.

Experience and expertise

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

Ted Pretty is a leading business executive and director with significant experience, particularly in telecommunications and information technology innovation and product development. He is a non-executive Director of NEXTDC Limited and 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.

Mr Pretty has a Bachelor Degree in Arts (Economics) and First Class Honours Degree in Law.

Other current listed company directorships

Non–Executive Director of NEXTDC Limited (since 2011).

Former listed company directorships in the past three years

None.

Special responsibilities

Group Managing Director.

Interests in shares and options at the date of this report

250,000 ordinary shares in Hills Limited.

1,133,332 performance rights over ordinary shares in Hills Limited.

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

Independent non-executive Director Age 58.

Experience and expertise

Appointed non-executive 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. She is currently Chairman of the Victorian Legal Services Board.

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 past 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 Limited.

Nil options over ordinary shares in Hills Limited.

Ian Elliot
FAICD.

Independent non-executive Director Age 60.

Experience and expertise

Appointed non-executive Director in August 2003.

Ian Elliot has spent 39 years in marketing. His speciality is brand building, with extensive involvement in a number of iconic brands. Mr Elliot is a fellow of the Australian Institute of Company Directors (AICD) 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).

Director of McMillan Shakespeare Limited (since May 2014).

Former listed company directorships in the past 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 Limited.

Nil options over ordinary shares in Hills Limited.

David Moray Spence
B Com.

Independent non-executive Director Age 62

Experience and expertise

Appointed non-executive 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, SAI Global Limited and of PayPal Australia Pty Ltd.

Other current listed company directorships

Chairman of VOCUS Communications Ltd (since June 2010).

Director of SAI Global (since October 2013).

Former listed company directorships in the past 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

190,000 ordinary shares in Hills Limited.

Nil options over ordinary shares in Hills Limited.

Peter William Stancliffe
BE (Civil) FAICD.

Independent non-executive Director Age 66.

Experience and expertise

Appointed non-executive 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 past 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 Limited.

Nil options over ordinary shares in Hills Limited.

Philip Bullock
BA, MBA, GAICD, Dip. Ed.

Independent non-executive Director Age 61

Experience and expertise

Appointed non-executive Director on 23 June 2014.

Philip Bullock was formerly Vice President of the Systems and Technology Group, IBM Asia Pacific, based in Shanghai, China. Prior to that he was CEO and Managing Director of IBM Australia and New Zealand. Mr Bullock is a non-executive Director of Perpetual Limited, CSG Limited, and formerly of Healthscope Limited. He has also provided advice to the Federal Government, through a number of organisations, most notably as Chair of Skills Australia.

Other current listed company directorships

Non-executive director of Perpetual Limited (since June 2010).

Non-executive Director of CSG Limited (since August 2009).

Former listed company directorships in the past three years

None.

Special responsibilities

Member of the Audit, Risk and Compliance Committee.

Interests in shares and options at the date of this report

5,000 ordinary shares in Hills Limited.

Nil options over ordinary shares in Hills Limited.

Gai Stephens
BEC, LLB, LLM, GAICD, FCA, CTA, FGIA.

Company Secretary

Gai 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.

Ms Stephens has extensive knowledge in intellectual property maintenance, tax structuring, acquisitions and disposals, risk management, company secretarial and legal.

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2014, and the number of meetings attended by each Director were:

	Full Meetings of Directors		Meetings of Committees					
			Audit, Risk and Compliance		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
J H Hill-Ling	16	16	–	–	7	7	7	7
EN Pretty	16	16	–	–	–	–	–	–
FRV Bennett	16	16	6	6	–	–	–	–
I Elliot	15	16	–	–	7	7	7	7
DM Spence	15	16	6	6	–	–	7	7
PW Stancliffe	16	16	6	6	7	7	–	–
P Bullock*	1	1	–	–	–	–	–	–

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year

* = Joined as a non-executive Director on 23 June 2014

Directors' report

Remuneration report audited

This Remuneration Report explains Hills approach to executive remuneration, performance and remuneration outcomes for Hills and its Key Management Personnel (KMP) for the year ended 30 June 2014 (FY2014). It also addresses the Board's response to the 'First Strike' against the FY2013 Remuneration Report. In this report, 'senior executives' refers to the KMP excluding non-executive Directors.

The information provided in the Remuneration Report has been audited as required by Section 308 (3C) of the *Corporations Act 2001*.

The Remuneration Report comprises the following sections:

1. Introduction
2. Response to 'First Strike' against 2013 Remuneration Report
3. Key Management Personnel
4. Remuneration Governance
5. Executive Remuneration
6. Executive Contracts and Termination Arrangements
7. Five Year Snapshot – Business and Remuneration Outcomes
8. Statutory Remuneration Tables
9. Non-executive Directors' Remuneration
10. Equity Instrument Disclosures Relating to Key Management Personnel

1. Introduction

In March 2013, Hills announced a new strategy that saw the Company concentrate more on opportunities within the technologies and communications sectors where it was believed higher returns were available. To enable this, the Board set a number of priorities for management and developed a remuneration strategy to support the achievement of those priorities, whilst maintaining strong financial performance. Many of those tasks have been completed in FY2014 and have laid the foundation for the Company to now focus on future growth:

Priority	Achieved
Sale of the steel assets	✓
Commenced strategic acquisitions in Technology and Health	✓
Lowering the debt	✓
Position Hills to be able to invest in growth	✓
Significant change in the cost base	✓
Improved financial performance	✓

The Board believes Hills remuneration strategy has provided incentive to senior executives to deliver consistent long-term benefits to shareholders and truly aligns executive reward to shareholder interests. As Hills moves to the growth phase of the business strategy, the Company's remuneration strategy enables the Board to adjust the performance elements of executive remuneration with the shift in focus from transformation to building for the future.

First Strike

At the Hills Annual General Meeting in 2013 the majority of our shareholders voted in support of the FY2013 Annual Report, however, having received votes against the Remuneration Report totalling 26.5 per cent, the Company recorded a First Strike against the report. This matter is discussed further in the Remuneration Report at Section 2 where the concerns raised by some shareholders are outlined and the actions that the Board has taken in respect of that feedback.

The year in review – Remuneration Committee's update

FY2014 has seen the finalisation of significant restructuring of the Hills businesses. The sale of the Steel businesses was the culmination of the significant transformation journey that Hills has been on for the past two years. The transformation has moved Hills from a diversified holding company exposed to the manufacturing and steel sectors, to an integrated provider of technology and communications solutions. The Company has made a number of small acquisitions during FY2014 to add to its technology and communications, and healthcare businesses. This has resulted in a cash balance and borrowing capacity that will allow Hills to grow and consolidate its position in the high value technology and communications sectors. The Company will continue to grow in FY2015 by acquisition and the addition of innovative products and services.

The delivery of this rapid transformation is a result of the hard work and dedication of our people. The Group Managing Director and CEO and his executive team have been pivotal to this success. The Hills remuneration framework is designed to attract, motivate and retain key executives to achieve strong performance aligned to the business strategy and shareholder interests. The Board is committed to ensuring the remuneration framework is tied to delivering the high growth business strategy and creating enduring shareholder value over the long term. During the year, the Board made a number of decisions in support of this objective including:

- Following the First Strike, the Board actively consulted shareholders and shareholder representatives who had raised issues with last year's Remuneration Report to seek their feedback on Hills remuneration practices and reporting and to understand how this can be best represented in this Remuneration Report. The Board has taken their comments into consideration when framing the remuneration policy. This is further outlined at Section 2 of the report. The Board has also made changes to the format and content of the Remuneration Report with the aim of being clear, transparent and concise with a greater focus on demonstrating to shareholders the link between remuneration strategy and performance at Hills.
- The introduction of a long-term incentive (LTI) plan for the Group Managing Director and CEO, which was approved by shareholders at the FY2013 Annual General Meeting.
- The development of a new LTI for the Group Managing Director and senior executives, to be granted in FY2015, which is strongly aligned to the improvement in returns to shareholders, and the growth strategy.
- Continuing to set challenging performance measures for the FY2014 short-term incentive (STI) plans focusing on financial performance (80%), as well as strategic non-financial measures (20%). This emphasis towards financial performance will continue for FY2015.
- The review of the overall remuneration framework as the Hills business continues to evolve, including a benchmarking exercise to ensure that the salaries for the Group Managing Director and CEO and senior executives are competitive.

The Board hopes shareholders find the report useful and encourages shareholders to provide feedback on the development of Hills remuneration practices and reporting.

2. Response to First Strike against 2013 Remuneration Report

At the Hills Annual General Meeting in 2013, 26.5 per cent of voting shareholders voted against the Remuneration Report. As this percentage exceeds the percentage outlined in the *Corporations Act 2001* of 25 per cent of the votes cast by persons entitled to vote, the Remuneration Report received a First Strike.

In these circumstances, the *Corporations Act 2001* requires Hills to include in this year's Remuneration Report an explanation of the Board's proposed action in response to that First Strike or, alternatively if the Board does not propose any action, the Board's reason for such inaction.

In response to the First Strike, the Board undertook a market review and arranged for the Hills Chairman and the Chairman of the Remuneration Committee to consult with a number of institutional investors and proxy advisors who were concerned with last year's Remuneration Report to understand the main reasons why Hills received the vote against the FY2013 Remuneration Report. In developing the remuneration strategy for FY2014 and beyond as outlined in this report, the Board has taken into account feedback from stakeholders, external advice from its independent remuneration consultant, market practice, and most importantly, what the Board has identified as the key drivers to achieve the strategic objectives of the Company. The Board believes that the remuneration strategy that it has adopted is aligned with the best interests of its shareholders.

In summary, the common themes from the consultation process are set out below:

LTI for the Group Managing Director and CEO

A performance rights issue was approved at the 2013 Annual General Meeting and was granted to the Group Managing Director and CEO in February 2014. The Board were committed to having the Group Managing Director and CEO incentivised with a LTI to encourage performance and ensure his retention during the period of significant transformation and renewal at Hills.

The performance hurdles for the performance rights issued to the Group Managing Director and CEO is an EPS of $0.28 per share, or higher, in FY2016 and a share price hurdle of $4 per share. While the Board believes the share price hurdle to be a significant stretch, some shareholders were concerned that the share price hurdle may not represent a sustainable increase in shareholder wealth as vesting of 50 per cent of the rights could occur at any time during the term of the grant. No concern was raised with the EPS hurdle. In addition, the testing period for the $4 vesting was a Volume Weighted Average Price (VWAP) calculated over a five day period and this testing was not seen to be long enough. A 30-day VWAP was recommended, along with a more thorough explanation of the valuation methodology used in the granting of performance rights.

Directors' report

This feedback was considered in the design of the FY2015 LTI for the broader executive team, including the Group Managing Director and CEO, which will be rolled out with effect from 1 July 2014. The performance hurdles for the FY2015 LTI is the Compound Annual Growth Rate of underlying Earnings Per Share (EPS CAGR) of a target of 15.0 per cent and a stretch of 19.2 per cent and Relative Total Shareholder Return measured against the S&P ASX Small Ordinaries Index (excluding Resources and Financial Services). The performance rights will be equally weighted against these two measures. It is considered that this performance hurdle is strongly aligned to shareholder value creation and represents real stretch targets, which will incentivise high performance as we focus on building an integrated provider of technology and communication solutions. The adjustment in the LTI has been made to align executive reward with the shift as Hills moves from transformation to a focus on growth.

STI payments for the Group Managing Director and CEO and senior executives

The FY2013 STI performance measures were strategic non-financial measures. Some shareholders were of the view that the FY2013 Remuneration Report did not provide enough information about the nature of these measures and what was achieved.

In FY2013 the performance hurdles for the STI were linked to the transformational outcomes of the Company. The Board took this position recognising that, with the engagement of a predominately new senior executive team progressively through the year and in order to achieve the significant restructuring and transformation necessary to reposition Hills, financial measures would be counter-productive and maintain the status quo rather than assist in achieving transformational change. Accordingly, a number of critical strategic performance measures were implemented for the Group Managing Director and CEO and new senior executives.

For the FY2014 STI, with the finalisation of the transformation and the shift of focus to the new growth strategy, it was appropriate to return to a strong financial focus with financial (80%) and non-financial (20%) performance measures as explained in this Remuneration Report. In addition, the FY2015 STI will continue to have a significant weighting towards achievement of financial measures.

Remuneration strategy

With respect to the remuneration strategy, the weighting between fixed remuneration, STI and LTI was viewed by some shareholders as not being in line with market practice, and that the LTI only applied to the Group Managing Director. In addition, it was perceived by some shareholders that some senior executives received remuneration considered to be high compared to the 2013 benchmark, given the market capitalisation of the Company in FY2013.

The Board recognises matters raised in relation to the LTI. A FY2015 LTI for senior executives, including the Group Managing Director and CEO, has been developed and will be rolled out effective from 1 July 2014. In addition, in order to sensibly transition to the target remuneration mix for the Group Managing Director and CEO and senior executives, transition will occur progressively through the annual remuneration review process, during which the Board will take into account market benchmarks and movement, growth in the size of Hills, Company performance, and the performance of individual senior executives. The current and anticipated weightings between Fixed Remuneration, STI and LTI are outlined in section 5.2.

The Board has had the remuneration of the Group Managing Director and CEO and senior executives benchmarked and notes that remuneration is generally paid in line with, or in some cases (such as the Group Managing Director and CEO and Chief Financial Officer) at the higher end of the market for an entity of our size. In employing a new Group Managing Director and CEO and senior executive team, the Board consciously acquired a highly talented senior management team with the skills and experience necessary to successfully achieve the Company's restructure, the completion of the transformation and delivery of the growth strategy. The Board recognises that this is a transitional remuneration position. As the Company grows and the remuneration framework is fully implemented, remuneration of senior executives will fall into line with external benchmarks. In addition, as described in Section 5.2, a significant component of the remuneration for senior executives is directly linked to the performance of Hills. The Board will continue to benchmark and monitor against the market.

Finally, the Board has changed the format of this year's Remuneration Report in order to make it more readable and informative. We believe stakeholders will appreciate the open disclosure and clear presentation and we welcome any shareholder feedback and suggestions for improvement.

3. Key management personnel

Key Management Personnel (KMP) encompasses all Directors, as well as those senior executives who have specific responsibility for planning, directing and controlling material activities of Hills. As a result of the Company's restructure and transformation in FY2014, there was a review of the FY2013 KMP and some individuals are no longer considered to be KMP.

Directors	
JH Hill-Ling	Chairman, non-independent and non-executive Director
EN Pretty	Group Managing Director & Chief Executive Officer
FRV Bennett	Independent, non-executive Director
I Elliot	Independent, non-executive Director
DM Spence	Independent, non-executive Director
PW Stancliffe	Independent, non-executive Director
P Bullock [1]	Independent, non-executive Director
Senior Executives	
G Logan	Chief Commercial Officer and Group Chief Financial Officer
B Newton	Chief Operating Officer
L Ison [2]	Chief Technology Officer
M Campbell [3]	Chief of Home and Consumer
L Francis [4]	Executive Director Hills Communications
M McKinstry [5]	Chief Operations Officer, Building and Industrial

(1) P Bullock joined Hills as a non-executive Director on 23 June 2014
(2) L Ison commenced with Hills on 9 September 2013
(3) M Campbell ceased employment with Hills on 1 July 2014
(4) L Francis changed roles on 23 January 2014 and ceased to be KMP
(5) M McKinstry ceased employment with Hills effective 30 August 2013
Note: G Stephens was identified as KMP for FY2013, however, for FY2014, with the exception of the CFO, corporate support roles are no longer considered to be KMP

Directors' report

4. Remuneration governance

4.1 Role of the Remuneration Committee

The Board, with assistance from the Remuneration Committee, is ultimately responsible for ensuring that the Hills remuneration framework is consistent with the business strategy and performance supporting increased shareholder wealth over the long term.

The Remuneration Committee, consisting of three non-executive Directors: David Spence (Chairman), Jennifer Hill-Ling and Ian Elliot, has been delegated responsibility for reviewing the remuneration strategy annually and advises the Board on remuneration policies and practices generally.

The Remuneration Committee is responsible for:

- the ongoing appropriateness and relevance of the remuneration framework for the Chairman, the Board Committees and the non-executive Directors;
- Hills remuneration policy for the Group Managing Director and CEO, his direct reports and other senior executives, any changes to the policy, and the implementation of the policy including any shareholder approvals required; and
- incentive plans for the Group Managing Director and CEO, his direct reports and other senior executives.

Further detail on the Remuneration Committee's responsibilities is set out in its Charter, which is reviewed annually and which is available on the Hills website at: http://www.hills.com.au/about-us/governance.

4.2 Use of independent remuneration consultants

The Remuneration Committee seeks advice and market data from independent remuneration consultants as required.

During FY2014, the Board engaged the Godfrey Remuneration Group (GRG) as its independent advisor to provide 'remuneration recommendations' for the purpose of the Corporations Act. GRG provided remuneration benchmarking of senior executive remuneration and advice on the remuneration framework. The engagement of GRG was in accordance with s206K and s206L of the Corporations Act in relation to receiving remuneration recommendations for KMP. For the advice received during FY2014 GRG was paid a fee of $33,000 plus GST.

The Committee has protocols in place to ensure that any advice is provided in an appropriate manner and is free from undue influence of management. In receiving this advice, the Board is satisfied that the arrangements it has established enable GRG to provide its recommendation free from influence. Key features of these protocols are:

- With the approval of the Board, the Chairman of the Remuneration Committee engaged GRG directly.
- The Chairman of the Remuneration Committee arranged to receive the advice from GRG directly.
- GRG provided the advice and recommendations directly to the Chairman of the Remuneration Committee.
- There was no contact between GRG and KMP to which their recommendations related.
- GRG provided no other kind of advice to the Company during FY2014.

Further details on the governance arrangements for the Remuneration Committee are provided in the Corporate Governance Statement.

4.3 Hills share trading policy

The Hills Share Trading Policy imposes trading restrictions on all Hills employees who are considered to be in possession of 'inside information' and additional restrictions in the form of trading windows for senior executives. Senior executives and members of the broader management team are prohibited from trading in Hills shares during specific periods prior to the announcement of the half and full year results. This policy applies equally to shares received as part of remuneration. The share trading policy is available on the Hills website at: http://www.hills.com.au.

4.4 Hills clawback policy

To strengthen the governance of the remuneration strategy, Hills is implementing an executive remuneration clawback policy during FY2015. The policy is designed to further align the remuneration outcomes of the Hills senior executive team with the long term interests of Hills and its shareholders, to ensure that excessive risk taking is not rewarded, and to provide the Board with the ability to clawback incentives paid in relation to a material misstatement in Hills Financial Statements.

5. Executive remuneration

5.1 Alignment of remuneration strategy with business strategy

The Board has established a remuneration strategy that supports and drives the achievement of the Hills business strategy. The Board is confident that the remuneration framework aligns the remuneration of the Group Managing Director and CEO and senior executives with shareholder interests. Hills is a business that is heavily focused on key performance indicators (KPIs) and rewards its people at all levels on achievement of those KPIs.

Remuneration principles

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

Competitive	• Remuneration position at the appropriate level relative to the market to be competitive and attract, retain and reward employees
Equitable and motivational	• 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
Linked to performance	• 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	• Align remuneration and incentive outcomes with business goals and results • Support the completion of the transformation and delivery of the growth strategy • Withstand external scrutiny
Straightforward	• Understood by all stakeholders and employees

The diagram below shows how the remuneration strategy and framework align with the achievement of Hills business strategy and ultimately achieves sustainable long-term wealth creation for shareholders.

Hills business strategy

Integrated solutions into trusted environments

Strategic setting

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

Remuneration strategy

Aligning executive reward with achievement of business strategy objectives	Motivate and reward outstanding performance	Attract and retain key executive talent
Challenging KPIs focused on financial and non-financial measures.	Short-term and long-term components of remuneration 'at risk' are based on performance and outcomes.	Provide competitive remuneration in order to attract and retain senior executives with the skills and experience to complete the transformation and deliver the growth strategy.

Remuneration framework & policy

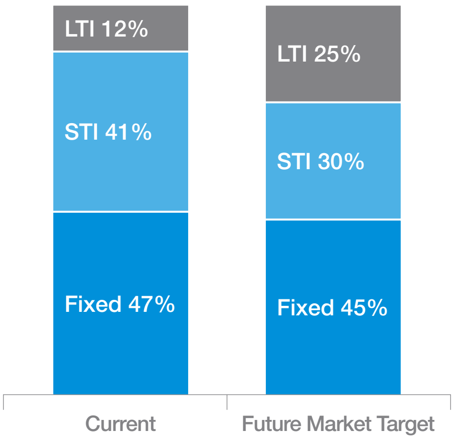
Fixed remuneration	Short-term incentive	Long-term incentive
Set at levels to attract a senior executive team with the skills and experience required to successfully complete transformation and delivery of the growth strategy.	Aligned to the achievement of Hills business objectives measured over the short term (12 months). The KPIs are based on: • Financial performance (80%) • Individual non-financial performance measures (20%) Both financial and non-financial measures directly support achievement of the Company's strategic settings.	Aligned to the achievement of increased shareholder wealth over the long term. For FY2015, the performance measures will be: • EPS three-year CAGR; and • Relative TSR Retention: three-year performance period, with a further one-year restriction on trading.

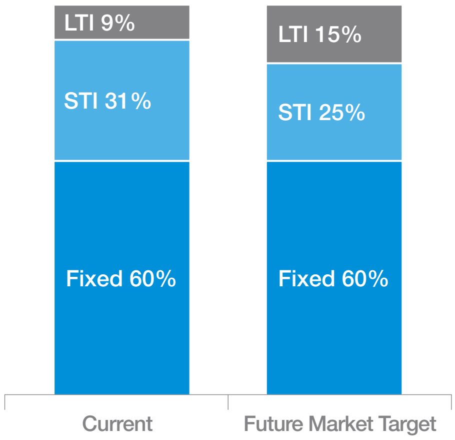
Directors' report

5.2 Remuneration mix

Senior executive remuneration is comprised of fixed remuneration (made up of base salary and superannuation), STI and LTI. The following diagrams show the remuneration mix at target performance.

The move to this remuneration mix is being achieved by incremental adjustments through the annual review process, in conjunction with the introduction of the long-term incentive plan during FY2015. Outstanding anomalies will be addressed through future annual reviews.





(6) Senior executive LTI value includes G Logan's cash based retention plan.

5.3 Group Managing Director and CEO remuneration

Fixed remuneration FY2014

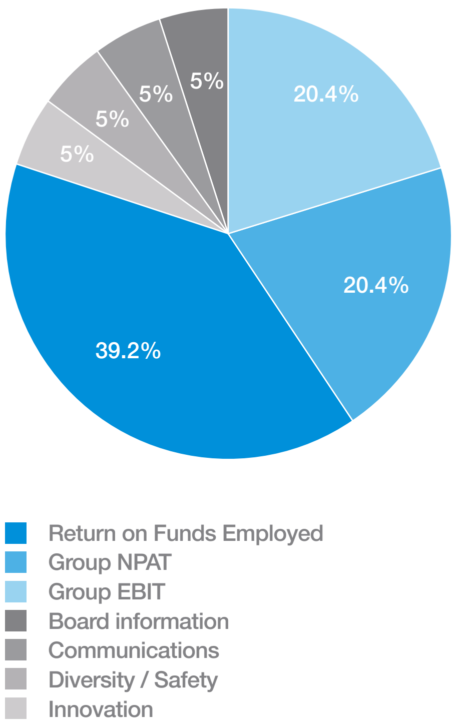
The Group Managing Director and CEO had a fixed remuneration of $905,000 per annum, which is inclusive of superannuation. Fixed remuneration is reviewed annually by the Board with reference to performance of the Company, performance of the Group Managing Director and CEO and market information.

Benchmarking was undertaken during FY2014 and the Group Managing Director and CEO's fixed remuneration is positioned at the higher end of comparable market benchmark to entities of our size. In embarking on a major company transformation and growth strategy, the Board recognised the need to remunerate its Group Managing Director and CEO at a level to enable it to attract an individual with the skills, experience and capabilities to lead the transformation of the Company. The Board required the Company to undergo a significant 'step change' in restructuring and transitioning the business from a large diversified group with a focus on the manufacturing and steel sector to an integrated provider of technology and communications solutions, with a clear focus on rebuilding shareholder value. During FY2014 Hills market capitalisation has increased significantly from $249 million to $407 million (63%), which demonstrates early success in executing the transformation and delivery of the growth strategy.

Short-term incentive FY2014

The Group Managing Director and CEO has a STI opportunity of up to $795,000, which was subject to both financial (80%) and non-financial (20%) KPIs determined by the Board at the commencement of the financial year. KPIs are directly related to the Hills business strategy (see section 5.1). The financial measures were key drivers of achieving the Company's strategic settings (see section 5.1), with the individual KPIs being a balance between operational activities and initiatives important to completing the Company's transformation and delivery of the growth strategy.

The following diagram shows the weighting of each component of the STI for the Group Managing Director and CEO:



The FY2014 STI opportunity, which is reviewed annually by the Board, was 88 per cent of fixed remuneration. In addition to the achievement in the financial performance of the Company, the Group Managing Director and CEO has made significant achievement against his non-financial KPIs for FY2014, including:

- the sale of the steel business and other manufacturing assets (refer to Steel Bonus in Section 5.7);
- transition from a diversified holding company exposed to the manufacturing and steel sectors, to an integrated provider of technology and communications solutions;
- the rapid transformation to the One Hills strategy;
- building our innovation capabilities including establishment of the Hills Innovation Centres;
- improvements in the representation of women across the Company; and
- implementation of a range of employee and customer communication initiatives.

More details of the performance against specific KPIs is set out at section 5.5.

Long-term incentive FY2014

The Group Managing Director and CEO was awarded an LTI of 1,133,332 performance rights. The number of performance rights takes into account that no grant was made following the 2012 Annual General Meeting. None of these performance rights vested during FY2014.

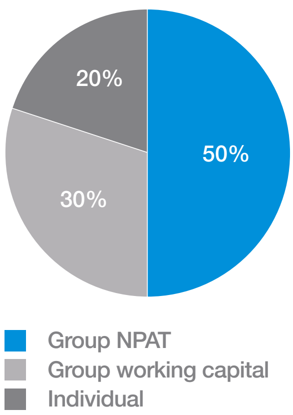
Amounts for long-term performance rights shown in the statutory remuneration table at section 8.2 reflect the amortised accounting expense for the FY2014 LTI awards which may not vest until 30 June 2016, or earlier for 50% of the performance rights if a share price of $4 is achieved.

5.4 Senior executive short-term incentive FY2014

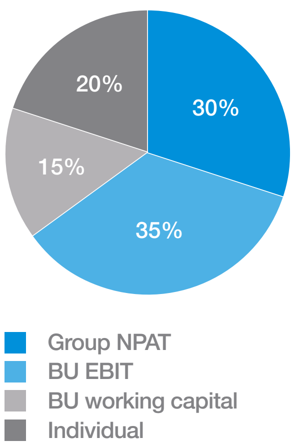
STI – how it works

The STI is an at risk component of remuneration and is designed to reward performance against the achievement of KPIs, which are set annually. The Hills FY2014 STI plan was designed to reward senior executives for the achievement of objectives closely aligned to the Hills business strategy focusing on transformation and growth, and shareholder outcomes.

Corporate senior executives



Business unit senior executives



In addition to senior executives, other executives and employees may be invited to participate in the STI depending on their role and their level within the Company.

The STI performance period was from 1 July 2013 to 30 June 2014.

The maximum STI available to each senior executive was set at a level based on role, responsibilities and market data for the achievement of targets against specific KPIs. The maximum STI opportunity for each senior executive is listed at section 5.5 as an absolute dollar amount and as a percentage of the senior executive's fixed remuneration. The Board structured the STI with quarterly targets, and the potential partial payment for the first half-year based on achievement of financial targets. This was to focus the senior executives on building momentum early in FY2014. The balance of the STI was payable at the end of FY2014 based on full year financial performance and achievement of individual KPIs over the full year. STI payments for FY2014 were made in February and August 2014 after assessment by the Board of each half year performance. This strategy proved to be successful in maintaining momentum and in driving high performance across the senior executive team.

The following table summarises what would happen to potential FY2014 STI 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.

How individual performance has translated into STI awards

KPIs use both financial and non-financial measures of performance. KPIs are selected based on:

- what needs to be achieved over the 12-month period; and
- to realise the business strategy over the longer term,

and hence contribute to the creation of increased value for shareholders.

Senior executive KPIs are aligned to the KPIs for the Group Managing Director and CEO and are based on a mix of day-to-day operational KPIs and more strategic KPIs which support the long-term business strategy, adjusted to reflect individual roles.

Assessment of performance & approval of payment

The Remuneration Committee assesses the Group Managing Director and CEO's performance, and individual senior executive's performance based on the Group Managing Director and CEO's recommendations, against the KPIs set at the beginning of the financial year. The assessment of individual performance is combined with the achievement of financial results to determine the amount of payment for the Group Managing Director and CEO and each senior executive. The Remuneration Committee recommends the STI payment outcome to the Board for approval. STI payments for FY2014 were delivered as cash payments following approval by the Board.

5.5 FY2014 STI performance and outcomes

FY2014 has been a year of strong performance and the STI outcomes reflect this. A summary of Company performance compared to previous years is provided in Section 7.

Group Managing Director and CEO

The specific KPIs and the outcomes achieved for FY2014 for the Group Managing Director and CEO are set out in the following table.

Objective	Rational link to strategy	Measurement	Weighting	Outcome
Group EBIT	Financial measures which are drivers to achieving the Company's strategic settings	Measured by reference to FY2014 budget	20.4%	20.4%
Group NPAT		Measured by reference to FY2014 budget	20.4%	20.4%
Return on funds employed (with an EBIT gateway)		Measured by reference to FY2014 ROFE	39.2%	39.2%
Individual KPIs: • Diversity & safety • Governance • Communications with employees • Innovation	Individual KPIs include operational activities, and key transformation initiatives, which will support achievement of strategic settings in future years	Measured by achievement to specified pre-determined targets and objectives	20%	15%
Total			**100%**	**95%**

Note: The Group Managing Director's STI was paid based on full year financial performance.

Senior executives

The KPIs for the senior executives were aligned to the Group Managing Director and CEO's KPIs. The STIs received for the senior executives for FY2014 are set out in the following table:

Executive	Target STI opportunity $ [7]	As a % of fixed remuneration	Financial outcome (max 80%)	Non-financial outcome (max 20%)	Actual STI outcome $	% Achieved	% Forfeited
EN Pretty	$795,000	88%	80%	15%	$755,500	95%	5%
G Logan	$175,437	32%	80%	15%	$166,666	95%	5%
B Newton	$288,400	67%	80%	15%	$273,980	95%	5%
L Ison	$165,857	57%	80%	15%	$157,168	95%	5%
M Campbell [8]	$240,600	50%	0%	19%	$45,000	19%	81%
L Francis	$151,900	54%	80%	15%	$144,305	95%	5%
Total	$1,817,194	–	–	–	$1,542,619	85%	15%

(7) Target STI does not include Steel Bonuses which are detailed in section 5.7

(8) M Campbell had a maximum opportunity for Financial Outcome of 50% of Target and for Non-financial Outcome of 50% of target

5.6 FY2014 long-term incentive outcomes for the Group Managing Director and CEO

FY2014 Hills long-term incentive award – how it works

The FY2014 LTI is designed to directly link the Group Managing Director and CEO to growth in long-term shareholder wealth. In February 2014 and following approval by shareholders at the Annual General Meeting on 8 November 2013, the Group Managing Director and CEO was granted 1,133,332 performance rights to acquire ordinary Hills shares, subject to achievement of pre-determined performance hurdles.

How Hills performance has translated into LTI awards

The Board selected the following performance hurdles for the FY2014 grant:

- a share price hurdle of $4 for 50% of the performance rights granted if this is achieved prior to 30 June 2016; and
- an EPS of 28 cents in FY2016 for 50%, or 100% of the performance rights where the share price hurdle has not been achieved before 30 June 2016.

In determining the performance hurdles for the Group Managing Director and CEO's performance rights, the Board considered that an absolute share price target was more appropriate than a relative (ie peer comparison) share price appreciation or total shareholder return target. This was due to the significant degree of change in the Company's operations and the difficulty in identifying logical market peers and/or sectors over the course of the Company's transformation, delivery of the growth strategy, and the LTI performance period.

No performance rights vested during FY2014.

Termination of employment

All unvested Performance Rights will lapse on the date that the Group Managing Director and CEO ceases to be an employee unless the Board determines otherwise. If the Group Managing Director and CEO ceases to be an employee due to his death or total and permanent disablement, all of his unvested Performance Rights will remain outstanding and will vest or lapse as if he remained an employee, unless the Board determines that some or all of his unvested Performance Rights should vest immediately.

The Board has the discretion to determine that some, all or none of the Group Managing Director and CEO's unvested Performance Rights will vest if the Company is the subject of a takeover, change of control or winding-up resolution.

5.7 Bonuses paid on sale of steel assets

The Group Managing Director and CEO and the Chief Financial Officer each had a bonus opportunity payable on completion of the Hills steel divestments in FY2014. These bonus opportunities were in addition to the FY2014 STI, and recognised the significance of these transactions for the Company, if realised, in a difficult climate for the sale of manufacturing assets.

This target was successfully reached during FY2014 with the sale of the steel assets of Orrcon and Fielders, unlocking significant funds for re-investment in line with the transformation and growth strategy of the Company. These major transactions required substantial commitment and endeavour on behalf of the Group Managing Director and CEO and the Chief Financial Officer, and in accordance with the terms of the Bonus, the Board approved a one-off payment as follows:

Name	Title	$
Mr Pretty	Group Managing Director and CEO	$150,000
Mr Logan	Chief Financial Officer	$100,000

5.8 FY2015 incentive design

Short-term incentive plan – FY2015

The FY2015 STI plan will continue the strong focus on aligning senior executive reward with the financial performance of Hills. The plan will retain the weighting from FY2014, that is:

- Financial performance: 80%
- Individual performance: 20%

The FY2015 plan sees a shift from the quarterly measurement and half yearly payment structure which applied in FY2014, to be based on the assessment of the end of financial year results, with any payment being made following the announcement of the Company results in August 2015. The FY2014 approach was important in building momentum during a period of substantial change within the Company, however, the Board believes that it is now appropriate to revert to the assessment over the full year as Hills moves to the growth phase of the strategy.

Long-term incentive plan – FY2015

For FY2014, the Group Managing Director and CEO LTI Plan included an EPS hurdle of 28 cents in FY2016. In developing this plan, the Board was focused on the transformation phase of the Company, through a period of divestments and re-structuring. The focus has moved to investment in new business to achieve sustainable growth, and to build momentum over future years. To achieve this, it is important that the LTI supports the retention of the capabilities within the team and aligns senior executive reward with the delivery of the growth strategy. In addition, the Board received feedback on the design of the FY2014 LTI for the Group Managing Director and CEO which has been taken into account in the design of the FY2015 LTI plan.

The FY2015 LTI plan will apply to the Group Managing Director and CEO and those senior executives who will be invited to participate at the discretion of the Board. The plan will have an EPS and a relative TSR hurdle. The EPS hurdle represents significant stretch aligned with the Hills growth strategy and, if achieved, will result in substantial value creation for shareholders, whereas the TSR hurdle rewards relative performance versus a broad market index of companies of similar size.

The following table provides a summary of the design of the plan.

Instrument	Performance rights
Performance period	3 years (1 July 2014 to 30 June 2017)
Trading restriction	Where performance rights vest, participants will be restricted in trading in the shares for an additional year, ie, FY2018
Performance measure	Tranche 1: 50% at stretch Underlying EPS CAGR Target: 15.0%; Stretch: 19.2% Tranche 2: 50% Relative Total Shareholder Return equal to or greater than 50th percentile of the Small Ordinaries Index (excluding Resources and Financial Services)
Valuation	30-day VWAP following the announcement of the FY2014 Annual Results
Gateway	Absolute TSR must be positive when performance is assessed for any performance rights to vest

As the Company moves to the growth phase of its business strategy, the remuneration strategy has enabled the performance element of executive remuneration to be adjusted to reflect the shift in focus from transformation to building for the future.

The Compound Annual Growth Rate was determined after a comprehensive budgeting process and takes into account the delivery of the Hills growth strategy. The 'conviction growth' strategy includes Hills aim to be in the top two in each of its product categories over the next three years. The Company expects that the forecast growth will be met in part by organic growth and in part by earnings accretive acquisitions.

6. Executive contracts and termination arrangements

Employment contracts

The remuneration and other terms of employment for the Group Managing Director and CEO and senior executives are covered in their individual employment contracts and are summarised in this table:

Group Managing Director and CEO	• The contract for the Group Managing Director and CEO had an initial period of one year and will continue until terminated. After the initial period of one year, the Group Managing Director and 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 period, and with twelve months' notice thereafter. • The Group Managing Director and CEO may terminate his employment at any time after the initial period by giving Hills six months' written notice.
Senior executives	• There is no guaranteed base pay increases included in any senior executive 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 contract of Mr Logan, where termination on grounds of redundancy includes a combined total of redundancy pay and notice of four months. • 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.

Chief Financial Officer (CFO)

In FY2013 the terms of employment of the CFO, Mr Grant Logan, were amended to include a 'cash based LTI', or 'Retention Payment', instead of any other LTI that may have been available to other senior executives. As the longest serving member of the senior executive team, Mr Logan was offered this unique plan in recognition of the need to retain his services through the completion of the transformation and delivery of the growth strategy, given his in-depth knowledge of Hills and in order to drive future financial performance.

The plan 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 Group Managing Director and CEO.
- Retention component: An amount of $75,000 per annum for each of the three years up to and including FY2015 and is based only on service.

Any payment under this plan 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 limited to the CFO and is to the exclusion of any long-term incentive plan that may be available to the other senior executives.

Chief Operating Officer (COO)

Mr Newton's employment contract provides for a LTI of $75,000 per annum. As the Company did not implement an LTI for senior executives other than the Group Managing Director and CEO, this element of his remuneration was accrued as a cash based incentive for FY2014. The value for FY2014 was assessed at $71,250 with payment deferred until after the completion of FY2015 and is subject to the COO being employed at this time. For FY2015, this element of Mr Newton's remuneration will be addressed through the LTI, which is being implemented for the Group Managing Director and CEO and other senior executives.

7. Five year snapshot – business and remuneration outcomes

An underlying principle of the Hills remuneration strategy is that remuneration must be linked to the performance of Hills.

The following is a summary of financial and share price information and safety performance over the past five years.

Key financials	FY2014	FY2013	FY2012	FY2011	FY2010
Earnings before interest and tax (EBIT) ($000) [9]	41,689	33,138	44,702	40,376	65,469
Shareholders' funds ($000)	245,228	271,018	400,963	402,307	496,449
Underlying net profit ('$000) [9]	27,277	19,201	28,822	27,126	43,095
Statutory net profit ('$000)	26,387	(91,387)	28,822	(73,116)	43,095
Basic earnings per share (cents) [9]	11.4	7.8	10.5	10.2	16.7
Dividends (cents)	7.0	5.0	10.0	10.0	12.5
Share price ($) – as at 30 June	1.74	1.01	1.06	1.20	2.15
Safety (TRIFR)	1.0	5.8	10.1	19.8	34.7

(9) Underlying EBIT, profit, and earnings per share have been calculated after adjusting profit / (loss) attributable to the ordinary equity holders of the Company for business combination acquisition transaction costs, results on disposal of businesses and the tax effects thereof in the current year and CGU impairment, restructure and closure costs and other associated impairments in the previous year. Underlying profit is a non IFRS measure used by the Company which is relevant because it is consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business in light of its change program. The non IFRS measure has not been subject to audit or review.

8. Statutory remuneration tables

8.1 Senior executive remuneration

The following table of senior executives' remuneration has been prepared in accordance with accounting standards and the *Corporations Act 2001* requirements. The amounts shown are equal to the amounts expensed in the Company's financial statements.

2014	Short–term employee benefits			Post employment benefits	Long–term benefits		Share based payments (D)		
Name	Cash salary and fees $	Cash bonus $	Other $	Super annuation $	LSL & cash based LTIP $	Termination benefits $	Performance rights $	Shares $	Total $
Executive Director									
E Pretty	879,430	905,500[10]	13,543	25,193	4,333	–	64,222[11]	–	1,892,221
Other Senior Executives									
G Logan	528,033	266,666[10]	–	23,364	151,669	–	–	–	969,732
B Newton	395,973	273,980	19,799	36,672	72,404[12]	–	–	–	798,828
L Ison [13]	260,317	157,168	10,048	24,079	288	–	–	–	451,900
M Campbell [14]	476,630	45,000	–	44,088	–	296,208	–	–	861,926
L Francis [15]	145,410	144,305	–	13,479	635	–	–	–	303,829
Former Senior Executive									
M McKinstry [16]	72,464	–	5,589	8,250	–	–	–	–	86,303
Total Senior Executives Compensation	**2,758,257**	**1,792,619**	**48,979**	**175,125**	**229,329**	**296,208**	**64,222**	**–**	**5,364,739**

(10) Includes Bonus payments for the sale of Steel assets for G Logan ($100,000) and E Pretty ($150,000), and STI Payments for G Logan ($166,666) and E Pretty ($755,500)

(11) Accounting Value for performance rights for Mr E Pretty represents 3% of Total Remuneration for 2014

(12) B Newton received a cash based LTI of $71,250 with payment deferred to after FY2015 in accordance with his employment arrangements

(13) L Ison Commenced with Hills 9 September 2013

(14) M Campbell ceased employment with Hills effective 1 July 2014

(15) L Francis changed roles on 23 January 2014 and ceased to be a KMP

(16) M McKinstry ceased employment with Hills effective 30 August 2013

2013	Short–term employee benefits			Post employment benefits	Long–term benefits		Share based payments (D)		
Name	Cash salary and fees $	Cash bonus $	Other $	Super annuation $	LSL & cash based LTIP $	Termination benefits $	Performance rights $	Shares $	Total $
Executive Directors									
E Pretty [17]	713,206	618,500	17,268	31,193	909	–	–	–	1,381,076
M Campbell [18]	273,517	–	2,816	6,483	–	–	–	–	282,816
G Twarz [19]	137,208	–	51,917	15,848	3,881	–	–	–	208,854
Other Senior Executives									
G Logan [20]	477,435	175,000	14,680	22,592	152,366	–	557	–	842,630
B Newton [21]	105,759	64,000	58,113	9,536	216	–	–	–	237,624
L Francis	79,510	43,000	5,106	7,174	108	–	–	–	134,898
G Stephens	154,882	75,000	7,033	13,966	210	–	–	–	251,091
M McKinstry	415,147	50,000	15,289	23,349	–	–	836	–	504,621
S Cope [22]	414,512	–	22,794	20,936	–	306,412	139	16	764,809
R Rees [23]	113,207	–	1,903	15,473	–	58,715	–	–	189,298
T Sullivan [24]	146,789	15,000	2,088	14,796	–	105,506	–	–	284,179
A Kachellek [25]	188,982	35,094	–	17,222	–	–	–	–	241,298
Total Senior Executive Compensation	**3,220,154**	**1,075,594**	**199,007**	**198,568**	**157,690**	**470,633**	**1,532**	**16**	**5,323,193**

(17) E Pretty was appointed MD & CEO 3 September 2012

(18) 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

(19) G Twartz ceased as MD on 3 September 2012

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

(21) 'Other' includes a payment to B Newton of $50,000 on his commencement with the Group. This amount was deducted from his STIP payment for FY2013

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

(23) 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

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

(25) A Kachellek remains Managing Director of Korvest but ceased being a KMP of the Group on sale of the Group's interest in Korvest on 19 February 2013

8.2 Remuneration components as a proportion of total remuneration paid or expensed

The following table reflects the fixed remuneration, STI and LTI for FY2014 calculated in accordance with the accounting standards as a proportion of the total.

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 [26]	$945,000	$945,000	$905,500	96%	96%	98%
G Logan [26]	$275,437	$275,437	$266,666	97%	97%	42%
B Newton	$288,400	$288,400	$273,980	95%	95%	60%
L Ison [27]	$215,000	$165,857	$157,168	73%	95%	53%
M Campbell	$240,600	$240,600	$45,000	19%	19%	9%
L Francis	$151,900	$151,900	$144,305	95%	95%	90%
M McKinstry [28]	$0	$0	$0	–	–	–

The following table reflects the fixed remuneration, STI and LTI and total performance based remuneration for FY2014 calculated in accordance with the accounting standards as a proportion of the total remuneration.

Name	Fixed remuneration %	At risk/STI paid or payable %	Value of performance rights/cash LTI %	Total performance based %
E Pretty [29]	49%	48%	3%	51%
G Logan [29]	58%	27%	15% [30]	35%
B Newton	57%	34%	9%	43%
L Ison	65%	35%	0%	35%
M Campbell	95%	5%	0%	5%
L Francis	53%	47%	0%	47%
M McKinstry	100%	0%	0%	0%

(26) Includes Bonus payments for the sale of Steel assets for G Logan ($100,000) and E Pretty ($150,000)

(27) L Ison pro rata for 9 September 2013 commencement

(28) M McKinstry ceased employment with Hills effective 30 August 2013 and was not eligible for STI

(29) Includes Bonus payments for the sale of Steel assets for G Logan ($100,000) and E Pretty ($150,000)

(30) For G Logan cash based retention plan is included as cash LTI

The following table shows the proportion weighting of each element of remuneration for each of the senior executives employed at the end of the FY2014 based on maximum potential outcome.

	Fixed remuneration (%)		Maximum short-term incentive (%)		Maximum long-term incentive (%)	
Name	FY2013	FY2014	FY2013	FY2014	FY2013	FY2014
E Pretty [31]	55%	48%	45%	49%	–	3%
G Logan [31 32]	63%	64%	20%	28%	17%	8%
B Newton	50%	56%	50%	35%	–	9%
L Ison	–	64%	–	36%	–	–
M Campbell	67%	77%	33%	23%	–	–
L Francis	67%	51%	33%	49%	–	–
M McKinstry	70%	100%	30%	0%	–	–

(31) Includes Bonus payments for the sale of Steel assets for G Logan ($100,000) and E Pretty ($150,000)

(32) G Logan participates in a retention plan and is not eligible to participate in any LTI equity plan

8.3 Details of share based compensation and bonuses

Previous long-term incentive plans:

All performance rights held by senior executives, excluding the Group Managing Director and CEO, 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.

As such there are no equity based plans to report for these senior executives in FY2014.

Group Managing Director and CEO

At the Annual General Meeting in 2013 shareholders approved a grant of performance rights to the Group Managing Director and CEO. A grant of 1,133,332 performance rights was issued in February 2014 under the following conditions:

- A 3 year performance period from 1 July 2013 to 30 June 2016
- If a share price of $4.00 is reached prior to the end of the performance period, then 50% of the performance rights will immediately vest, but will not be exercised until 30 June 2016
- An EPS of 28 cents in FY2016 for 50% where the share price hurdle has been previously achieved prior to 30 June 2016, or 100% of the performance rights where the share price hurdle has not been previously achieved.

8.3 Details of share based compensation and bonuses (continued)

The following table provides additional details of the above grant of performance rights:

Grant date	Date exercisable [33]	Expiry date	Measure	Exercise price	Fair value right at grant date	Performance achieved	% vested FY14
17 Feb 2014	30 June 2016	30 June 2016	EPS	$0.00	$1.27 [34]	NIL	0%
17 Feb 2014	30 June 2016	30 June 2016	Share Price	$0.00	$0.34 [35]	NIL	0%

(33) If a share price of $4.00 is reached prior to the end of the performance period, then 50% of the performance rights will immediately vest, but will not be exercised until 30 June 2016

(34) Subject to non-market hurdle - EPS

(35) Subject to market hurdle – Share Price

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:

- Non Market Hurdle EPS of $0.28 = $1.27; and
- Market Hurdle Share Price Greater than or equal to $4 = $0.34.

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 terms of equity settled share based payment transactions, granted as compensation to a senior executive, have been altered or modified by the issuing entity during the reporting period or the prior period.

Details of performance rights over ordinary shares in Hills provided as remuneration to the Group Managing Director and CEO are set out below. No other senior executive received any allocation of equity during FY2014, nor does any other senior executive hold performance rights or options from previous plans. When vested, each performance right is convertible into one ordinary share of Hills. Further information on the options is set out above and in note 23 to the financial statements.

No performance rights vested during FY2014.

Name	Measure	Number of performance rights granted during the year	Fair value of performance rights at grant date calculated in accordance with AASB 2	Number of rights vested during the period	Number of performance rights / lapsed / forfeited during the year	Value at lapse / cancellation / forfeit date
E Pretty	Share Price	566,666	192,666	NIL	NIL	NIL
	EPS	566,666	719,665 [36]	NIL	NIL	NIL

(36) This value is at grant date. Current value in the remuneration tables (Section 8.1) reflects a 0% probability of achievement of the EPS hurdle for this plan

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.

9. Non-executive Directors' remuneration

The Board sets non-executive Director remuneration at a level which enables the attraction and retention of directors of the highest calibre, while incurring a cost which is acceptable to shareholders. The remuneration of the non-executive Directors is determined by the Board on recommendation from the Remuneration Committee within a maximum fee pool.

Non-executive Directors receive a base fee and statutory superannuation contributions. Non-executive Directors do not receive any performance based pay.

9.1 Fee pool

The maximum amount of fees that can be paid to non-executive Directors is capped by a pool approved by shareholders. At the FY2011 Annual General Meeting, shareholders approved the current fee pool of $1.2 million per annum which is recorded on an accrual basis. The fee pool and the base Directors' fees did not change in FY2014.

9.2 Directors' 2014 fee structure

The following table outlines the main Board and Committee fees as at 30 June 2014.

	Chair Fee	Member Fee
Board	$200,000	$100,000
Audit and Risk Committee	$20,000	$10,000
Remuneration Committee	$10,000	Nil
Nomination Committee	$10,000	Nil

9.3 Non-executive Directors' remuneration details

Non-executive Directors	Year	Board and Committee Fees $	Superannuation $	Total $
J Hill-Ling	**2014**	**183,486**	**16,972**	**200,458**
	2013	191,132	17,202	208,334
FRV Bennett	**2014**	**110,092**	**10,183**	**120,275**
	2013	102,446	9,220	111,666
I Elliot	**2014**	**100,917**	**9,335**	**110,252**
	2013	100,917	9,083	110,000
D Spence	**2014**	**110,092**	**10,183**	**120,275**
	2013	94,801	8,532	103,333
P Stancliffe [37]	**2014**	**100,917**	**9,335**	**110,252**
	2013	128,564	11,571	140,135
M Campbell [38]	**2014**	**–**	**–**	**–**
	2013	49,694	4,472	54,166
P Bullock [39]	**2014**	**2,174**	**207**	**2,381**
	2013	–	–	–

(37) P Stancliffe remuneration includes Board fees from Korvest Ltd. for FY2013

(38) M Campbell 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

(39) P Bullock commenced with Hills on 23 June 2014

9.4 Retirement allowance for non-executive Directors

Ms J Hill-Ling is the only Director entitled to receive benefits on retirement under a scheme that was discontinued on 1 August 2003. Under the scheme, Ms J Hill-Ling is entitled to a maximum retirement benefit of twice her annual Director's fee (calculated as an average of her fees over the past 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. Equity instrument disclosures relating to key management personnel

10.1 Rights and options provided as remuneration

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

Name	Balance at start of the year	Granted as compen-sation	Exercised	Rights / options lapsed / forfeited / cancelled	Balance at the end of the year	Vested and exercise-able	Unvested
2014 Directors							
E Pretty	–	1,133,332	–	–	1,133,332	–	1,133,332

Share holdings

The numbers of shares in the Company held during the financial year by each Director of Hills 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.

Share disclosures for JH Hill-Ling includes 1,188,918 (2013: 1,188,918) shares owned by Hills Associates Limited & Poplar Pty Ltd (jointly held) and 16,239,441 (2013: 15,889,441) 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 350,000 (2013: 1,438,893) shares in Hills Limited by Hills Associates Limited.

	Ordinary shares			
2014	Balance at the start of the year	Received during the year on the exercise of options / rights	Other changes during the year	Balance at the end of the year
Directors of Hills Limited				
JH Hill-Ling	17,251,423	–	350,000	17,601,423
EN Pretty	250,000	–	–	250,000
F Bennett	4,000	–	–	4,000
I Elliot	51,735	–	–	51,735
D Spence	150,000	–	40,000	190,000
P Stancliffe	50,000	–	–	50,000
P Bullock [40]	–	–	5,000	5,000
Other key management personnel of the Group				
M Campbell	1,000	–	–	1,000

(40) P Bullock joined Hills as a non-executive Director 23 June 2014

10.2 Loans to key management personnel (KMP)

There were no loans outstanding at the reporting date to key management personnel and their related parties.

10.3 Other transactions with KMP

A number of KMP 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.

During the year, Hills purchased goods from Korvest Ltd and provided services to Korvest Ltd, an entity associated with P Stancliffe and purchased goods from SAI Global, an entity associated with D Spence. Amounts were billed and payable under normal commercial terms and conditions as a supplier and as a customer.

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

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

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 2013-14 financial year and Hills continued to meet or exceed the requirements specified in relevant licenses 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.

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 three annual reports to the Clean Energy Regulator. Hills did not trigger the reporting threshold of 200TJ for the 2013-14 financial year (or the year prior) and has subsequently submitted an application for deregistration to the Clean Energy Regulator.

Hills will continue to capture and report on energy consumption and GHG emissions as a key environmental sustainability metric in its Environmental Management System.

Australian 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 remain supportive of the goals and initiatives of the APC and remain compliant following the submission of its third annual report during March 2014.

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*.

Both audit and non-audit fees increased due to significant additional work performed in relation to the Company's restructure and transformation program and in particular the sale of non-core businesses. Non-audit fees will return to normal levels in 2015.

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:

	2014 $	2013 $
Audit and other assurance services		
KPMG Australia – audit and review of financial statements	**628,000**	520,000
Overseas KPMG firms – audit and review of financial statements	**22,140**	32,610
Total remuneration for audit and other assurance services	**650,140**	552,610
Taxation services		
KPMG Australia – taxation and other services	**102,520**	79,641
Overseas KPMG firms – taxation services	**24,367**	8,772
Total remuneration for taxation services	**126,887**	88,413
Other services		
Financial advisory services	**833,235**	296,516
Software implementation assurance services	**-**	12,316
Other consulting services	**40,268**	65,310
Total remuneration for other services	**873,503**	374,142
Total remuneration for audit and non–audit services	**1,650,530**	1,015,165

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 37.

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

Sydney
18 August 2014

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Hills Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Paul Cenko
Partner

Adelaide
Dated 18 August 2014

Corporate governance statement

This report sets out the Hills annual statement on its corporate governance framework for the year ended 30 June 2014 and should be read in conjunction with the Directors' Report and Remuneration 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 our 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 that require approval by the Board are included. A copy of the Board Charter is available on the Corporate Governance section of the Hills website at http://www.hills.com.au/about-us/governance.

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 copy of the Constitution is available on the Hills website at http://www.hills.com.au/about-us/governance.

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

The Board has delegated to the Group Managing Director and CEO 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 and CEO, who is an Executive Director, or other management present. The Chairman is independent of the role of the Group Managing Director and CEO. 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 Hills website at http://www.hills.com.au/about-us/governance. The Board's policy for the nomination and appointment of Directors 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. The qualifications, expertise and experience of each Director and their period in office can be found in the Information on Directors section of the Annual Report.

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

On an annual basis the Board conducts a review of Board, Committee and individual member performance along with a review of Director independence.

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 Whistle Blower Protection Policy to ensure concerns regarding unacceptable conduct can be raised on a confidential basis without fear of reprisal, dismissal or discriminatory conduct.

The Hills Securities Policy governs the 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 Hills to embrace differences in backgrounds, qualifications and experiences and also differences in approach and viewpoints. It includes characteristics such as gender, age, ethnicity, cultural background, language, disability and other areas of potential difference.

The Diversity Policy also requires the setting of specific gender diversity objectives and a range of measures to determine achievement of those objectives. The objectives and measures are assessed annually by the Board and the Remuneration Committee.

The diversity objectives Hills has been working towards and the performance to these objectives is outlined in the table below:

	Objective [41] %	Actual at 30 June 2014 %
Number of women in management positions (including Board members)	15	16.5
Number of women in sales and marketing positions [42]	15	30.4
Number of women employees in the organisation	20	32.5

(41) Note: these objectives were amended during the year to take into account the structural changes occurring in the business.
(42) Women in sales and marketing include casual personnel.

The Board is of the view that appointment of females to senior positions in the Company is the most effective way to encourage change in the workforce, specifically in achieving gender balance. Accordingly, for the FY2015 year the Board has changed the categories of female participation to include the number of women in executive positions, as a separate measure from the number of women on the Board. The new objectives and Hills achievement of the objectives for the period are set out in the table below:

	Objective %	Actual at 30 June 2014 %
Percentage of women on the Board	33	28
Percentage of women in executive positions	36	30
Percentage of women in the organisation	33	32.5

Corporate governance statement

continued

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 that 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 external auditors without management present as required. A copy of the Committee's Charter is available on the Hills website at http://www.hills.com.au/about-us/governance. The Company also has an Auditor Independence Policy to ensure the integrity of its external audit. This policy is also available on the Hills website at http://www.hills.com.au/about-us/governance.

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.

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 on, 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 functions.

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 Company has an internal audit function that provides the Board with additional confidence in the integrity of the Company's control environment. The Audit, Risk and Compliance Committee reviews the internal audit reports and monitors the remediation of any control weaknesses.

The Audit, Risk and Compliance Committee reviews the annual insurance program to ensure Hills insurable risks are covered by appropriate insurances.

The Group Managing Director and 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 details the 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 at http://www.hills.com.au/about-us/governance. 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 senior executives' remuneration, including principles used to determine remuneration, is set out in the Remuneration Report.

Full details of the location of the references in this statement that 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 Limited ABN 35 007 573 417
Financial statements
30 June 2014

contents

These financial statements are the consolidated financial statements of the group consisting of Hills Limited and its subsidiaries.
A list of subsidiaries is included in note 30.

The consolidated financial statements are presented in the Australian currency.

Hills Limited is a company limited by shares, incorporated and domiciled in Australia.
Its registered office is:
Hills Limited
159 Port Road
Hindmarsh SA 5007

The consolidated financial statements were authorised for issue by the Directors on 18 August 2014.
The Directors have the power to amend and reissue the consolidated 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: http://www.hills.com.au
For queries in relation to corporate reporting please call +61 8 8301 3200 or email info@hills.com.au

Consolidated income statement

for the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
Continuing operations			
Revenue	3	**448,257**	492,520
Other income	4	**15,862**	15,030
		464,119	507,550
Expenses excluding net finance expenses	5	**(439,922)**	(544,507)
Profit / (loss) before net finance expense and income tax		**24,197**	(36,957)
Finance income		**1,432**	857
Finance expenses		**(4,786)**	(3,902)
Net finance expenses	5	**(3,354)**	(3,045)
Profit / (loss) before income tax		**20,843**	(40,002)
Income tax (expense) / benefit from continuing operations	6	**(2,474)**	11,073
Profit / (loss) from continuing operations		**18,369**	(28,929)
Profit / (loss) from discontinued operations (net of tax)	7	**8,018**	(62,458)
Profit / (loss) for the year		**26,387**	(91,387)
Profit / (loss) is attributable to:			
Owners of Hills Limited		**24,798**	(94,125)
Non controlling interests		**1,589**	2,738
		26,387	(91,387)

		Cents	Cents
Earnings per share for profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	22	**7.0**	(12.9)
Diluted earnings per share	22	**7.0**	(12.9)
Earnings per share for profit / (loss) attributable to the ordinary equity holders of the Company:			
Basic earnings per share	22	**10.4**	(38.2)
Diluted earnings per share	22	**10.4**	(38.2)

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

Consolidated statement of comprehensive income

for the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
Profit / (loss) for the year		**26,387**	(91,387)
Other comprehensive income / (loss)			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	20	**1,084**	2,162
Exchange differences on translation of foreign operations	20	**1,182**	978
Income tax relating to components of other comprehensive income	6	**(325)**	(649)
Other comprehensive income for the year that may be reclassified to profit or loss, net of tax		**1,941**	2,491
Items that will not be reclassified to profit or loss			
(Loss) on revaluation of land and buildings to fair value	20	**(14,227)**	(12,595)
Income tax relating to components of other comprehensive income	6	**4,268**	4,231
Other comprehensive (loss) for the year that will not be reclassified to profit or loss, net of tax		**(9,959)**	(8,364)
Other comprehensive (loss) for the year, net of tax		**(8,018)**	(5,873)
Total comprehensive income / (loss) for the year		**18,369**	(97,260)
Total comprehensive income / (loss) for the year is attributable to:			
Owners of Hills Limited		**16,780**	(99,998)
Non controlling interests		**1,589**	2,738
		18,369	(97,260)
Total comprehensive income / (loss) for the year attributable to owners of Hills Limited arises from:			
Continuing operations		**8,762**	(37,540)
Discontinued operations		**8,018**	(62,458)
		16,780	(99,998)

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

Consolidated statement of financial position

as at 30 June 2014

	Notes	2014 $'000	2013 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**45,482**	61,480
Trade and other receivables	9	**104,479**	84,694
Inventories	10	**59,351**	42,470
Derivative financial instruments	15	**–**	703
Current tax receivables	6	**–**	6
		209,312	189,353
Assets classified as held for sale	7	**7,800**	146,075
Total current assets		**217,112**	335,428
Non-current assets			
Investments	11	**2**	2
Property, plant and equipment	12	**47,605**	78,748
Intangible assets	13	**83,183**	44,784
Deferred tax assets	14	**56,043**	60,395
Total non-current assets		**186,833**	183,929
Total assets		**403,945**	519,357
LIABILITIES			
Current liabilities			
Trade and other payables	16	**75,759**	56,818
Borrowings	17	**1,983**	141
Current tax liabilities	6	**1,812**	–
Provisions	18	**36,389**	34,611
Derivative financial instruments	15	**472**	631
		116,415	92,201
Liabilities directly associated with assets classified as held for sale	7	**–**	75,854
Total current liabilities		**116,415**	168,055
Non-current liabilities			
Borrowings	17	**35,000**	65,321
Provisions	18	**6,774**	12,514
Derivative financial instruments	15	**528**	2,449
Total non-current liabilities		**42,302**	80,284
Total liabilities		**158,717**	248,339
Net assets		**245,228**	271,018
EQUITY			
Contributed equity	19	**281,624**	303,890
Reserves	20	**28,900**	32,589
(Accumulated losses)		**(66,359)**	(66,359)
Capital and reserves attributable to owners of Hills Limited		**244,165**	270,120
Non-controlling interests	30	**1,063**	898
Total equity		**245,228**	271,018

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

Consolidated statement of changes in equity

for the year ended 30 June 2014

Consolidated entity	Notes	Contributed equity $'000	Reserves $'000	(Accumulated losses) $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
		Attributable to owners of Hills Limited					
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		85	–	–	85	–	85
Dividends provided for or paid	21	–	–	(12,298)	(12,298)	–	(12,298)
Dividends paid to non-controlling interests in subsidiaries		–	–	–	–	(1,342)	(1,342)
Employee share schemes value of employee services		–	46	–	46	33	79
Transfer from reserves	20	–	(4,168)	4,168	–	–	–
Disposal of subsidiary		–	(619)	–	(619)	(18,590)	(19,209)
Balance at 30 June 2013		**303,890**	**32,589**	**(66,359)**	**270,120**	**898**	**271,018**
Balance at 1 July 2013		**303,890**	**32,589**	**(66,359)**	**270,120**	**898**	**271,018**
Total comprehensive income for the year		–	(8,018)	24,798	16,780	1,589	18,369
Transactions with owners in their capacity as owners:							
Share buy-back, net of transaction costs	19	(22,266)	–	–	(22,266)	–	(22,266)
Dividends provided for or paid	21	–	(16,037)	–	(16,037)	–	(16,037)
Dividends paid to non-controlling interests in subsidiaries		–	–	–	–	(90)	(90)
Share buy-back paid to non-controlling interests in subsidiaries		–	–	–	–	(200)	(200)
Acquisition of non-controlling interest	30	–	(4,495)	–	(4,495)	(505)	(5,000)
Disposal of subsidiaries		–	–	–	–	(629)	(629)
Employee share schemes – value of employee services	23	–	63	–	63	–	63
Transfer current period profit to profits reserve	20	–	24,798	(24,798)	–	–	–
Balance at 30 June 2014		**281,624**	**28,900**	**(66,359)**	**244,165**	**1,063**	**245,228**

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

Consolidated statement of cash flows

for the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**795,108**	1,128,303
Payments to suppliers and employees (inclusive of goods and services tax)		**(805,909)**	(1,048,699)
		(10,801)	79,604
Net finance costs paid		**(3,310)**	(3,094)
Net income taxes received / (paid)		**(1,216)**	4,870
Net cash (outflow) / inflow from operating activities	33	**(15,327)**	81,380
Cash flows from investing activities			
Payments for acquisitions of subsidiaries / business operations, net of cash acquired	29	**(56,560)**	(5,160)
Payments for property, plant and equipment	12	**(14,041)**	(10,828)
Payments for intangible assets	13	**(4,681)**	(12,007)
Proceeds from sale of business operations and subsidiaries		**116,421**	38,383
Proceeds from sale of property, plant and equipment		**16,197**	9,064
Proceeds from sale of assets held for sale		**11,433**	–
Proceeds from sale of intangible assets		**2**	145
Rent received		**1,777**	790
Net cash inflow from investing activities		**70,548**	20,387
Cash flows from financing activities			
Proceeds from borrowings		**460**	–
Payments for shares bought back, inclusive of transaction costs	19	**(22,266)**	–
Repayment of borrowings		**(30,299)**	(50,218)
Dividends paid to the Company's shareholders	21	**(16,037)**	(12,298)
Payments to non-controlling interests in subsidiaries		**(290)**	(1,342)
Acquisition of non-controlling interest	30	**(5,000)**	–
Net cash (outflow) from financing activities		**(73,432)**	(63,858)
Net (decrease) / increase in cash and cash equivalents		**(18,211)**	37,909
Cash and cash equivalents at the beginning of the year		**61,480**	23,305
Effects of exchange rate changes on cash and cash equivalents		**403**	266
Cash and cash equivalents at end of the year	8	**43,672**	61,480

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

Notes to the consolidated financial statements

1 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 consolidated financial statements are for the group consisting of Hills 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 consolidated financial statements have been prepared in accordance with Australian Accounting Standards (AASBs), other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001*. Hills Limited is a for profit entity for the purpose of preparing the consolidated financial statements.

(i) Compliance with IFRS

The consolidated 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

The Group has applied the following accounting standards and amendments for the first time for the annual reporting period commencing 1 July 2013:

- AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 127 *Separate Financial Statements* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*.
- AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and other Amendments* which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period.
- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*.
- AASB 119 *Employee Benefits (September 2011)* and AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011).*
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009 – 2011 Cycle;* and
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities.*

The nature and effect of the changes are further explained below:

Subsidiaries

As a result of AASB 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, AASB 10 requires the Group to consolidate investees that it controls on the basis of de facto circumstances.

In accordance with the transitional provisions of AASB 10, the Group reassessed the control conclusion for its investees at 1 July 2013. No differences were found and therefore no adjustments to any of the carrying amounts in the consolidated financial statements are required as a result of the adoption of AASB 10.

Fair value measurement

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other AASBs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 *Financial Instruments: Disclosures.*

In accordance with the transitional provisions of AASB 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures.

Previously the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant. As a result of this change the fair value of derivative liabilities has changed on transition to AASB 13, mainly due to incorporating credit risk into the valuation. Notwithstanding the above, other than disclosure items, the change had no significant impact on the measurements of the Group's assets and liabilities.

Employee benefits

AASB 119 now requires that if the Group does not expect all annual leave to be taken within 12 months of the respective service being provided, annual leave obligations are to be measured as long-term benefits. This change has had no significant impact on the Group's measurement of its annual leave obligations.

(iii) Early adoption of standards

The Group elected to early adopt AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*, which had a small impact on the impairment disclosures.

Notes to the consolidated financial statements

(iv) Historical cost convention

The consolidated 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;
- Assets held for sale are measured at fair value less costs of disposal;
- Land and buildings are measured at fair value; and
- Contingent consideration assumed in a business combination is 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 consolidated 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
- Notes 18 and 25 – provisions and contingencies
- Note 23 – measurement of share based payments
- Note 28 – measurement of fair value
- Note 29 – business combinations and contingent consideration payable

(b) Parent entity financial information

The financial information for the parent entity, Hills, 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 2014 and the results of all subsidiaries for the year then ended.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the 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 an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(ii) Changes in ownership interests

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

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.

(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 Board of Directors.

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 consolidated 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 using 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.

Notes to the consolidated financial statements

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

The head entity, Hills 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 standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Hills 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 26). 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 acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquired entity 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.

(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 reclassification 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

The Group measures a financial asset at its fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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

Notes to the consolidated financial statements

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 hedge

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

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance income' or 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or 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. 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 the profits reserve.

(q) Intangible assets

(i) Goodwill

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 2).

(ii) Patents and trademarks, customer relationships and brands

Patents and trademarks, customer relationships and brands 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 over their estimated useful lives, which vary from:

- Patents and trademarks
  10 to 20 years
- Customer relationships and brands
  2 to 5 years

(iii) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses 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.

Notes to the consolidated financial statements

(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 five 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. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

(t) Borrowings

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

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

(u) Provisions

Provisions 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 (LTI) allows Group executives to acquire shares of the Company.

The fair value of performance rights granted under the LTI 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 external advice.

Notes to the consolidated financial statements

(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.

(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, and
- 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 consolidated financial statements. Amounts in the consolidated 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 not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

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. Since December 2013 it also sets out new rules for hedge accounting. The standard is applicable for financial years beginning on or after 1 January 2017 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.

IASB 15 *Revenue from Contracts with Customers* replaces AASB 118 *Revenues* and applies to contracts with customers. The standard is effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Group has not yet decided when to adopt AASB 15 and has not yet determined the potential effect of the standard.

Notes to the consolidated financial statements

2 Segment information

(a) Change of segments

As a result of the Group's restructure and transformation programs and after the disposal of its Building and Industrial Segment, the Group reviewed the way it presents segment information under AASB8 *Operating Segments*.

The Group has determined that its chief operating decision maker (CODM) is the Board of Hills Limited. This is on the basis that it is the Board of Hills Limited that ultimately makes decisions regarding the allocation of resources to the operating segments of Hills and ultimately is the Group's 'chief operating decision maker' within the meaning of AASB8.

While Hills has a number of operating segments, after the restructure and transformation program, all of its remaining operating segments have characteristics that are so similar in nature that they can reasonably be expected to have the same prospects. Hills operating segments have similar economic characteristics, provide similar products and services, have a similar production process, similar types of customers, similar methods for distribution and are subject to a similar regulatory environment. Hills operating segments have therefore been aggregated into one reportable segment under AASB8 called the Hills Technologies Segment. This is also borne out by the fact that after its restructure and transformation program, Hills has actively consolidated its operating structure into what is known as a 'One Hills' approach where the business operates as an integrated business rather than a holding company owning disparate operations. The previously reported Lifestyle and Sustainability segment is no longer a material reportable segment and has been aggregated into the Hills Technologies segment while the previously reported Building and Industrial segment has been sold.

In terms of reviewing the Group as it has gone through its restructuring and transformation program, the CODM has been presented with information that separates Hills results into its continuing business (the Hills Technologies segment) and discontinuing business results in two categories: the Discontinuing Building and Industrial segment (which is also the discontinuing operations under IFRS) and Other Discontinued Hills Businesses (which are businesses that have been closed or sold and regardless of the whether these are classified as discontinuing under IFRS or not). That information, 'through the eyes of management' has been presented in this segment note in accordance with the principles of AASB8.

(b) Description of segments

The Group currently has one reportable segment, the Hills Technologies segment. The following summary describes the operations of the Group's reportable segment:

Hills Technologies

Includes electronic security systems, closed circuit television systems, home and commercial automation and control systems, professional audio products, consumer electronic equipment, communications related products and services, domestic and commercial antennas, master antenna television systems, communications antennas, amplifiers, health technology solutions and subscription TV installation services. The segment also includes the sale of lifestyle products, services and home technology solutions. This segment contains the continuing operations of the Group.

Other Hills businesses sold or closed

In presenting results to the CODM, businesses that have been closed or sold (and regardless of whether these are classified as discontinuing under IFRS or not), are shown separately to enable the CODM to assess the true continuing operations of the Group, which are shown within the Hills Technologies segment. That information assists the CODM in making its own resource allocation decisions. That information, 'through the eyes of management' has been presented in this segment note in accordance with the principles of AASB8.

Building and Industrial (Discontinued operations under IFRS)

In presenting results to the CODM, the Building and Industrial segment that has been sold (and is treated as a separate discontinuing operation under IFRS), is shown separately to enable the CODM to assess the true continuing operations of the Group, which are shown within the Hills Technologies segment. That information assists the CODM in making its own resource allocation decisions. That information, 'through the eyes of management' has been presented in this segment note in accordance with the principles of AASB8.

Although the Group's divisions are managed on a products and services basis they operate in two main geographical areas: Australia – comprises manufacturing facilities in South Australia and Victoria 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

2 Segment information
continued

(b) Information about reportable segments

	Hills Technologies segment		Other Hills businesses sold or closed		Building and Industrial (Discontinued operations under IFRS)		Total	Total
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000	**2014 $'000**	2013 $'000	**2014 $'000**	2013 $'000
Total segment revenue	**415,529**	356,207	**32,728**	136,313	**288,908**	525,917	**737,165**	1,018,437
Inter–segment revenue	**–**	–	**–**	–	**–**	–	**–**	–
Revenue from external customers	**415,529**	356,207	**32,728**	136,313	**288,908**	525,917	**737,165**	1,018,437
Segment EBITDA	**42,871**	30,301	**3,343**	5,322	**4,677**	11,651	**50,891**	47,274
Segment assets	**257,875**	190,346	**–**	21,912	**–**	128,838	**257,875**	341,096
Additions to non-current assets (other than financial assets and deferred tax)	**15,454**	5,079	**–**	–	**–**	2,827	**15,454**	7,906
Segment liabilities	**87,023**	88,959	**–**	5,035	**–**	57,042	**87,023**	151,036

(c) Other segment information

(i) Segment revenue

There are no sales between segments. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statement.

Segment revenue reconciles to total revenue per note 3.

The Group is domiciled in Australia. The amount of its revenue (including revenue from discontinued operations) from external customers in Australia is $702.855 million (2013: $975.467 million), and the total of revenue from external customers in other countries is $34.310 million (2013: $42.180 million). Segment revenues are allocated based on the country in which the customer is located.

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

(ii) Segment EBITDA

The CODM assesses performance based on a measure of underlying EBITDA. 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 and business combination acquisition transaction costs which, although expensed under IFRS, are considered to otherwise distort the operational view of the business. 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 underlying EBITDA reconciles to profit / (loss) before income tax as follows:

	2014 $'000	2013 $'000
Segment EBITDA	**50,891**	47,274
Depreciation and amortisation	**(9,197)**	(15,577)
Finance income	**1,432**	857
Finance expenses	**(4,786)**	(3,902)
Net costs not considered part of underlying profit	**(5,869)**	(154,578)
Other	**–**	1,701
Less discontinued operations profit before tax and restructuring costs	**(11,628)**	(13,559)
Add back restructuring and impairment costs relating to discontinued operations	**–**	97,782
Profit / (loss) before income tax from continuing operations	**20,843**	(40,002)

(iii) Segment assets

The amounts provided to the CODM with respect to total assets are measured in a manner consistent with that of the consolidated 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:

	2014 $'000	2013 $'000
Segment assets	**257,875**	341,096
Unallocated assets:		
Cash assets	**45,482**	61,480
Current tax assets	**–**	6
Deferred tax assets	**56,043**	60,395
Derivative financial instruments	**–**	703
Investments	**2**	2
Corporate assets	**44,543**	55,675
Total assets as per the consolidated statement of financial position	**403,945**	519,357

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is $126.999 million (2013: $126.679 million), and the total of these non-current assets located in other countries is $3.791 million (2013: $0.462 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 $18.722 million (2013: $22.835 million). This comprised $15.454 million (2013: $7.906 million) allocated to segments and $3.268 million (2013: $14.929 million) not allocated to segments and corporate additions.

Depreciation and amortisation expense for the Group totalled $9.197 million (2013: $15.577 million). This comprised $9.035 million (2013: $13.658 million) allocated to segments and $0.162 million (2013: $1.919 million) related to corporate assets.

Notes to the consolidated financial statements

2 Segment information
continued

(iv) Segment liabilities

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

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

	2014 $'000	2013 $'000
Segment liabilities	**87,023**	151,036
Unallocated liabilities:		
Tax liabilities (including GST payable)	**4,439**	5,129
Borrowings	**36,983**	65,462
Derivative financial instruments	**1,000**	3,080
Corporate liabilities	**29,272**	23,632
Total liabilities as per the consolidated statement of financial position	**158,717**	248,339

3 Revenue

	2014 $'000	2013 $'000
Revenue from continuing operations		
Sales revenue		
Sale of goods	**409,713**	422,046
Services	**36,767**	69,684
	446,480	491,730
Other revenue		
Rents and sub-lease rentals	**1,777**	790
Total revenue from continuing operations	**448,257**	492,520
Revenue from discontinued operations		
Sales revenue – sale of goods	**288,908**	525,917
Total revenue	**737,165**	1,018,437

4 Other income

	2014 $'000	2013 $'000
Net gain on disposal of property, plant and equipment	**239**	127
Net gain on disposal of businesses	**14,596**	13,462
Other income	**1,027**	1,441
	15,862	15,030

Notes to the consolidated financial statements

5 Expenses

	2014 $'000	2013 $'000
Classification of expenses by function		
Cost of goods sold	**261,509**	263,585
Cost of services provided	**17,607**	57,594
Other expenses from ordinary activities:		
Sales and marketing expenses	**72,950**	74,121
Distribution expenses	**23,169**	27,123
Administration expenses	**44,222**	51,826
Other expenses	**20,465**	70,258
	439,922	544,507
Profit / (loss) before income tax includes the following specific expenses:		
Depreciation		
Buildings	**173**	1,471
Plant and equipment	**5,529**	12,791
Total depreciation	**5,702**	14,262
Amortisation		
Patents and trademarks	**61**	978
Research and development	**61**	303
Customer contracts, relationships and brands	**1,436**	–
Software	**1,937**	34
Total amortisation	**3,495**	1,315
Total depreciation and amortisation	**9,197**	15,577
Employee benefit expenses		
Wages and salaries	**78,341**	166,250
Defined contribution superannuation expense	**6,285**	14,682
Other employee benefit expenses	**5,737**	15,694
Equity-settled share-based payment transactions	**64**	167
Total employee benefits expenses	**90,427**	196,793
Finance expenses		
Interest and finance charges paid/payable	**(4,440)**	(3,902)
Wind-back of discount on provisions	**(346)**	-
	(4,786)	(3,902)
Finance income		
Interest income	**1,130**	703
Fair value gains on derivatives	**302**	154
	1,432	857
Finance costs expensed	**(3,354)**	(3,045)

Notes to the consolidated financial statements

Profit / (loss) after tax includes the following items that were significant because of their nature or size:

Current Year

Acquisition costs relating to the acquisitions of businesses and the costs of searching for businesses, totalling $4.978 million before tax ($4.978 million after tax) and net losses on disposal of businesses (net of impairments, provisions and restructuring costs related to those disposals) totalling $0.891 million before tax (gain of $2.499 million after tax) were included within Other Income and Other Expenses at 30 June 2014.

Prior Year

Asset impairment, restructuring and closure costs totalling $154.578 million before tax ($113.326 million after tax) were included within Other Expenses at 30 June 2013. Disclosure of the expenses recorded in the previous year are included in the Group's 30 June 2013 Annual Financial Statements and are summarised below.

	2013 $'000
(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) Heathcare impairment	7,671
Less: Applicable income tax benefit	(222)
	7,449
(e) Antenna impairment, restructuring and closure costs	6,298
Less: Applicable income tax benefit	(1,889)
	4,409

	2013 $'000
(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

Discussion of significant items in the prior year

As reported in the prior year, the Group undertook a comprehensive review of all operations, including a review of the carrying value of assets and goodwill. 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 above. The after tax impact is $113.326 million. 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

6 Income tax expense

	2014 $'000	2013 $'000
(a) Income tax expense / (benefit)		
Current tax	**2,044**	1,135
Deferred tax	**4,040**	(33,872)
Adjustments for current and deferred tax of prior periods	**–**	(101)
	6,084	(32,838)
Income tax expense / (benefit) is attributable to:		
Profit / (loss) from continuing operations	**2,474**	(11,073)
Profit / (loss) from discontinued operations	**3,610**	(21,765)
Aggregate income tax expense / (benefit)	**6,084**	(32,838)
(b) Numerical reconciliation of income tax (benefit) / expense to prima facie tax payable		
Profit / (loss) from continuing operations before income tax expense / (benefit)	**20,843**	(40,002)
Profit / (loss) from discontinuing operations before income tax expense / (benefit)	**11,628**	(84,223)
	32,471	(124,225)
Tax at the Australian tax rate of 30.0% (2013: 30.0%)	**9,741**	(37,267)
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Goodwill impairment	**–**	5,016
Non-deductible expenses	**484**	767
Research and development allowances	**(80)**	(261)
Acquisition costs	**1,071**	–
Gains on sale of businesses	**(5,090)**	(1,185)
Impairment of land and buildings	**–**	528
Derecognition of deferred tax assets on provisions associated with assets held for sale	**–**	3,616
	6,126	(28,786)
Difference in overseas tax rates	**(42)**	(45)
Adjustments for current tax of prior periods	**–**	(101)
Previously unrecognised capital losses	**–**	(3,906)
Total income tax expense / (benefit)	**6,084**	(32,838)

	2014 $'000	2013 $'000
(c) 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	**(4,268)**	(4,231)
Gains / (losses) on cash flow hedges	**325**	649
Aggregate income tax expense / (benefit)	**(3,943)**	(3,582)
(d) Tax losses		
Unused capital tax losses for which no deferred tax asset has been recognised	**34,206**	24,138
Potential tax benefit	**10,262**	7,241

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 $0.925 million (2013: $0.943 million). The potential deferred tax asset not recognised totals $0.278 million (2013: $0.283 million).

Revenue tax losses for which a deferred tax asset has been recognised total $31.067 million (2013: $5.551 million).

(e) Current tax assets and liabilities

The current tax liability / (asset) for the Group of $1.812 million (2013: ($0.006 million)) represents the amount of income taxes payable / (receivable) in respect of current and prior financial periods.

(f) 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 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

In the previous financial year the significant operations of Fielders Australia Pty Ltd (Fielders) and Orrcon Operations Pty Ltd (Orrcon) were presented as disposal groups held for sale and as discontinued operations, and the operations of LW Gemmell and UHS were presented as disposal groups held for sale. The assets of Fielders and Orrcon were presented within the total assets of the Building and Industrial segment in note 2. The assets of LW Gemmell were presented within the total assets of the Lifestyle and Sustainability segment in note 2. The assets of UHS were presented within the total assets of the Electronics and Communications segment in note 2. Fielders and Orrcon were sold effective 28 February 2014, LW Gemmell was sold effective 31 August 2013 and UHS was sold effective 31 March 2014.

Certain land and buildings were classified as held for sale at 30 June 2013 and were sold during the year ended 30 June 2014. Land and buildings classified as held for sale at 30 June 2014 will be sold during the year ending 30 June 2015.

	2014 $'000	2013 $'000
(a) Assets classified as held for sale		
Disposal group held for sale (discontinued operation – see (c) on following page):		
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	**7,800**	11,368
Total assets classified as held for sale	**7,800**	146,075

	2014 $'000	2013 $'000
(b) Liabilities directly associated with assets classified as held for sale		
Disposal group held for sale (discontinued operation – see (c) on following page):		
Trade and other payables	–	49,911
Provisions	–	25,943
Total liabilities directly associated with assets classified as held for sale	–	75,854

(c) Discontinued operations

(i) Description

Fielders and Orrcon

As set out in (a) on the previous page, in the previous financial year, the Group announced its intention to sell the operations of Fielders and Orrcon, with the sale concluded during the current financial year. Accordingly they are reported in these consolidated 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.

Korvest Ltd

In the previous financial year the Group sold its shares in Korvest Ltd (as at 19 February 2013). Korvest Ltd is reported in these consolidated financial statements as a discontinued operation. Financial information relating to the discontinued operation for the previous financial period to the date of disposal is set out here.

(ii) Financial performance and cash flow information

The financial performance and cash flow information presented is for the period to 28 February 2014 (Fielders and Orrcon) (2014 column) and the period to 19 February 2013 (Korvest) and year ended 30 June 2013 (Fielders and Orrcon) (2013 column).

	2014 $'000	2013 $'000
Revenue (note 3)	**288,908**	525,917
Expenses	**(277,522)**	(610,342)
Other income	**235**	96
Finance income	**7**	106
Profit / (loss) before income tax	**11,628**	(84,223)
Income tax (expense) / benefit	**(3,610)**	21,765
Profit / (loss) after income tax of discontinued operation	**8,018**	(62,458)
Net cash (outflow) / inflow from operating activities	**(25,529)**	31,547
Net cash inflow / (outflow) from investing activities	**85,289**	(1,839)
Net cash (outflow) from financing activities	**(82,450)**	(9,604)
Net (decrease) / increase in cash generated by the discontinued operations	**(22,690)**	20,104

In the previous financial year 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 was 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.

Notes to the consolidated financial statements

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

(iii) Details of the sales

The effect of the disposals of Fielders and Orrcon (2014 column) and Korvest (2013 column) on the financial position of the Group is:

	2014 $'000	2013 $'000
Consideration received or receivable – cash	84,923	26,166
Carrying amount of net assets sold	(84,785)	(16,655)
Gain on sale before income tax	138	9,511
Income tax (benefit) / expense	(41)	–
Gain on sale after income tax	97	9,511

There was no income tax expense in relation to the disposals in the previous financial year 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 dates of sale were:

	28 February 2014 $'000	19 February 2013 $'000
Cash and cash equivalents	–	6,120
Trade and other receivables	65,707	11,137
Inventories	56,643	8,742
Property, plant and equipment	1,008	17,082
Tax assets	–	1,167
Total assets	123,358	44,248
Trade and other payables	(29,101)	(3,674)
Provisions	(9,472)	(2,291)
Tax liabilities	–	(2,392)
Total liabilities	(38,573)	(8,357)
Net assets	84,785	35,891

In the previous financial year the Group's share of the net assets of Korvest Ltd was $16.655 million.

(d) Disposal of businesses

During the current financial year the Group sold its interests in two of its partially owned subsidiaries, UHS Systems Pty Ltd (partially owned until January 2014) (31 March 2014) and OptiComm Co Pty Ltd (30 April 2014) and its LW Gemmell operations (31 August 2013) as a continuation of its strategy to dispose of non-core businesses. In the previous financial year the Group sold the Healthcare and Bailey businesses. None of these businesses were reclassified as discontinued operations as they were not significant separate major lines of business. Gains on sale are disclosed in note 4.

8 Current assets – Cash and cash equivalents

	2014 $'000	2013 $'000
Cash at bank and in hand	**42,482**	45,407
Deposits at call	**3,000**	16,073
	45,482	61,480

(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:

	2014 $'000	2013 $'000
Balances as above	**45,482**	61,480
Bank overdrafts	**(1,810)**	–
Balances per consolidated statement of cash flows	**43,672**	61,480

(b) Risk exposure

The Group's exposure to interest rate risk is discussed in note 27. 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

	2014 $'000	2013 $'000
Trade receivables	**90,059**	82,951
Provision for impairment of receivables (a)	**(2,750)**	(3,332)
	87,309	79,619
Other receivables	**13,912**	3,409
Prepayments	**3,258**	1,666
	104,479	84,694

(a) Impaired trade receivables

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

	2014 $'000	2013 $'000
Not past due	**58,892**	48,234
Past due 0 – 30 days	**19,726**	20,498
Past due 31 – 90 days	**9,166**	9,697
Past due more than 90 days	**2,275**	4,522
	90,059	82,951

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

	2014 $'000	2013 $'000
At 1 July	**3,332**	6,770
Provision for impairment recognised during the year	**835**	4,546
Receivables written off during the year as uncollectable	**(1,286)**	(2,507)
Decrease on business disposal	**(131)**	(1,182)
Transferred to held for sale	**-**	(4,295)
At 30 June	**2,750**	3,332

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 $2.750 million (2013: $3.332 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 27.

(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 27 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

	2014 $'000	2013 $'000
Raw materials and stores	**4,071**	3,280
Work in progress	**631**	1,591
Finished goods	**54,649**	37,599
	59,351	42,470

(a) Inventory expense

Write downs of inventories to net realisable value recognised as an expense during the year amounted to $2.117 million (2013: $31.886 million). The expense has been included in cost of sales $2.117 million (2013: $0.228 million) and other expenses or expenses of discontinued operations $nil (2013: $31.658 million).

11 Non-current assets – investments

	2014 $'000	2013 $'000
Equity securities	**2**	2

Notes to the consolidated financial statements

12 Non-current assets – property, plant and equipment

	Land $'000	Buildings $'000	Plant & equipment $'000	Total $'000
At 1 July 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
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
Year ended 30 June 2014				
Opening net book amount	**37,205**	**31,547**	**9,996**	**78,748**
Exchange differences	**–**	**–**	**55**	**55**
Revaluation to fair value	**(5,839)**	**(8,388)**	**–**	**(14,227)**
Acquisition through business combinations	**–**	**–**	**3,163**	**3,163**
Additions	**–**	**2,253**	**11,788**	**14,041**
Disposals	**(10,413)**	**(4,562)**	**(983)**	**(15,958)**
Assets included in a disposal group classified as held for sale and other disposals	**(3,150)**	**(4,650)**	**–**	**(7,800)**
Other disposals	**–**	**–**	**(290)**	**(290)**
Depreciation charge	**–**	**(173)**	**(5,529)**	**(5,702)**
Impairment charge	**–**	**–**	**(936)**	**(936)**
Reclassification	**–**	**(3,045)**	**(444)**	**(3,489)**
Closing net book amount	**17,803**	**12,982**	**16,820**	**47,605**
At 30 June 2014				
Cost	**17,803**	**12,991**	**84,200**	**114,994**
Accumulated depreciation and impairment	**–**	**(9)**	**(67,380)**	**(67,389)**
Net book amount	**17,803**	**12,982**	**16,820**	**47,605**

(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:

	2014 $'000	2013 $'000
Furniture, fittings, plant and equipment	**184**	113

(b) Valuations of land and buildings

Land and buildings are recognised at 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 nearby locations using an estimated rate per m^2 for freehold land and buildings, adjusted for the condition of the asset.

During the previous 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 million 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 be held for sale.

As at 30 June 2014 independent valuers reassessed the fair value of land and buildings taking into consideration current market assessments and property offers received and the asset class was revalued. The Directors reviewed the assessment and determined a further revaluation decrement of $14.227 million was appropriate. This amount was debited to the asset revaluation reserve in shareholders' equity.

(c) Impairment losses

Property, plant and equipment impairment losses are discussed in note 5.

Notes to the consolidated financial statements

13 Non-current assets – intangible assets

	Goodwill $'000	Patents, trademarks & other rights $'000	Distribution agreements, customer contracts & brands $'000	Software* $'000	Development costs $'000	Total $'000
At 1 July 2012						
Cost or fair value	121,858	6,267	–	14,962	1,300	144,387
Accumulated 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 through business combinations	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 depreciation and impairment	(74,687)	(2,316)	–	(16,632)	(167)	(93,802)
Net book amount	32,649	1,039	–	10,463	633	44,784
Year ended 30 June 2014						
Opening net book amount	**32,649**	**1,039**	**–**	**10,463**	**633**	**44,784**
Additions	**–**	**–**	**–**	**3,258**	**1,423**	**4,681**
Acquisition through business combinations	**32,190**	**2**	**13,346**	**1,200**	**–**	**46,738**
Amortisation charge	**–**	**(61)**	**(1,436)**	**(1,937)**	**(61)**	**(3,495)**
Impairment charge	**–**	**–**	**–**	**(10,475)**	**–**	**(10,475)**
Derecognised on disposal	**(754)**	**(760)**	**–**	**–**	**(1,025)**	**(2,539)**
Reclassification	**–**	**–**	**–**	**3,489**	**–**	**3,489**
Closing net book amount	**64,085**	**220**	**11,910**	**5,998**	**970**	**83,183**
At 30 June 2014						
Cost	**132,243**	**343**	**13,346**	**41,728**	**1,023**	**188,683**
Accumulated depreciation and impairment	**(68,158)**	**(123)**	**(1,436)**	**(35,730)**	**(53)**	**(105,500)**
Net book amount	**64,085**	**220**	**11,910**	**5,998**	**970**	**83,183**

* Software includes capitalised development costs being an internally generated intangible asset. Borrowing costs capitalised during the year were $0.0 million (2013: $0.872 million).

(a) Impairment tests for goodwill

During the year ended 30 June 2014, the Group determined that there was no impairment to any of its cash generating units (CGU) containing goodwill or intangible assets with indefinite useful lives. During the year ended 30 June 2013, the Group recognised an impairment of goodwill in relation to the Fielders and Healthcare.

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.

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

	Hills Technologies 2014 $'000	Total 2014 $'000	Hills Technologies 2013 $'000	Total 2013 $'000
Hills SVL	**17,553**	**17,553**	17,553	17,553
OptiComm	**–**	**–**	754	754
Lan 1	**14,342**	**14,342**	14,342	14,342
Health Solutions	**25,248**	**25,248**	–	–
Security	**6,942**	**6,942**	–	–
	64,085	**64,085**	32,649	32,649

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% (2013: 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 15.29% (2013: 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.

14 Non-current assets – Deferred tax assets

	2014 $'000	2013 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**2,510**	18,022
Inventories	**1,864**	7,389
Employee benefits	**3,399**	5,430
Receivables	**1,096**	2,313
Loans and borrowings	**1,218**	1,228
Provisions	**8,163**	10,754
Other accruals	**1,044**	4,029
Derivative financial instruments	**274**	599
Tax losses	**31,067**	5,551
Software & other intangible assets	**5,218**	4,980
Other	**190**	100
	56,043	60,395

	Balance at 1 July $'000	Recognised in profit or loss $'000	Recognised in other comprehensive income $'000	Acquisition / disposal of businesses / subsidiaries $'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	888	(788)	–	–	100
	21,905	33,872	3,582	1,036	60,395
Movements 2014					
Property, plant and equipment	**18,022**	**(19,749)**	**4,268**	**(31)**	**2,510**
Inventories	**7,389**	**(5,396)**	**–**	**(129)**	**1,864**
Employee benefits	**5,430**	**(2,181)**	**–**	**150**	**3,399**
Receivables	**2,313**	**(1,214)**	**–**	**(3)**	**1,096**
Loans and borrowings	**1,228**	**(10)**	**–**	**–**	**1,218**
Provisions	**10,754**	**(2,611)**	**–**	**20**	**8,163**
Other accruals	**4,029**	**(3,102)**	**–**	**117**	**1,044**
Derivative financial instruments	**599**	**–**	**(325)**	**–**	**274**
Tax losses	**5,551**	**25,516**	**–**	**–**	**31,067**
Software & other intangible assets	**4,980**	**4,617**	**–**	**(4,379)**	**5,218**
Other	**100**	**90**	**–**	**–**	**190**
	60,395	**(4,040)**	**3,943**	**(4,255)**	**56,043**

Notes to the consolidated financial statements

15 Derivative financial instruments

	2014 $'000	2013 $'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	**(44)**	(551)
Forward foreign exchange contracts - cash flow hedges	**(340)**	–
Forward foreign exchange contracts - held for trading	**(88)**	(80)
Total current derivative financial instrument liabilities	**(472)**	(631)
Non-current liabilities		
Interest rate swap contracts - cash flow hedges	**(528)**	(2,449)
Total non-current derivative financial instrument liabilities	**(528)**	(2,449)
Total derivative financial instrument liabilities	**(1,000)**	(3,080)
Net derivative financial instrument liabilities	**(1,000)**	(2,377)

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 27).

(a) Instruments used by the Group

(i) Interest rate swap contracts – cash flow hedges

Bank loans to the Group at 30 June 2014 bear an average variable interest rate of 2.8 per cent (2013: 2.8 per cent). 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 2014 cover 57 per cent (2013: 100 per cent) of the loan principal outstanding and are taken out with terms of between three and seven years. The fixed interest rates average 4.4 per cent (2013: 6.0 per cent).

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 2014, a profit of $70,000 was reclassified into profit or loss (2013: $49,000) and included in finance cost due to hedge ineffectiveness in the current or prior year and a gain of $232,000 was reclassified into profit or loss (2013: $105,000) 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 2014 a gain of $2,000 was recognised in profit or loss for the ineffective portion of these hedging contracts (2013: $1,000).

(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 27 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 27. 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.

16 Current liabilities – trade and other payables

	2014 $'000	2013 $'000
Trade payables	**35,363**	19,091
Other trade payables and accrued expenses	**40,396**	37,727
	75,759	56,818

(a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 27.

(b) Fair value

The carrying amount of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

17 Borrowings

	2014			2013		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Unsecured						
Bank overdrafts	**1,810**	**–**	**1,810**	–	–	–
Other loans	**173**	**–**	**173**	141	321	462
Bills payable	**–**	**35,000**	**35,000**	–	65,000	65,000
Total unsecured borrowings	**1,983**	**35,000**	**36,983**	141	65,321	65,462
Total borrowings	**1,983**	**35,000**	**36,983**	141	65,321	65,462

(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 (2013: $1.000 million), the Company's New Zealand subsidiary has a separate bank overdraft facility of $2.091 million (2013: $1.895 million) and in the previous financial year a partially owned subsidiary had a bank overdraft facility of $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 1 years (16 August 2015), Tranche B $69 million, expiring in 2 years (16 August 2016), and Tranche C $46 million, expiring in 1 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.

An assessment of the contractual maturities of financial liabilities is provided in note 27.

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.

Notes to the consolidated financial statements

17 Borrowings
continued

(b) Fair value

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

	Carrying amount 2014 $'000	Fair value 2014 $'000	Carrying amount 2013 $'000	Fair value 2013 $'000
On-balance sheet				
Non-traded financial liabilities				
Bank overdrafts	**1,810**	**1,810**	–	
Bills payable	**35,000**	**35,000**	65,000	65,000
Other loans	**173**	**173**	462	462
	36,983	**36,983**	65,462	65,462

(c) Risk exposures

Information about the Group's exposure to interest rate and foreign exchange risk is provided in note 27.

18 Provisions

	2014			2013		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Employee benefits	**9,440**	**1,605**	**11,045**	11,511	2,023	13,534
Outstanding claims	**5,885**	**1,078**	**6,963**	4,069	1,330	5,399
Restructuring costs	**16,090**	**3,466**	**19,556**	13,708	2,589	16,297
Contingent consideration	**4,450**	**–**	**4,450**	4,657	5,950	10,607
Other provisions	**524**	**625**	**1,149**	666	622	1,288
	36,389	**6,774**	**43,163**	34,611	12,514	47,125

(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 subsidiaries and businesses. For further detail, see note 29.

Other provisions

Other provisions comprise mainly provisions for site restoration.

(b) Movements in provisions

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

	Outstanding claims $'000	Restructuring costs $'000	Contingent consideration $'000	Other $'000	Total $'000
Movements 2013					
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
Movements 2014					
Carrying amount at the start of the year	**5,399**	**16,297**	**10,607**	**1,288**	**33,591**
Transfer from liabilities associated with assets held for sale	**–**	**12,785**	**–**	**–**	**12,785**
Charged/(credited) to profit or loss – additional provisions recognised	**4,206**	**–**	**–**	**–**	**4,206**
Included in fair value less costs to sell on disposal of businesses	**–**	**3,614**	**–**	**–**	**3,614**
Charged / (credited) to profit or loss – unwinding discount and provisions released	**–**	**–**	**(427)**	**–**	**(427)**
Amounts used during the year	**(2,622)**	**(13,140)**	**(10,180)**	**(139)**	**(26,081)**
Increase through acquisition of businesses / subsidiaries	**–**	**–**	**4,450**	**–**	**4,450**
Decrease through disposal of business	**(20)**	**–**	**–**	**–**	**(20)**
Carrying amount at end of year	**6,963**	**19,556**	**4,450**	**1,149**	**32,118**

19 Contributed equity

(a) Share capital

	2014 Shares '000	2013 Shares '000	2014 $'000	2013 $'000
Ordinary shares - fully paid	**233,913**	246,220	**281,624**	303,890

(b) Movements in ordinary share capital

Date	Details	Number of shares '000	$'000
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
30 June 2013	Closing balance	246,220	303,890
1 July 2013	Opening balance	246,220	303,890
	Share buy-back	(12,307)	(22,266)
30 June 2014	**Closing balance**	**233,913**	**281,624**

(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 reinvestment plan and the share investment plan did not operate in respect of dividends issued during the financial year.

(e) Employee share scheme

The employee share plan did not operate in the financial year. In the previous financial year the Company made one issue of ordinary shares under the employee share bonus plan. 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

During the current financial year the Company bought back 12.307 million shares at an average price of $1.81 per share, with prices ranging from $1.56 to $1.91 per share. The total cost of $22.266 million, including transaction costs of $0.088 million, was deducted from shareholders equity. The Company originally announced an on market buyback on 23 August 2011, giving the Company the option to acquire up to 10 per cent of its issued ordinary shares. The buyback was for ongoing capital management purposes and was to take place over the 12 months from the date of the announcement. The on market buyback was extended on 13 August 2012, again on 6 August 2013 and again on 15 August 2014. No shares were bought back during the FY13 year.

(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 2014, the Group's strategy, which was unchanged from 2013, was to maintain a target gearing ratio (calculated as net debt divided by net debt plus equity) of less than 40 per cent. The gearing ratios at 30 June 2014 and 30 June 2013 were as follows:

	Notes	2014 $'000	2013 $'000
Total borrowings	17	**36,983**	65,462
Less: cash and cash equivalents	8	**(45,482)**	(61,480)
Net (funds) / debt		**(8,499)**	3,982
Total equity		**245,228**	271,018
Gearing ratio		**0.0%**	1.4%

Notes to the consolidated financial statements

20 Reserves

(a) Reserves	2014 $'000	2013 $'000
Asset revaluation reserve	**18,385**	32,820
Hedging reserve – cash flow hedges	**(638)**	(1,397)
Equity compensation reserve	**721**	658
Non-controlling interests acquisition reserve	**–**	1,551
Foreign currency translation reserve	**139**	(1,043)
Profits reserve	**10,293**	–
	28,900	32,589
Movements:		
Asset revaluation reserve		
Opening balance 1 July	**32,820**	46,227
Revaluation – gross	**(14,227)**	(12,595)
Deferred tax	**4,268**	4,231
Reserves reduction on disposal of subsidiary	**–**	(875)
Transfer to profits reserve	**(4,476)**	(4,168)
Closing balance 30 June	**18,385**	32,820
Hedging reserve – cash flow hedges		
Opening balance 1 July	**(1,397)**	(2,910)
Revaluation – gross	**1,084**	2,162
Deferred tax	**(325)**	(649)
Closing balance 30 June	**(638)**	(1,397)
Equity compensation reserve		
Opening balance 1 July	**658**	736
Employee share plan expense	**63**	46
Reserves reduction on disposal of subsidiary	**–**	(124)
Closing balance 30 June	**721**	658
Non-controlling interests acquisition reserve		
Opening balance 1 July	**1,551**	1,171
Adjustment to non-controlling interest upon change in Group shareholding	**(4,495)**	380
Transfer to profits reserve	**2,944**	–
Closing balance 30 June	**–**	1,551
Foreign currency translation reserve		
Opening balance 1 July	**(1,043)**	(2,021)
Currency translation differences arising during the year	**1,182**	978
Closing balance 30 June	**139**	(1,043)
Profits reserve		
Opening balance 1 July	**–**	–
Transfer of current year profit	**24,798**	–
Dividends paid	**(16,037)**	–
Transfers from other reserves	**1,532**	–
Closing balance 30 June	**10,293**	–

(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 as described in note 1(p).

(ii) Hedging reserve – cash flow hedges

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

(iii) 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.

(iv) 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.

(v) 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.

(vi) Profits reserve

Current year and realised profits are transferred from retained earnings and other reserves to the profits reserve and dividends are paid out of the profits reserve.

Notes to the consolidated financial statements

21 Dividends

(a) Ordinary shares

	2014 $'000	2013 $'000
Dividend of 3.25 cents fully franked based on tax paid @ 30% (2013: 5.0 cents fully franked based on tax paid 30%) per fully paid share paid on 27 September 2013 (2013: 26 September 2012)	**8,000**	12,298
Dividend of 3.4 cents fully franked based on tax paid @ 30.0% (2013: 0.0 cents) per fully paid share paid on 31 March 2014.	**8,037**	–
Total dividends provided for or paid	**16,037**	12,298

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

	2014 $'000	2013 $'000
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 3.6 cents per fully paid ordinary share (2013: interim dividend for the year ended 30 June 2014 of 3.25 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 26 September 2014, but not recognised as a liability at year end, is:	**8,420**	8,011

The dividend reinvestment 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 2014 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2015.

	2014 $'000	2013 $'000
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2013: 30.0%)	**4,839**	7,011

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 $3.608 million (2013: $3.433 million).

22 Earnings per share

	2014 Cents	2013 Cents
(a) Basic earnings per share		
From profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company	**7.0**	(12.9)
From discontinued operations	**3.4**	(25.3)
Earnings per share for profit / (loss) attributable to the ordinary equity holders of the Company	**10.4**	(38.2)
From underlying profit attributable to the ordinary equity holders of the Company [1]	**11.4**	7.8
(b) Diluted earnings per share		
From profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company	7.0	(12.9)
From discontinued operations	3.4	(25.3)
Earnings per share for profit / (loss) attributable to the ordinary equity holders of the Company	10.4	(38.2)
From underlying profit attributable to the ordinary equity holders of the Company [1]	11.4	7.8

(1) Underlying profit has been calculated after adjusting profit / (loss) attributable to the ordinary equity holders of the Company for business combination acquisition transaction costs, adjusted for business combination acquisition transaction costs after tax offset by one-off income tax credits associated with business sales and CGU impairment, restructure and closure costs and other associated impairments in the previous year. Underlying profit is a non IFRS measure used by the Company which is relevant because it is consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business in light of its change program. The non IFRS measure has 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

	2014 $'000	2013 $'000
Basic earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**16,780**	(31,667)
From discontinued operation	**8,018**	(62,458)
Profit / (loss) used in calculating basic earnings per share	**24,798**	(94,125)
Diluted earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**16,780**	(31,667)
From discontinued operation	**8,018**	(62,458)
Profit / (loss) used in calculating diluted earnings per share	**24,798**	(94,125)
Underlying profit earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**24,798**	(94,125)
Items not considered part of underlying profit [1]	**2,479**	113,326
Underlying profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share [1]	**27,277**	19,201

(1) Underlying profit has been calculated after adjusting profit / (loss) attributable to the ordinary equity holders of the Company for business combination acquisition transaction costs, adjusted for business combination acquisition transaction costs after tax offset by one-off income tax credits associated with business sales and CGU impairment, restructure and closure costs and other associated impairments in the previous year. Underlying profit is a non IFRS measure used by the Company which is relevant because it is consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business in light of its change program. The non IFRS measure has not been subject to audit or review.

(d) Weighted average number of shares used as denominator

	2014 $'000	2013 $'000
Adjustments for calculation of diluted earnings per share:		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**238,983**	246,186
Effect of share options and rights on issue	**–**	–
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**238,983**	246,186

The 280,000 (2013: 280,000) share options granted between 2003 and 2007 are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2014 (and year ended 30 June 2013). These options could potentially dilute basic earnings per share in the future.

Notes to the consolidated financial statements

23 Share-based payments

(a) Employee performance rights and option plans

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 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 20 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
2014								
Performance rights								
17 Feb 2014	30 Jun 2016	$–	–	1,133,332	–	–	1,133,332	–
Executive share options *								
1 Feb 2001	1 Jan 2023	$2.50	25,000	–	–	–	25,000	–
1 Feb 2002	1 Jan 2024	$2.90	35,000	–	–	–	35,000	–
1 Feb 2003	1 Jan 2025	$3.23	40,000	–	–	–	40,000	–
1 Feb 2004	1 Jan 2026	$3.66	55,000	–	–	–	55,000	–
1 Feb 2005	1 Jan 2027	$4.16	125,000	–	–	–	125,000	–
Total executive share options			280,000	–	–	–	280,000	–
Totals			280,000	1,133,332	–	–	1,413,332	–
Weighted average exercise price			**$3.62**	**$–**	**$–**	**$–**	**$3.62**	**$–**

* Relates to a small numbers of employees who are not key management personnel.

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
2013								
Performance rights								
28 Apr 2011	30 Jun 2013	$–	198,929	–	–	(198,929)	–	–
19 Dec 2011	30 Jun 2014	$–	405,518	–	–	(405,518)	–	–
Executive share options								
1 Feb 2001	1 Jan 2023	$2.50	50,000	–	(25,000)	–	25,000	25,000
1 Feb 2002	1 Jan 2024	$2.90	53,000	–	–	(18,000)	35,000	35,000
1 Feb 2003	1 Jan 2025	$3.23	80,000	–	–	(40,000)	40,000	40,000
1 Feb 2004	1 Jan 2026	$3.66	115,000	–	–	(60,000)	55,000	55,000
1 Feb 2005	1 Jan 2027	$4.16	185,000	–	–	(60,000)	125,000	125,000
Total executive share options			483,000	–	(25,000)	(178,000)	280,000	280,000
Totals			**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**

Fair value of options granted

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 2014 was 34.0 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 2014 included:

- exercise price: $0.00
- vesting period: 3 years
- service period: commencing 1 July 2013
- grant date (for Accounting Standards): 17 February 2014
- expiry date: 30 June 2016
- share price at grant date: $1.75
- expected price volatility of the Company's shares: 40%
- expected dividend yield: 11.3%
- risk free interest rate: 2.99%

(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 no shares were allotted. In the previous financial year one allotment of shares was made. Participants were issued with 100 shares, based on the weighted average market price of $0.76. 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.

	2014 '000	2013 '000
Number of shares issued under the plan to participating employees on 2 November 2012	–	142

(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:

	2014 $'000	2013 $'000
Performance rights issued under long-term incentive plans	64	121
Shares issued under employee share bonus plan	–	46
	64	167

24 Related party transactions

(a) Parent entities

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 30.

(c) Key management personnel

	2014 $'000	2013 $'000
Short-term employee benefits (fixed and STI remuneration)	**5,207,533**	5,162,309
Post-employment benefits (superannuation)	**231,340**	258,648
Long-term benefits (cash LTI and accrued long service leave)	**229,329**	157,690
Termination benefits	**296,208**	470,632
Share-based payments (LTI expense and employee share bonus plan expense)	**64,222**	1,548
	6,082,632	6,050,827

Detailed remuneration disclosures are provided in the Remuneration Report.

(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 $7.746 million (2013: $15.585 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 $0.366 million (2013: $0.185 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 $0.976 million (2013: $1.749 million).

Inter entity dividends paid and received during the year amounted to $33.906 million (2013: $4.405 million).

Other related parties

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

Transactions with Director related entities

A number of KMP 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.

During the year Hills purchased goods from Korvest Ltd and provided services to Korvest Ltd, an entity associated with P Stancliffe and purchased goods from SAI Global, an entity associated with D Spence. Amounts were billed and payable under normal commercial terms and conditions as a supplier and as a customer.

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

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

(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 2014 the Group current assets and liabilities that were eliminated were $167.622 million (2013: $224.114 million) and the Group non-current assets and liabilities that were eliminated were $0.0 million (2013: $3.211 million).

Notes to the consolidated financial statements

25 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities at 30 June 2014 in respect of:

(i) Claims

In consultation with the Environmental Protection Authority, ground water contamination potentially originating from the Company's Edwardstown site, continues to be monitored by the Company. It is anticipated that ongoing monitoring will be required to be undertaken by Hills. The Company has provided for the anticipated costs of ongoing assessments.

(ii) Guarantees

(a) Letters of credit established in favour of suppliers / creditors amounting to $0.0 million (2013: $1.036 million).

(b) Bank guarantees in favour of customers and suppliers amounting to $11.273 million (2013: $13.216 million).

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.

(iii) Acquisitions

For contingent liabilities relating to acquisitions refer to note 29.

(b) Contingent assets

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

26 Commitments

(a) Capital commitments

	2014 $'000	2013 $'000
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Property, plant and equipment	**2,423**	2,827

(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 One to 10 years with the majority running for a period of five 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.

	2014 $'000	2013 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**8,396**	21,750
Later than one year but not later than five years	**15,364**	49,197
Later than five years	**4,813**	16,523
	28,573	87,470

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

	2014 $'000	2013 $'000
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	**895**	679
Later than one year but not later than five years	**2,424**	2,718
Later than five years	**–**	170
	3,319	3,567

Notes to the consolidated financial statements

27 Financial risk management

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

Risk management is carried out by a central treasury department (Treasury) under policies approved by the Board of Directors. Treasury identifies, evaluates and minimises financial risks in close 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:

	2014 $'000	2013 $'000
Financial assets		
Cash and cash equivalents	**45,482**	61,480
Trade and other receivables	**104,479**	84,694
Derivative financial instruments	**–**	703
Investments	**2**	2
	149,963	146,879
Financial liabilities		
Trade and other payables	**75,759**	56,818
Borrowings	**36,983**	65,462
Derivative financial instruments	**1,000**	3,080
Contingent consideration	**4,450**	10,607
	118,192	135,967

(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 inventories) in US dollars.

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

	30 June 2014					30 June 2013					
	USD $'000	Euro $'000	JPY $'000	GBP $'000	Total $'000	USD $'000	NZD $'000	Euro '000	JPY '000	GBP $'000	Total $'000
Trade receivables	**1,128**	**–**	**–**	**–**	**1,128**	2,395	–	8	–	273	2,676
Cash at bank	**1,024**	**12**	**–**	**–**	**1,036**	(283)	–	–	–	6	(277)
Trade payables	**(12,962)**	**(582)**	**(202)**	**(197)**	**(13,943)**	(24,346)	(59)	(627)	(151)	(219)	(25,402)
Forward exchange contracts:											
– buy foreign currency (cash flow hedges)	**(25,058)**	**–**	**–**	**–**	**(25,058)**	(17,948)	–	–	–	–	(17,948)
– buy foreign currency (FVTPL) [43]	**(330)**	**–**	**–**	**–**	**(330)**	(1,621)	–	–	–	–	(1,621)

(43) Fair Value Through Profit and Loss

Sensitivity

The sensitivity of profit or loss to changes in exchange rates arises mainly from US dollar denominated financial instruments and the impact on other components of equity arises from foreign forward exchange contracts designated as cash flow hedges.

	Impact on pre tax profit		Impact on other components of equity	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Foreign exchange risk – decrease 10%	**(1,183)**	(2,155)	**2,959**	1,989
Foreign exchange risk – increase 10%	**968**	1,764	**(2,419)**	(1,677)

Profit is less sensitive to movements in the Australian dollar / US dollar exchange rates in 2014 than 2013 because of the reduced amount of US dollar denominated trade receivables and payables. Other components of equity is more sensitive to movements in the Australian dollar / US dollar exchange rates in 2014 than 2013 because of the increased amount of US dollar denominated forward exchange contracts.

Notes to the consolidated financial statements

27 Financial risk management
continued

(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 per cent to 75 per cent of its borrowings at fixed rate using interest rate swaps to achieve this when necessary. During 2014 and 2013, 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:

	2014		2013	
	Weighted average interest rate %	**Balance $'000**	Weighted average interest rate %	Balance $'000
Bank overdrafts and bank loans	**2.8%**	**(36,810)**	2.8%	(65,000)
Cash and cash equivalents	**2.4%**	**45,482**	2.9%	61,480
Other loans	**13.1%**	**(173)**	2.6%	(462)
Interest rate swaps (notional principal amount)	**4.4%**	**20,000**	6.0%	65,000

An analysis by maturities is provided in note 27(c) on page 98.

Sensitivity

Profit or loss is sensitive to higher / lower interest income and interest expense from cash and cash equivalents and borrowings respectively, as a result of changes in interest rates. Other components of equity change as a result of an increase / decrease in the fair value of the cash flow hedges of borrowings.

	Impact on pre tax profit		Impact on other components of equity	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
Interest rates – decrease by 100 basis points	**(122)**	(40)	**(250)**	(948)
Interest rates – increase by 100 basis points	**122**	40	**246**	928

Profit is more sensitive to movements in interest rates in 2014 than 2013 mainly as a result of higher interest income from cash and cash equivalents. Other components of equity is less sensitive mainly as a result of reduction in interest rate swaps.

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.

		Interest rate risk				Foreign exchange risk			
		–100 bps		+100 bps		–10%		+10%	
	Carrying amount '000	Profit $'000	Other equity $'000	Profit $'000	Other equity $'000	Profit $'000	Other equity $'000	Profit $'000	Other equity $'000
2014									
Financial assets									
Cash and cash equivalents	45,482	(450)	–	450	–	115	–	(94)	–
Trade and other receivables	104,479	–	–	–	–	127	–	(104)	–
Total increase / (decrease) in financial assets		(450)	–	450	–	242	–	(198)	–
Financial liabilities									
Derivatives – cash flow hedges	(912)	–	(250)	–	246	–	2,959	–	(2,419)
Derivatives – fair value through profit or loss	(88)	–	–	–	–	124	–	(102)	–
Trade payables	(75,759)	–	–	–	–	(1,549)	–	1,268	–
Borrowings	(36,983)	328	–	(328)	–	–	–	–	–
Total increase / (decrease) in financial liabilities		328	(250)	(328)	246	(1,425)	2,959	1,166	(2,419)
Total increase / (decrease)		(122)	(250)	122	246	(1,183)	2,959	968	(2,419)
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)
Total increase / (decrease) in financial assets		615	–	(615)	–	296	1,989	(241)	(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) in financial liabilities		(655)	(948)	655	928	(2,451)	–	2,005	–
Total increase / (decrease)		(40)	(948)	40	928	(2,155)	1,989	1,764	(1,677)

Notes to the consolidated financial statements

(b) Credit risk

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

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

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

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

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

The ageing of the Group's trade receivables is analysed in note 9.

(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 2014, 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 one year (16 August 2015), Tranche B $69 million, expiring in two years (16 August 2016), and Tranche C $46 million, expiring in one year (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.

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

	2014 $'000	2013 $'000
Floating rate		
Expiring within one year (bank overdraft and short term money market)	**38,444**	39,437
Expiring beyond one year (bank loans and standby letters of credit)	**115,000**	83,964
	153,444	123,401

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.

	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 2014							
Non-derivatives							
Trade payables	75,759	–	–	–	–	75,759	75,759
Borrowings	2,516	478	35,120	–	–	38,114	36,983
Total non-derivatives	78,275	478	35,120	–	–	113,873	112,742
Derivatives							
Interest rate swaps and forward exchange contracts	590	180	268	–	–	1,038	1,000
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							
Interest rate swaps and forward exchange contracts	1,070	1,037	1,040	196	–	3,343	3,080

28 Fair value measurements

(a) Fair value measurements for financial assets and liabilities

The Group measures and recognises the following financial assets and financial liabilities at fair value on a recurring basis:

- Derivative financial instruments
- Contingent consideration payable

AASB 13 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 2014 and 30 June 2013:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2014				
Assets				
Derivatives used for hedging	–	–	–	–
Total assets	–	–	–	–
Liabilities				
Derivatives used for hedging	–	1,000	–	1,000
Contingent consideration payable	–	–	4,450	4,450
Total liabilities	–	1,000	4,450	5,450
30 June 2013				
Assets				
Derivatives for hedging	–	703	–	703
Total assets	–	703	–	703
Liabilities				
Derivatives used for hedging	–	3,080	–	3,080
Contingent consideration payable	–	–	10,607	10,607
Total liabilities	–	3,080	10,607	13,687

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year.

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 2014.

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.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Contingent consideration	
	2014 $'000	2013 $'000
Balance at 1 July	**10,607**	–
Unwinding discount on provision	**346**	–
Release of contingent consideration	**(773)**	
Payment of contingent consideration (note 29 (c))	**(10,180)**	–
Arising from business combination	**4,450**	10,607
Balance at 30 June	**4,450**	10,607

A discussion on the unobservable inputs is included within Note 29. The valuation of contingent consideration considers the possible scenarios of expected EBIT, revenue and contracts to be signed, the amount of contingent consideration to be paid under each scenario and the probability of each scenario. The estimated fair value would increase / (decrease) if EBIT is higher / (lower), revenue growth is (lower) and the number of contracts signed (decreases). Reasonably possible changes to the significant unobservable inputs, holding other inputs constant would have the following effect upon profit:

	Profit or loss	
	Increase $'000	Decrease $'000
Revenue (5% movement)	**–**	195
EBIT (5% movement)	**(300)**	300

Notes to the consolidated financial statements

28 Fair value measurements
continued

(b) Fair value measurements for non-financial assets and liabilities

The Group measures and recognises the following non-financial assets and financial liabilities at fair value:

- Land and buildings
- Assets and disposal groups held for sale

The following table presents the Group's non-financial assets and non-financial liabilities measured and recognised at fair value at 30 June 2014. An explanation of each level is provided in (a) above.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2014				
Land and buildings	–	–	30,785	30,785
Assets and disposal groups held for sale	–	–	7,800	7,800
Total non-financial assets and liabilities	**–**	**–**	**38,585**	**38,585**

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year.

The valuation techniques used to determine Level 2 and Level 3 fair values and details of significant unobservable inputs is set out in note 12.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Land and buildings $'000	Assets and disposal groups held for sale $'000
Balance at 1 July 2013	65,706	70,221
Disposals	(14,975)	(70,221)
Revaluation	(14,227)	–
Additions at cost	2,254	–
Depreciation charges	(173)	–
Transfer to assets held for sale	(7,800)	7,800
Balance at 30 June 2014	30,785	7,800

Notes to the consolidated financial statements

29 Business combination

(a) Current year

Summary of acquisitions

On 4 September 2013, the Group announced the acquisition of two healthcare technology businesses. One hundred per cent of the issued shares in New Tone Pty Ltd (including TV Rentals Pty Ltd) ("HTR") were acquired with an effective date of 1 September 2013 and the assets and business of Merlon Technology NSW Pty Limited, Merlon Healthcare Communications Pty Limited and Statewide Communications Australia Pty Limited, (collectively known as "Merlon") were acquired with an effective date of 1 October 2013. On 31 March 2014, the Group announced the acquisition of the majority of the assets and business of a healthcare technology business, Questek Pty Ltd ("Questek"). The acquisitions continue the development of interactive patient care solutions, including to hospitals, aged care, retirement living and home care.

On 31 March 2014, the Group announced the acquisition of the assets and business of a security solutions business, Open Platform Systems Pty Ltd ("OPS") and on 31 May 2014, the Group announced the acquisition of the assets and business of a New Zealand based security solutions business, Intek Ltd ("Intek"). The acquisitions complement and extend the Group's security solutions business.

The acquired businesses contributed revenues of $29.069 million and net profit of $3.367 million from the dates of acquisition. If the acquisitions had occurred on 1 July 2013, consolidated revenue and consolidated profit for the year ended 30 June 2014 would have been $487.750 million and $28.979 million respectively.

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

	HTR & Merlon $'000	Questek $'000	OPS $'000	Intek $'000
Purchase consideration				
Cash paid	32,137	3,312	5,244	5,576
Contingent consideration / retention	–	950	3,500	–
Total purchase consideration	32,137	4,262	8,744	5,576
Fair value of net identifiable assets acquired (refer below)	9,149	2,002	4,213	3,165
Goodwill (refer below)	22,988	2,260	4,531	2,411

The goodwill relating to the acquisitions is attributable to the future non-contracted growth opportunities, the assembled workforce and synergies (both revenue and cost) applicable within the Hills Technologies division.

Notes to the consolidated financial statements

29 Business combination
continued

Assets and liabilities acquired

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

	Fair value HTR & Merlon $'000	Fair value Questek $'000	Fair value OPS $'000	Fair value Intek $'000
Cash / (overdraft)	(111)	–	–	–
Trade and other receivables	1,702	2,130	1,926	1,092
Inventories	2,388	565	1,818	2,038
Plant and equipment	2,233	268	120	577
Intangible assets: software	807	345	–	47
Intangible assets: customer contracts / relationships / brands	8,298	1,995	3,053	–
Intangible assets: patents and trademarks	2	–	–	–
Trade creditors and other liabilities	(1,661)	(2,391)	(1,617)	(581)
Provision for income tax	(1,356)	–	–	–
Deferred tax liability (net)	(2,382)	(447)	(836)	53
Provision for employee benefits	(771)	(463)	(251)	(61)
Net identifiable assets acquired	9,149	2,002	4,213	3,165
Add: goodwill	22,988	2,260	4,531	2,411
Net assets acquired	32,137	4,262	8,744	5,576

Contingent / deferred consideration

Contingent consideration is payable to the former owners of OPS if certain EBITDA results are achieved for the year ended 30 June 2014 and if certain revenue targets are achieved for the year ending 30 June 2015. Contingent consideration recorded has been determined using the latest available forecasts. Contingent consideration is payable to the former owners of Questek in the year ending 30 June 2015, subject to material contracts being signed and consideration withheld subject to any claims arising, is payable to the former owners of Questek 12 months from acquisition date. Contingent consideration recorded has been determined based on the best estimates of contracts signed.

Acquisition related costs

Acquisition related costs of $4.978 million are included in other expenses in profit or loss and in operating cash flows in the consolidated statement of cash flows.

(b) Prior period – Lan1 Pty Ltd

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

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

	$'000
Purchase consideration (refer to (c) below):	
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:

	$'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.

Contingent consideration

In the event that earnings before interest, tax, depreciation and amortisation (EBITDA) exceeds $2.012 million in the first 12 months post acquisition an amount calculated as 25 per cent of five times EBITDA less debt funding is payable to the former owners. In the event that EBITDA in the second 12 months post acquisition exceeds $2.012 million and EBITDA achieved in the previous year, an amount calculated as 25 per cent 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. Contingent consideration of $10.180 million was paid in the financial year ended 30 June 2014.

Acquisition-related costs

Acquisition related costs of (2013: $0.392 million) are included in expenses in profit or loss and in operating cash flows in the Consolidated statement of cash flows.

(c) Purchase consideration – cash outflow

	2014 $'000	2013 $'000
Outflow of cash to acquire subsidiaries and business operations, net of cash acquired:		
Cash consideration	**46,269**	5,160
Bank overdraft	**111**	–
Payment of contingent consideration	**10,180**	–
	56,560	5,160

Notes to the consolidated financial statements

30 Interests in other entities

(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 2014 %	Equity holding 2013 %
Hills Finance Pty Ltd	Australia	Ordinary	**100**	100
Hills NZ Limited (formerly Hills Holdings NZ Limited)	New Zealand	Ordinary	**100**	100
Hills Group Operations Pty Ltd	Australia	Ordinary	**100**	–
Hills Integrated Solutions Pty Ltd (formerly DAS Security Wholesalers Pty Ltd)	Australia	Ordinary	**100**	100
Pacific Communications (PACOM) Pty Ltd	Australia	Ordinary	**100**	100
Pacom Security Pty Ltd	Australia	Ordinary	**100**	100
Hills Health Solutions Pty Ltd (formerly Hills Health Solutions Australia Pty Ltd, CBS Hardware Pty Ltd)	Australia	Ordinary	**100**	100
New–Tone (Aust) Pty Ltd	Australia	Ordinary	**100**	–
TV Rentals Pty Ltd	Australia	Ordinary	**100**	–
Hills Polymers Pty Ltd	Australia	Ordinary	**100**	100
Hills Hoists Pty Ltd	Australia	Ordinary	**100**	100
ACN 000 733 979 Pty Ltd (formerly Bailey Aluminium Products Pty Ltd)	Australia	Ordinary	**–**	100
ACN 000 192 951 Pty Ltd (formerly Hills Industries Pty Ltd)	Australia	Ordinary	**–**	100
Hills Share Plans Pty Ltd (formerly ACN 089 622 622 Pty Ltd)	Australia	Ordinary	**100**	100
Step Electronics 2005 Pty Ltd (i)	Australia	Ordinary	**50**	50
Cygnus Satellite Pty Ltd (i)	Australia	Ordinary	**50**	50
Lan 1 Pty Ltd	Australia	Ordinary	**100**	100
ACN 159 817 955 Pty Ltd	Australia	Ordinary	**100**	100
Woodroffe Industries Pty Ltd	Australia	Ordinary	**100**	100
ACN 091 954 442 Pty Ltd (formerly Fielders Australia Pty Ltd)	Australia	Ordinary	**100**	100
ACN 099 403 139 Pty Ltd (formerly Fielders Mobile Mill Pty Ltd)	Australia	Ordinary	**100**	100
Zen 99 Pty Ltd	Australia	Ordinary	**100**	100
ACN 010 853 817 Pty Ltd (formerly Orrcon Holdings Pty Ltd)	Australia	Ordinary	**100**	100
ACN 094 103 090 Pty Ltd (formerly Orrcon Operations Pty Ltd)	Australia	Ordinary	**100**	100
ACN 093 760 895 Pty Ltd (formerly Orrcon Tubing Pty Ltd)	Australia	Ordinary	**100**	100
Access Television Services Pty Ltd	Australia	Ordinary	**100**	100
ACN 116 849 613 Pty Ltd (formerly Techlife Solutions Pty Ltd)	Australia	Ordinary	**–**	100
ACN 001 345 482 Pty Ltd (formerly Audio Telex Communications Pty Ltd)	Australia	Ordinary	**–**	100
ACN 109 172 965 Pty Ltd (formerly Crestron Control Solutions Pty Ltd)	Australia	Ordinary	**–**	100
K.D.B.E. Pty Ltd (formerly KDB Engineering Pty Ltd)	Australia	Ordinary	**–**	100
K.E.A.P.L. Pty Ltd (formerly Kerry Equipment (Aust) Pty Ltd)	Australia	Ordinary	**–**	100
ACN 097 253 060 Pty Ltd (formerly Greenwattle Investments Pty Ltd)	Australia	Ordinary	**–**	100
ACN 097 252 812 Pty Ltd (formerly Access Scaffolding (Aust) Pty Ltd)	Australia	Ordinary	**–**	100
ACN 097 253 202 Pty Ltd (formerly Greenwattle Equipment Pty Ltd)	Australia	Ordinary	**–**	100
ACN 095 224 034 Pty Ltd	Australia	Ordinary	**–**	100
ACN 009 696 084 Pty Ltd	Australia	Ordinary	**–**	100
ACN 007 584 527 Pty Ltd (formerly Hills Nominees Pty Ltd)	Australia	Ordinary	**–**	100
ACN 008 160 843 Pty Ltd (formerly Step Electronics Pty Ltd)	Australia	Ordinary	**–**	100
OptiComm Co Pty Ltd	Australia	Ordinary	**–**	50
UHS Systems Pty Ltd	Australia	Ordinary	**–**	51
UHS Pty Ltd	Australia	Ordinary	**–**	51

(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.

(b) Non-controlling interests (NCI)

There is no individual subsidiary that has non-controlling interests that are material to the Group in either the current or the prior financial year. Accordingly, summarised financial information is provided in aggregate for all subsidiaries with non-controlling interests. The amounts disclosed are before intercompany eliminations.

	2014 $'000	2013 $'000
Summarised statement of financial position		
Current assets	**3,867**	11,969
Current liabilities	**2,591**	11,949
Current net assets	**1,276**	20
Non–current assets	**834**	2,181
Non–current liabilities	**–**	394
Non–current net assets	**834**	1,787
Net assets	**2,110**	1,807
Accumulated NCI	**1,063**	898
Summarised statement of comprehensive income		
Revenue	**31,809**	70,618
Profit for the period	**3,419**	5,459
Other comprehensive income	**–**	–
Total comprehensive income	**3,419**	5,459
Profit allocated to NCI	**1,589**	2,738
Dividends paid to NCI	**90**	1,341
Summarised cash flows		
Cash flows from operating activities	**3,314**	3,772
Cash flows from investing activities	**(242)**	(1,116)
Cash flows from financing activities	**(226)**	(2,080)
Net increase / (decrease) in cash and cash equivalents	**2,846**	576

(c) Transactions with non-controlling interests

On 2 January 2014, the Group acquired the remaining 49% of UHS Systems Pty Ltd, for consideration of $5.000 million.

During the previous financial year in the period that Korvest was part of the Group, Korvest made one issue 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.

	2014 $'000	2013 $'000
Carrying amount of non-controlling interests acquired / (diluted)	**505**	(9)
Consideration paid to non-controlling interests	**(5,000)**	–
Impact of acquisition / dilution recognised in the transactions with non-controlling interests reserve within equity	**(4,495)**	(9)

Notes to the consolidated financial statements

31 Parent entity financial information

(a) Summary financial information

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

	2014 $'000	2013 $'000
Balance sheet		
Current assets	**219,292**	246,815
Non-current assets	**153,530**	174,483
Total assets	**372,822**	421,298
Current liabilities	**139,106**	153,341
Non-current liabilities	**41,555**	77,892
Total liabilities	**180,661**	231,233
Net assets	**192,161**	190,065
Shareholders' equity		
Contributed equity	**281,624**	303,890
Reserves		
Asset revaluation reserve	**15,809**	27,882
Hedging reserve - cash flow hedges	**(638)**	(1,397)
Equity compensation reserve	**721**	658
Profits reserve	**35,613**	-
Retained earnings	**(140,968)**	(140,968)
	192,161	190,065
Profit or loss for the year	47,876	(178,869)
Total comprehensive income	40,335	(184,222)

(b) Guarantees entered into by the parent entity

Bank guarantees given by the Company in favour of customers and suppliers amounted to $6.719 million (2013: $5.245 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 $150.143 million (2013: $246.335 million). No material deficiency in net tangible assets exists in these companies at reporting date with net tangible assets amounting to $91.946 million (2013: $167.791 million).

(c) Contingent liabilities of the parent entity

The parent entity had a contingent liability in respect of claims, as disclosed in note 25. 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 2014, the Company had contractual commitments for the acquisition of property, plant or equipment totalling $2.348 million (2012: $2.047 million). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

Notes to the consolidated financial statements

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 Directors' 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

Woodroffe Industries Pty Ltd

ACN 010 853 817 Pty Ltd (formerly Orrcon Holdings Pty Ltd)

ACN 094 103 090 Pty Ltd (formerly Orrcon Operations Pty Ltd)

Hills Polymers Pty Ltd

ACN 091 954 442 Pty Ltd (formerly Fielders Australia Pty Ltd)

Access Television Services Pty Ltd

Hills Health Solutions Pty Ltd

Hills Group Operations Pty Ltd

New-Tone (Aust) Pty Ltd

TV Rentals Pty Ltd

Zen 99 Pty Ltd

Lan 1 Pty Ltd

All of the subsidiaries except ACN 010 853 817 Pty Ltd (formerly Orrcon Holdings Pty Ltd), ACN 094 103 090 Pty Ltd (formerly Orrcon Operations Pty Ltd), Hills Polymers Pty Ltd, ACN 091 954 442 Pty Ltd (formerly 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.

ACN 010 853 817 Pty Ltd (formerly Orrcon Holdings Pty Ltd) and ACN 094 103 090 Pty Ltd (formerly Orrcon Operations Pty Ltd) became parties to the deed on 23 June 2006, by virtue of a Deed of Assumption. Hills Polymers Pty Ltd became a party to the deed on 14 May 2008. ACN 091 954 442 Pty Ltd (formerly Fielders Australia Pty Ltd)and Access Television Services Pty Ltd became parties to the deed on 29 June 2010.

Hills Health Solutions Pty Ltd, Hills Group Operations Pty Ltd, New-Tone (Aust) Pty Ltd, TV Rentals Pty Ltd, Zen 99 Pty Ltd and Lan 1 Pty Ltd became parties to the deed on 25 June 2014.

Hills 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 Limited, they also represent the 'extended closed group'.

Set out below is a Consolidated income statement, a Consolidated statement of comprehensive income, a summary of movements in consolidated retained earnings for the year ended 30 June 2014 and a Consolidated statement of financial position as at 30 June 2014 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.

Notes to the consolidated financial statements

32 Deed of cross guarantee
continued

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

	2014 $'000	2013 $'000
Consolidated income statement		
Revenue from continuing operations	**386,692**	408,731
Other income	**1,032**	28,695
Finance costs	**(3,580)**	(3,045)
Other expenses	**(373,148)**	(475,126)
Profit / (loss) before income tax	**10,996**	(40,745)
Income tax (expense) / benefit	**(584)**	12,111
Profit / (loss) from discontinued operations	**8,018**	(64,770)
Profit / (loss) for the year	**18,430**	(93,404)
Consolidated statement of comprehensive income		
Profit / (loss) for the year	**18,430**	(93,404)
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	1,084	2,162
Income tax relating to these items	(325)	(649)
Other comprehensive income / (loss) for the year that may be reclassified to profit or loss, net of tax	759	1,513
Items that will not be reclassified to profit or loss		
(Loss) on revaluation of land and buildings	(14,227)	(11,186)
Income tax relating to these items	4,268	3,524
Other comprehensive (loss) for the year that will not be reclassified to profit or loss, net of tax	(9,959)	(7,662)
Other comprehensive loss for the period, net of tax	(9,200)	(6,149)
Total comprehensive income / (loss) for the year	9,230	(99,553)
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	(93,177)	12,927
Adjustment for subsidiaries entering the deed of cross guarantee	11,949	–
Profit / (loss) for the year	18,430	(93,404)
Transfers from reserves	–	(398)
Dividends provided for or paid	–	(12,302)
Transfer to profits reserve	(18,430)	–
Retained earnings at the end of the financial year	(81,228)	(93,177)

(b) Consolidated statement of financial position

	2014 $'000	2013 $'000
Current assets		
Cash and cash equivalents	40,649	53,630
Trade and other receivables	93,222	84,921
Inventories	52,687	34,588
Derivative financial instruments	–	703
	186,558	173,842
Assets classified as held for sale	7,800	139,074
Total current assets	194,358	312,916
Non-current assets		
Investments	1,301	21,940
Property, plant and equipment	45,430	76,973
Intangible assets	80,725	19,379
Deferred tax assets	55,614	59,472
Total non-current assets	183,070	177,764
Total assets	377,428	490,680
Current liabilities		
Trade and other payables	70,867	58,603
Borrowings	172	141
Current tax labiilties	686	–
Provisions	36,977	42,333
Derivative financial instruments	384	551
	109,086	101,628
Liabilities associated with assets held for sale	–	73,975
Total current liabilities	109,086	175,603
Non-current liabilities		
Borrowings	35,000	65,000
Provisions	5,530	3,283
Derivative financial instruments	527	2,449
Total non-current liabilities	41,057	70,732
Total liabilities	150,143	246,335
Net assets	227,285	244,345
Equity		
Contributed equity	281,624	303,890
Reserves	26,889	33,632
Retained earnings	(81,228)	(93,177)
Total equity	227,285	244,345

Notes to the consolidated financial statements

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

	2014 $'000	2013 $'000
Profit / (loss) for the year	**26,387**	(91,387)
Depreciation and amortisation	**9,197**	15,577
Impairment of goodwill	**–**	16,719
Impairment of trade receivables	**835**	4,547
Impairment of inventories	**2,117**	31,886
Impairment of property, plant and equipment	**936**	53,806
Impairment of software	**10,475**	16,587
Net (gains) on disposal of businesses	**(14,596)**	(13,462)
Non-cash employee benefits expense – share-based payments	**63**	167
Net (gain) loss on sale of non-current assets (including assets held for sale)	**(303)**	(272)
Fair value adjustment to derivatives	**(302)**	(173)
Wind back of discounts on provisions	**346**	–
Rent received	**(1,777)**	(790)
Change in operating assets and liabilities, net of effects from purchases and sales of controlled entities and business operations:		
(Increase) / decrease in trade and other receivables	**(14,955)**	6,119
(Increase) / decrease in inventories	**(18,313)**	19,296
Decrease / (increase) in deferred tax assets	**4,071**	(33,891)
Increase in trade and other creditors	**625**	22,589
Increase in provision for income taxes payable	**797**	5,918
(Decrease) / increase in other provisions	**(20,930)**	28,144
Net cash (outflow) / inflow from operating activities	**(15,327)**	81,380

Notes to the consolidated financial statements

34 Remuneration of auditors

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

	2014 $	2013 $
KPMG audit and non–audit services		
Audit and other assurance services		
KPMG Australia – audit and review of the financial statements	**628,000**	520,000
Overseas KPMG firms – audit and review of the financial statements	**22,140**	32,610
Total remuneration for audit and other assurance services	**650,140**	552,610
Taxation services		
KPMG Australia – taxation and other services	**102,520**	79,641
Overseas KPMG firms – taxation services	**24,367**	8,772
Total remuneration for taxation services	**126,887**	88,413
Other services		
Financial advisory services	**833,235**	296,516
Software implementation assurance services	**–**	12,316
Other consulting services	**40,268**	65,310
Total remuneration for other services	**873,503**	374,142
Total remuneration of KPMG	**1,650,530**	1,015,165

Both audit and non-audit fees increased due to significant additional work performed in relation to the Company's restructure and transformation program and in particular the sale of non-core businesses. Non-audit fees will return to normal levels in 2015.

35 Events occurring after the reporting period

On 1 July 2014, the Group acquired 100 per cent of the issued shares in EMG Finance Pty Ltd and Audio Products Group Pty Ltd (together "APG"). The acquisition complements and extends the Group's building technologies business in the specialised audio market.

Details of the consideration transferred are:

	$'000
Purchase consideration	
Cash paid	**15,000**
Total purchase consideration	**15,000**

The provisionally determined fair values of the assets and liabilities as at the date of acquisition are as follows:

	$'000
Trade and other receivables	**4,592**
Inventories	**3,755**
Plant and equipment	**315**
Trade and other payables	**(1,723)**
Provision for employee benefits	**(1,102)**
Net identifiable assets acquired	**5,837**
Add: goodwill	**9,163**
Net assets acquired	**15,000**

The goodwill is attributable to the synergies expected to arise within the building technologies division.

Acquisition related costs of approximately $0.5 million were included in other expenses in profit or loss.

At the time the financial statements were authorised for issue, the Group had not yet finalised the accounting for the acquisition and accordingly the numbers disclosed above are provisional.

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 Limited (the Company):

(a) the consolidated financial statements and notes set out on pages 41 to 113 and the Remuneration Report on pages 14 to 35 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 2014 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 consolidated 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
Sydney
18 August 2014

Independent auditor's report to the members of Hills Limited

Report on the financial report

We have audited the accompanying financial report of Hills Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2014, the 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 2014 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 the directors' report for the year ended 30 June 2014. 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 Limited for the year ended 30 June 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Paul Cenko
Partner

Adelaide
Dated 18 August 2014

Shareholder information

The shareholder information set out below was applicable as at 14 August 2014.

A. Distribution of equity securities

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

	Class of equity security ordinary shares	
Holding	**Shares**	**Options**
1 – 1000	4,340	–
1,001 – 5,000	7,256	–
5,001 – 10,000	3,256	–
10,001 – 100,000	2,611	3
100,001 and over	91	2
	17,554	5

There were 1,522 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

The names of the 20 largest holders of quoted equity securities are listed below:

	Ordinary shares	
Name	**Number held**	**Percentage of issued shares**
J P Morgan Nominees Australia Limited	21,604,950	9.23
HSBC Custody Nominees (Australia) Limited	17,038,059	7.28
Poplar Pty Limited	16,550,845	7.07
Hills Associates Limited	16,239,441	6.93
Citicorp Nominees Pty Limited	10,921,397	4.66
National Nominees Limited	7,749,111	3.31
Jacaranda Pastoral Pty Ltd	5,968,699	2.55
RBC Investor Services Australia Nominees Pty Limited <Bkcust A/C>	5,723,454	2.44
Greybox Holdings Pty Ltd	4,440,042	1.90
Donald Cant Pty Ltd	1,979,060	0.85
BNP Paribas Noms Pty Ltd <Drp>	1,837,643	0.78
Colleen Sims Nominees Pty Ltd	1,694,798	0.72
Brispot Nominees Pty Ltd <House Head Nominee No 1 A/C>	1,298,643	0.55
Gwynvill Trading Pty Limited	1,260,000	0.54
Hills Associates Limited + Poplar Pty Ltd	1,188,918	0.51
Cariste Pty Ltd <Petl No 1 A/C>	1,150,000	0.49
QIC Limited	955,386	0.41
Bond Street Custodians Ltd <Macquarie Smaller Co's A/C>	795,550	0.34
Cariste Pty Ltd <Cariste Pty Ltd S/Fund A/C>	677,330	0.29
UBS Nominees Pty Ltd	659,241	0.28
	119,732,567	51.13

C. Substantial holders

Substantial holders in the Company are set out below:

Holding	Number held	Percentage of issued shares
Poplar Pty Ltd [44]	17,739,763	7.57
Hills Associates Limited [45]	16,239,441	6.93
Dimensional Entities	12,011,643	5.02

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

(45) 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

continued

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 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: http://www.hills.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
Internet address: www.computershare.com.au

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