Hills Limited

ABN 35 007 573 417

Annual report

for the year ended 30 June 2016

Hills Limited ABN 35 007 573 417
Annual report - 30 June 2016

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Shareholders' Letter

Dear Shareholders,

There is no doubt that a lot has happened in the past 12 months and that this period has been crucial in the long history of our Company. We think it's worth reflecting on some of the key milestones as we've worked through the past 12 months:

September 2015 – Letter to Shareholders

We explained the strategic imperatives behind the decision to transform our Company from a conglomerate dependent upon low margin, capital intensive steel fabrication to a higher margin value-added distributor of security, Audio Visual (AV) and Health technology products and services. This was achieved by:

- exiting capital intensive manufacturing operations exposed to competition from low cost products;
- exiting Joint Ventures reliant on only one or two customers;
- reducing foreign exchange exposure;
- reducing occupational health and safety liabilities; and
- utilising the funds from the sale of assets to pay down debt and give our Company a sound balance sheet.

Whilst the transformation and restructure programme was critical for the long term future of the Company, it was not a smooth process. We explained that the next phase of our journey was to stabilise the business, consolidate and then grow.

November 2015 – at the Annual General Meeting

We outlined the key focus for FY2016 which was to stabilise the business through a "Back to Basics" program by:

- changing the management team to focus on consolidating and growing the businesses in Australia and New Zealand;
- progressively replacing revenue foregone from Crestron (following their decision to move to a direct distribution model globally), with new suppliers including Tyco, Vivotek and Ipsotek;
- building a deeper and stronger sales pipeline;
- improving margins; and
- further reducing the Company's cost base.

February 2016 – FY2016 First Half Results announcement

We announced the first half EBITDA of $5.4million which was better than expected at the time of the November AGM. We reported a net debt position of $38.5million as at 31 December 2015 and set our outlook for the full year FY2016 with the expectation that second half EBITDA would be higher than the first.

Shareholders' Letter (continued)

August 2016 – FY2016 Full Year Results announcement

Statutory reported results

The net loss after tax for the full year FY2016 of $68.3million reflects the impairments of goodwill, intangible assets, deferred tax assets and freehold property already recognised in the first half of the financial year. Revenue and EBITDA in FY2015 included certain business operations that have ceased or were disposed of, the Home Division as a trading business before it was converted to a brand licensing arrangement and Crestron sales (Crestron moved to a global direct model in FY2015).

Improving trading EBITDA results

We are pleased to report that our full year FY2016 EBITDA result of $11.7million is 8.3% higher than the guidance number we had provided at the first half results announcement. As you will see in the Review of Operations section of the Directors' report, our key Building Technologies Segment showed an improvement in both Revenue and EBITDA for the second half, while the Hills Health Solutions Segment went from an EBITDA loss of $0.1million at the end of the first half of FY2016 to an EBITDA profit of $1.4million in the second half. These are further evidence of our "Back to Basics" business stabilisation program, as discussed at the AGM, delivering improvements to our trading results.

Reduced net debt

Hills net debt at the end of FY2016 was $24.2million – a significant $14.3million reduction from the net debt position at 31 December 2015.

The Company's long term financing facilities were updated in May 2016 and now comprise:

- a $36 million, 5-year debtor finance facility originated through Assetsecure; and
- a $15 million, multi-tranche senior secured debt facility from the Commonwealth Bank of Australia ($10million for 18months and $5 million for 12 months). The $5million 12-month tranche has since been repaid and cancelled.

Hills' new long-term facilities are a better fit-for-purpose for the Company both in terms of their size and nature.

Reduced working capital

The net debt reduction was driven for the most part by a substantial decrease in our investment in working capital which was very pleasing given the increased attention given to this dimension of the business this year. Inventory in particular has been a key focus during the financial year with the Inventory holding reducing by $16.8 million from $72.4 million at 30 June 2015 to $55.6 million at 30 June 2016.

Improved operating cash flows

Cash generated from operating activities for FY2016 was an inflow of $9.4 million. This was a $22.4 million improvement from the FY2015 outflow of $13 million. The excellent turnaround in operating cash flow is calculated after the payout of $10.3 million in legacy restructure provisions in FY2016 ($12.5 million in FY2015). These payments cover warranty costs, make-good provisions, onerous lease costs, redundancy and restructuring costs resulting from the sale of steel and industrial assets in prior years. The remaining provision payouts for FY2017 will be approximately $3million. This will result in a marked improvement in Hills' cash flow in FY2017.

Shareholders' Letter (continued)

August 2016 – FY2016 Full Year Results announcement (continued)

Dividends

The Directors have agreed that the Company is not in a position to pay a final dividend in respect of financial year FY2016.

FY2017 Outlook: From "Back to Basics" to "Back to Growth"

Significant energy continues to be directed to the following areas:

- Customer engagement;
- Vendor relationships;
- Training our people;
- Tight capital management;
- Margin improvement; and
- Growing our existing businesses.

The Company will start to move beyond the recent stabilisation phase and focus on growth opportunities in FY2017 and beyond.

Yours sincerely

Jennifer Hill-Ling
Chairman

Grant Logan
Chief Executive Officer

Hills Limited
Directors' report
30 June 2016

The Directors present their report on the consolidated entity (referred to hereafter as Hills or the Company) consisting of Hills Limited and the entities it controlled at the end of, or during, the year ended 30 June 2016 (FY2016), and the independent auditor's report thereon.

Directors

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

Jennifer Helen Hill-Ling
Fiona Rosalyn Vivienne Bennett
Philip Bullock
Ian Elliot
David Moray Spence

Principal activities

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

Review of operations

Statutory Result Overview

The Company recorded a net loss after tax attributable to owners of $68.305 million for the year ended 30 June 2016. This loss reflects the Company's results post the after tax impact of asset impairments, including the de-recognition of deferred tax assets, costs of acquisitions and other associated gains or losses on the disposal of businesses as previously advised to the market. As part of the impairment process, Hills de-recognised $20.262 million of deferred tax assets during the financial year. Notwithstanding the accounting de-recognition, these tax benefits will continue to be available to be used to offset future taxable earnings in Hills tax returns going forward.

The Company's underlying FY2016 result was a loss of $0.775 million (note that this is a non IFRS measure and is not subject to audit or review).

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

	2016 $'000	2015 $'000
Net loss after tax attributable to the owners of the Company	**(68,305)**	(85,947)
Items not considered part of underlying profit[1]	**67,530**	96,992
Underlying net (loss) / profit after tax for the year attributable to the owners of the Company	**(775)**	11,045

Revenue and profits in FY2015 included certain business operations that have ceased or were disposed of, the Home Division as a trading business before it was converted to a brand licensing arrangement and Crestron sales (Crestron moved to a global direct model in FY2015).

[1] Underlying net (loss) / profit has been calculated after adjusting the (loss) / profit attributable to the ordinary equity holders of the Company for the impact of asset impairments, de-recognition of deferred tax assets relating to tax losses and other temporary differences, costs of acquisitions, other associated gains or losses on the disposal of businesses and other restructure and closure costs. Underlying (loss) / profit is a non-IFRS measure used by the Company which is relevant because it is consistent with the 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.

Review of operations (continued)

Description of Segments

Hills currently has the following reportable segments with the following summaries describing the operations of the Company's reportable segments:

Hills Building Technologies	Value added distributor of 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 and amplifiers.
Hills Health Solutions	Comprising the supply and installation of health technology solutions, Nursecall and patient entertainment systems to hospitals, aged care facilities and similar institutions.
Home	Comprising the Hills Home Living business. The Hills Heritage brand was licensed to Woolworths Limited for a period of 7 years from December 2014, extendable to 19 years. This converted the original manufacturing and distribution business that included products such as garden sprayers and clothes lines into a brand licensing annuity stream.
Corporate	Comprising the costs of running Hills' Corporate, Compliance and Shared Services functions.

Review of Operations by Reportable Segment – showing half on half results

Revenue (A$M)	2HFY16	1HFY16	FY2016	2HFY15	1HFY15	FY2015
Building Technologies	147.1	146.9	294.0	182.9	165.5	348.4
Health	15.8	15.5	31.3	15.9	17.6	33.5
Home	1.0	1.0	2.0	16.5	27.3	43.8
Corporate	0.8	0.8	1.6	1.6	1.6	3.1
Segment Revenue	**164.7**	**164.2**	**328.9**	**216.8**	**212.0**	**428.8**

EBITDA (A$M)	2HFY16	1HFY16	FY2016	2HFY15	1HFY15	FY2015
Building Technologies	6.2	5.9	12.1	11.9	14.9	26.8
Health	1.4	(0.1)	1.3	0.6	3.5	4.1
Home	0.9	0.9	1.8	0.4	6.0	6.4
Corporate	(2.0)	(1.5)	(3.5)	(4.3)	(4.0)	(8.3)
Segment EBITDA	**6.5**	**5.2**	**11.7**	**8.6**	**20.4**	**29.0**

The tables above show the operating segment results by half with reference to the full year Segmental Information (note 1 of the Consolidated Financial Statements) and the half year Segmental Information (note 2 of the first half Interim Financial Statements).

Earnings before interest, tax, depreciation and amortisation (EBITDA) is the profit measure used by the business in assessing operational performance as discussed in note 1 to the Consolidated Financial Statements.

Review of Operations (continued)

Review of Operations by Reportable Segment (continued)

Hills Building Technologies Segment

Security and CCTV Practice

Provides Australia and New Zealand with leading security, CCTV and IT solutions to protect homes, businesses and places where large crowds may gather, such as at sporting events, entertainment facilities, shopping centres and other public gatherings.

Product offering includes:

- Integrated access
- Card access
- Intruder alert
- Cameras
- Home hub
- Locks
- Analytics software

Competitive advantage comes from:

Vendor Relationships	Long term vendor relationships allow the business to provide its customers with access to the largest Security Product Portfolio in the industry
Customer Relationships	The business adds value for its customers by providing them with a full "solution" to their security needs - Hills is a market-leading "one stop shop". This includes pre and post installation service
Expert Resources	The business has invested in a dedicated and highly experienced team of security experts across Australia & New Zealand covering sales and technical support
Geographic Footprint	The business has the largest national footprint in Australia and New Zealand making its solutions accessible for its customers
Size	Companies like dealing with the business because it has high levels of governance, ability to extend credit and it has sophisticated systems and processes

Audio Visual Practice

Provides businesses in Australia and New Zealand with the next generation of audio visual and lighting technology for homes, businesses, sporting and entertainment venues.

Product offering includes:

- Microphones
- LCD Displays
- Projectors
- Hearing Augmentation

Competitive advantage comes from:

Vendor Relationships	Long term vendor relationships allow the business to provide its customers with access to the largest AV Product Portfolio in the industry
Customer Relationships	The business adds value for its customers by providing them with a full "solution" to their security needs - Hills is a market-leading "one stop shop". This includes pre and post installation service
Expert Resources	The business has invested in a dedicated and highly experienced team of Audio Visual experts across Australia & New Zealand covering sales and technical support
Geographic Footprint	The business has the largest national footprint in Australia and New Zealand making our solutions accessible for its customers
Size	Companies like dealing with the business because it has high levels of governance, ability to extend credit and it has sophisticated systems and processes

Review of Operations (continued)

Review of Operations by Reportable Segment (continued)

Building Technologies Segment (continued)

Communications & Satellite Practice
Provides Australian and New Zealand consumers and businesses with communication solutions whether they are in the city or the outback. Hills delivers technology and equipment to enable television viewing in homes, stadiums, hotels, offices and more, all around Australia and New Zealand.

Product offering includes:
- Antenna
- Set top boxes
- Digital TV Systems
- Professional Services
- Installations

Competitive advantage comes from:

Service Model	The business has a unique service model – it is able to harness large teams of installers to service high volume contracts such as wireless and satellite rollout on behalf of NBN or satellite dishes for Foxtel
Local Manufacture	Nimble local manufacture of antennas and satellite dishes and consumables
Intellectual	Well-respected product with patent protection
R&D	A small R&D team making sure the business's products evolve and keep ahead of competitors

Segment performance

During the prior financial year Crestron, the Company's largest single supplier, advised that they were establishing a local Australian presence with effect from FY2016 and accordingly the Company's long term vendor agreement came to an end. At the same time, Hills secured distribution rights to Tyco's complete range of security products for businesses, retailers and homes including access control systems, electronic identification tags and video surveillance systems. Hills has replaced Tyco's previous local distributors on a phased basis during FY2016. It was anticipated that Tyco and other new distribution arrangements would replace the lost revenue and margin of Crestron in FY2016 and FY2017 but this is taking longer than initially expected.

Building Technologies is a distributor and as such the winning and losing of supply agreements is part of its ordinary business. The Segment achieved significant contract wins within key areas of airports, higher education and correctional facilities. The successful contracts include:

- Supply of Ruckus Wi-Fi networks at Western Sydney University in partnership with Big Air Group Limited;
- Supply of Genetec unified IP security solutions at Auckland International Airport with Datacom NZ;
- The supply of L-Acoustics speakers to Novatech in South Australia and Power Audio in Victoria;
- Upgrade of the acoustics solutions in lecture theatres at Newcastle University in conjunction with Soundcorp; and
- Supply of Genetec unified IP security solutions at Sydney Trains with Indra Australia

As a value added distributor, Hills continually refreshes its product range by partnering with leading edge vendors. Hills has recently added Community Sound and Cadac to its suite of vendors and ceased its distribution arrangement with Biamp.

Building Technologies revenue and EBITDA decreased in FY2016 relative to FY2015 driven by certain discontinued business operations in FY2015, Crestron deciding to take the global distribution of their product back to a direct model for the full year FY2016, however the second half Revenue and EBITDA both increased over the first half showing the "Back to Basics" program gaining traction.

Review of Operations (continued)

Review of Operations by Reportable Segment (continued)

Hills Health Solutions Segment

Hills Health Solutions (HHS) is a market leader and comprises the supply of nurse call, patient infotainment and other related solutions including security, Wi-Fi and telephony to the health and aged care sectors. The strategic licencing agreement between HHS and Ireland and US-based Lincor Solutions, a global leader in patient engagement technology and clinical access platforms, assisted Hills in securing the installation of state-of-the-art systems at significant hospital developments including the New Royal Adelaide Hospital and Blacktown Hospital.

Following disappointing results in FY2015, a new management team was put in place and HHS had a clear strategic vision focussed on:

- sales and costs to bring the business back to profit
- optimising the product and services portfolio
- ensuring the go to market model was appropriate; and
- operational excellence and quality.

There has been a significant turnaround in the Hills Health Solutions Segment with EBITDA increasing from a loss of $0.1million at the first half of FY2016, to a profit of $1.4 million in the second half of FY2016.

Home Segment

Following a period of unstable and declining profitability, Hills entered into a strategic relationship with Woolworths Limited from December 2014 to licence the Hills Heritage brand, converting the original manufacturing and distribution business into an annuity business. Under the terms of the agreement, Hills receives income from the use of the brand and intellectual property by way of a minimum annual licencing fee of $2million per annum for a minimum of 7 years, starting from December 2014 (extendable for up to 19 years). Home revenues decreased from FY2015 to FY2016 due to the Segment converting from an operational business making sales in FY2015 to the guaranteed licensing arrangement from the second half of FY2015.

The Home Segment reported an EBITDA of $1.8 million for FY2016 in line with the above (after the ongoing expensing of certain small initial deal costs).

Corporate Segment

Hills Corporate Segment includes the costs of running Hills Corporate, Compliance and Shared Services functions. In prior periods, this cost pool was directly recharged or allocated to all of Hills operating segments in whole or in part, including those segments that have since been disposed of (e.g. Steel). In some cases, the Company also entered into transitional services agreements (TSAs) as part of the sale of its legacy businesses whereby Hills Corporate Centre continued to deliver back office services for the new owners of these businesses for a service fee. As these TSAs with buyers of legacy businesses conclude, the corporate costs that would otherwise remain within Hills ongoing operations are being reduced.

Net Corporate EBITDA costs for FY2016 were $3.5million, down $4.8million from FY2015 (net cost of $8.3million). The second half of FY2016 showed a small increase of $0.5million related to the conclusion of the Company's last remaining TSA income arrangement on its legacy Steel business. The business is continuing to seek cost reductions for this segment including through the further flattening of the organisation structure.

Reduced net debt

Hills net debt at the end of FY2016 was $24.2million – a significant $14.3million reduction from the net debt position at 31 December 2015.

The Company's long term financing facilities were updated in May 2016 and now comprise:

- a $36 million, 5-year debtor finance facility originated through Assetsecure; and
- a $15 million, multi-tranche senior secured debt facility from the Commonwealth Bank of Australia ($10million for 18months and $5 million for 12 months). The $5million 12-month tranche has since been repaid and cancelled.

Hills' new long-term facilities are a better fit-for-purpose for the Company both in terms of their size and nature.

Review of Operations (continued)

Reduced working capital

The net debt reduction was driven for the most part by a substantial decrease in investment in working capital which was very pleasing given the increased attention given to this dimension of the business this year. Inventory in particular has been a key focus during the financial year with the Inventory holding reducing by $16.8m from $72.4m at 30 June 2015 to $55.6m at 30 June 2016.

Improved operating cash flows

Cash generated from operating activities for FY2016 was a positive $9.4million. This was a $22.4million improvement from the FY2015 outflow of $13million. It is important to highlight that the excellent turnaround in operating cash flow is calculated after having paid out $10.3million in legacy restructure provisions in FY2016 ($12.5million in FY2015). These provision payouts have covered things like warranty costs, make-good provisions, onerous lease costs, redundancy and restructuring cost payouts. These costs have been a legacy of the exit by Hills of the Steel and industrial businesses and these are now coming to an end. In FY2017, it is expected that the remaining restructure provision payouts will be approximately $3million in the first half and these then essentially phase out to immaterial amounts beyond that point. This will generate a marked improvement in Hills' ongoing normal operating cash generation going forward.

Outlook: From "Back to Basics" to "Back to Growth"

Significant energy continues to be directed to the following areas:

- Customer engagement;
- Vendor relationships;
- Training our people;
- Tight capital management;
- Margin improvement; and
- Growing Hills' existing businesses.

The Company will start to move beyond the recent stabilisation phase and focus on growth opportunities in FY2017 and beyond.

Subsequent Events

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Dividends

Year ended 30 June 2016	No dividends were paid during the year and no final dividend has been declared.
Year ended 30 June 2015	Fully franked dividends (based on tax paid at 30%) were paid on the follow dates: ▪ 26 September 2014: $8.400 million (3.6 cents per fully paid share) ▪ 30 April 2015: $4.872 million (2.1 cents per fully paid share) A final dividend was not declared for the year.

For more information regarding dividends please refer to note 16 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.

Information on Directors

Name	Details
Jennifer Helen Hill-Ling **LLB (Adel) FAICD** *Chairman* *Non-Independent* *Non-Executive Director* *Age 54*	*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 last 3 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* 18,146,677 ordinary shares in Hills Limited (including 1,188,918 shares owned by Hills Associates Limited and Poplar Pty Ltd (jointly held) and 16,768,441 shares owned by Hills Associates Limited of which JH Hill-Ling is a Director). Nil options over ordinary shares in Hills Limited.
Fiona Rosalyn Vivienne Bennett **BA (Hons) FCA FAICD FAIM** *Independent* *Non-Executive Director* *Age 60*	*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 Beach Energy Limited (since November 2012) *Former listed company directorships in last 3 years* Director of Boom Logistics Limited (retired in June 2015) *Special responsibilities* Chairman of the Audit, Risk and Compliance Committee. *Interests in shares and options at the date of this report* 88,444 ordinary shares in Hills Limited. Nil options over ordinary shares in Hills Limited.

Information on Directors (continued)

Name	Details
Philip Bullock **BA, MBA, GAICD, Dip. Ed.** *Independent Non-Executive Director* *Age 63*	*Experience and expertise* Appointed non-executive Director on 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, and formerly of CSG Limited and 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) *Former listed company directorships in last 3 years* Non-executive Director of CSG Limited (August 2009 to November 2015). *Special responsibilities* Chairman of the Remuneration Committee; Member of the Audit, Risk and Compliance Committee and Member of the Nomination Committee *Interests in shares and options at the date of this report* 100,000 ordinary shares in Hills Limited. Nil options over ordinary shares in Hills Limited.
Ian Elliot **FAICD** *Independent Non-Executive Director* *Age 62*	*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 icon brands. Mr Elliot is a fellow of the Australian Institute of Company Directors and graduate of the Harvard Business School Advanced Management Program. In addition to his listed company directorships he was formerly Chairman of Zenith Media Pty Ltd, Cordiant Communications Group, Allied Brands Limited, Promentum Limited and Artist & Entertainment Group Limited and Chairman and Chief Executive Officer (CEO) of George Patterson Advertising and director of the National Australia Day Council. *Other current listed company directorships* Director of Salmat Limited (since 2005) Director of McMillan Shakespeare Limited (since May 2014) *Former listed company directorships in last 3 years* None. *Special responsibilities* Chairman of the Nomination Committee; Member of the Remuneration Committee. *Interests in shares and options at the date of this report* 51,735 ordinary shares in Hills Limited. Nil options over ordinary shares in Hills Limited.

Information on Directors (continued)

Name	Details
David Moray Spence **BCom** *Independent Non-Executive Director* *Age 64*	*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 Limited (since June 2010) Director of SAI Global (since October 2013) **Former listed company directorships in last 3 years** None. *Special responsibilities* Member of the Remuneration Committee; Member of the Audit, Risk and Compliance Committee. *Interests in shares and options at the date of this report* 442,272 ordinary shares in Hills Limited. Nil options over ordinary shares in Hills Limited.

Company Secretary

Gai Stephens BEC, LLB, LLM, GAICD, FCA, FTIA, FGIA *Company Secretary*

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

As Company Secretary, Ms Stephens is responsible for all of the legal and compliance matters 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 numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2016, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Audit, Risk and Compliance Committee		Nomination Committee		Remuneration Committee	
	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended
J Hill-Ling	19	19	-	-	1	1	3	3
F Bennett	19	17	6	6	-	-	-	-
P Bullock[2]	19	18	6	6	1	1	1	1
I Elliot	19	13	-	-	1	1	3	3
D Spence	19	14	6	5	-	-	3	3

[1] Number of meetings held during period that the Director held office or was a member of the committee during the year
[2] Mr Philip Bullock joined the Remuneration Committee on 22 February 2016

Letter from the Chairman of the Remuneration Committee

Dear Shareholders,

On behalf of your Board, I am pleased to present Hills' FY2016 Remuneration Report which sets out remuneration information for the Chief Executive Officer (CEO), the Key Management Personnel (KMP), the Non-Executive Directors and the broader employee group.

In May 2015 the Board reconfirmed its focus on the domestic market and the technology value-added distribution and health sectors with the appointment of a new CEO, Grant Logan, and the adoption of our "Back to Basics" program. These actions were designed to stabilize our business, rebuild confidence by our suppliers and customers and set Hills on a path for growth beyond FY2016.

Given that we had already gone through a number of years of restructuring, we knew that the road ahead would be challenging for our people. In light of this we attempted to ensure that we targeted our remuneration actions in a manner which complemented our "Back to Basics program", was cognizant of the financial position of the Company, while keeping in mind our desire for growth post FY2016.

FY2016 remuneration outcomes

Let us first turn to the broader population. Given the restructuring that Hills had undergone and the current state of the businesses, we believed that we could not afford to retain some of the existing cost structures. Hence as of 1 July 2015, Hills employed approximately 734 FTE and by 30 June 2016, this had been reduced to 673 (as per the May 16 update to market). In addition, the number of staff earning over $150,000 was reduced from 64 to 39. Reducing staff numbers is never easy, it can be emotionally draining, but in this case, it was an essential part of helping position Hills for future growth.

At the same time, we needed to recognize that those remaining, needed to continue to enhance our client and supplier relationships. With this in mind, we budgeted for an overall increase in employee salaries by between 2.0% - 3% for FY2016. However, the focus for this increase was those employees earning less than $150K fixed remuneration, in fact there were no increases for employees over $150K, subject to any changes of responsibilities. In addition, and to support the business transformation we have implemented or continued with several employee benefits such as:

- The monthly Hills Heroes Customer Service Awards for each region and state to reward and recognise our staff that provide exemplary customer service.
- Re-signed with AssurePrograms to provide manager support and employees assistance programs that are confidential and available for work and personal related issues for employees and their immediate families.
- Introduced "Purchase Leave" to provide employees with greater flexibility to manage family and personal responsibilities.

CEO remuneration

Grant Logan, our CEO, was tasked to help manage and lead our "Back to Basics" program, as well as oversee the renewal of our financing arrangements. His compensation and contract details were provided at the time of his appointment and can be found in:

http://corporate.hills.com.au/getattachment/ee581d11-ada8-4289-9414-2504de630c43/Appointment-of-a-new-Chief-Executive-Officer

Actual earnings are detailed in the Statutory Remuneration tables below. We are very grateful to Grant for the way he has led the team, in a difficult 12 months.

Remuneration of Key Management Personnel (KMPs)

As outlined in last year's Remuneration Report, the compensation of our KMP was typically made up of:

- Base Pay (including Superannuation)
- Short Term Incentives (STI)
- Long Term Incentives (LTI)

Letter from the Chairman of the Remuneration Committee (continued)

Given the restructuring of the Company during this transition phase, it was agreed to suspend the LTI for all KMPs and instead focus our executives via targeted incentives which were critical for the FY2016 business. At the same time, we needed to be mindful to balance the financial performance of the Company with the Variable Pay outcomes of the executives.

For FY2016, our executives' Variable Pay pool totalled $0.835 million (primarily to be delivered through Short Term Incentives). For FY2016, Hills will pay its KMPs $0.161 million or 19% of the Variable Pay Pool. This performance reflects the challenging nature of the year, but also has rewarded key executives for their contributions. Without the attention and focus of our executive team, Hills could not have progressed our turnaround. Actual amounts paid can be found in the Statutory Remunerations tables below.

The focus on being targeted and attempting to build compensation structures consistent with a company the size of Hills, also led to a review of Non-Executive Director compensation. As a result, all Non-Executive Director salaries were reduced by 20% effective 1 May 2015.

Future remuneration strategies

As we move to complete our "Back to Basics" program, we need to ensure that we have in place a remuneration structure which supports the ongoing sustainability and future growth of Hills. This is particularly valid for the leadership team who will drive this next phase of our growth. Hence the focus of this section will be our key executives. For completeness, with regard to the broader employee population, we have budgeted for salary increases of 2% to be distributed on merit, with a focus again on those earning less than $150,000. In addition, there are no plans for any changes to non-executive director salaries.

In reviewing our executive compensation scheme, we wanted to ensure that:

- Any plan strongly supported the Hills business strategy; and
- was considered fair and equitable by both executives and shareholders.

Today a majority of listed companies in Australia operate on an executive KMP/CEO compensation scheme which is based upon:

Base salary	What I get for coming to work
STI	What I get for achieving my annual plan – both financial and non-financial
LTI	What I get if the Company does well over the next 3-4 years, normally based on earnings per share (EPS) or relative Total Shareholder Returns (TSR) hurdles

Given that the average CEO has a tenure of 3-5 years, by the time they may be eligible for a LTI they are close to the end of their term. Earnings per share, while being an important focus, may lead to some decisions regarding investments which may not be in the longer term interests of the Company. In addition, TSR relativity for companies such as Hills is problematic as it is difficult to find suitable comparable organizations. Hence the value of the LTI component is often discounted by the executives and in some cases Base Pay and STI payments may be increased to compensate for non-payment of LTI and it does not always lead to executives holding significant shares in their company, thus reducing alignment with shareholders.

For these and other reasons, Boards are seeking alternatives.

For our part, we believe that shareholder and executives are best aligned when executives are also significant shareholders and the "rise and fall" of the Hills share price will impact the earnings of the leadership team.

In the Hills model, an executive will receive:

Base Pay	consistent with the market
Variable Pay	made up of cash and shares, paid annually

At the end of each year, an executive's performance is assessed based upon financial and non-financial criteria. The executive is then paid an amount with 50% cash and 50% in shares which vest over three years.

Given that this type of package is relatively new, I will spend a little more time stepping through how we plan to implement the new plan and how it supports the business strategy and aligns to the interests of both executives and shareholders.

Letter from the Chairman of the Remuneration Committee (continued)

Future remuneration strategies (continued)

If we were to consider the example of a future Executive, the package may be in the range of:

Base Pay	$250,000 - $350,000 including superannuation
Variable Pay	$100,000 - $200,000

The first item to note that the "at risk" portion of the compensation is a sizeable amount.

At the start of each year the Board approves the 3-year outlook and strategy for the Company and the annual budget. This forms the basis for setting the annual objectives for the Variable part of the compensation plan.

The annual objectives for the Variable Pay are similar to those for an "STI" type package, but are heavily weighted to financial items, such as outlined below.

Financial 70% Target Based upon agreed FY2017 Budget	Achieve net profit after tax (NPAT)
	Achieve net operating positive cash flow
	Achieve days sales outstanding (DSO) / Inventory days
Non-Financial 30% Target	Achieve an agreed Employee Engagement Score
	Demonstrate Quarterly Business Plans with Top 10 Suppliers and Customers

Following the conclusion of each financial year the Executive is assessed based upon the audited results of the Company and rewarded according to the achievement against the objectives. The overall Variable Pay compensation is capped at 175% of targeted remuneration.

The amount of Variable Pay is calculated and 50% is to be paid in cash and 50% to be paid in Hills Shares, on or around 1 Oct. The share value is determined by the 30 day volume weighted average price (VWAP) following release of the annual audited results. For example, if the Executive was to receive $90,000 in equity and the 30 day VWAP was $0.30 then he would receive 300,000 Hills performance rights, which would convert to ordinary shares upon vesting.

The shares will then vest over three years. Given that this is a new plan for our executives and to fast track the amount of equity they will have in the Company we have decided to set the vesting periods as follows:

20%	vest after one year
30%	vest after two years
50%	vest after three years

On vesting, the shares will either be purchased on market or be a fresh issue of shares. The Company will make this determination based on cash flow and capital management consideration.

During this 3-year period any dividends paid by the Company would be provided to the employee.

If an employee resigns (or is dismissed) prior to vesting, then they forfeit the shares that have not vested. If an employee retires or due to ill-health, leaves the business, then they will receive the shares as they vest.

Within 3-5 years, executives would be expected to hold:

CEO	1.0 to 1.5 times Base Pay
Other Executives	0.5 times Base Pay

As you can appreciate, this plan closely aligns the Variable Pay to the outcomes of the Company. We have chosen to heavily weight the financial outcomes at this stage, as this aligns closely with the milestones we have set ourselves for the Company and should drive enhanced shareholder returns. The accumulation of shares by our executives is also an important element. As you

Letter from the Chairman of the Remuneration Committee (continued)

can see from the example, our KMPs should soon establish a sizeable portfolio of Hills shares and will benefit, along with our shareholders, in any increase in share price and payment of dividends.

Thank you for taking the time to review the FY2016 Remuneration Report. It has been a challenging period, yet the Board does feel confident that the new Hills remuneration program will strongly support our business strategy, while better aligning to our shareholders' interests and driving the leadership behaviours that we need to build a more sustainable company for the future and improved shareholder value.

Philip Bullock

Philip Bullock
Chairman
Remuneration Committee

Remuneration report (audited)

This Remuneration Report explains Hills' approach to executive remuneration, performance and remuneration outcomes for Hills and its KMP for the year ended 30 June 2016 (FY2016). 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	Key Management Personnel
2	Remuneration Governance
3	Executive Remuneration
4	Executive Contracts and Termination Arrangements
5	Five Year Snapshot - Business and Remuneration Outcomes
6	Statutory Remuneration Tables
7	Non-Executive Directors' Remuneration
8	Equity Instrument Disclosures Relating to Key Management Personnel

1 Key Management Personnel

KMP encompasses all Directors, as well as those senior executives who had specific responsibility for planning, directing and controlling material activities of Hills during FY2016.

List of Key Management Personnel

Directors	
J Hill-Ling	Chairman, Non-Independent and Non-Executive Director
F Bennett	Independent, Non-Executive Director
P Bullock	Independent, Non-Executive Director
I Elliot	Independent, Non-Executive Director
D Spence	Independent, Non-Executive Director

Senior Executives	
G Logan	Chief Executive Officer
G Turner	Chief Financial Officer
D Lenz[1]	Chief Operating Officer
D McKim-Smith[2]	General Manager – Hills Health Solutions
G Stephens[3]	Company Secretary and Head of Legal and Risk

[1] D Lenz was a KMP for the full financial year, as the head of the Technologies business until 13 April 2016 and as Chief Operating Officer thereafter
[2] D McKim-Smith commenced as General Manager – Hills Health Solutions on 30 November 2015
[3] G Stephens was a KMP for the full financial year

Remuneration report – audited (continued)

2 Remuneration governance

2.1 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: Philip Bullock (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 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 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.corporate.hills.com.au/about-us/governance.

2.2 Use of independent remuneration consultants

In accordance with the Remuneration Committee Charter, the Remuneration Committee seeks advice and market data from independent remuneration consultants as required.

During the year no advisors were retained.

2.3 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.corporate.hills.com.au/about-us/governance.

2.4 Hills Clawback Policy

To strengthen the governance of the remuneration strategy, Hills has an executive remuneration Clawback Policy in place. 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 claw back incentives paid in relation to a material misstatement in Hills Financial Statements.

3 Executive remuneration

3.1 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 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 report – audited (continued)

3 Executive remuneration (continued)

3.1 Alignment of Remuneration Strategy with Business Strategy (continued)

Remuneration principles

The key principles on which the 2016 Hills remuneration strategy was based are:

Competitive	▪ Remuneration positioned at the appropriate level relative to the market to be competitive and attract, retain and reward employees
Equitable & Motivational	▪ Employees in similar roles, making similar contributions, with similar performance, received similar rewards ▪ Motivated employees to deliver business results ▪ Differentiated, but was fair and equitable in its application
Linked to Performance	▪ Directly linked individual and company performance to remuneration outcomes ▪ Employees understood what results needed to be achieved ▪ Provided an integrated remuneration and performance system framework
Aligned	▪ Aligned remuneration and incentive outcomes with business goals and results ▪ Supported the completion of the transformation and delivery of the growth strategy ▪ Stands up to external scrutiny
Straightforward	▪ Understood by all stakeholders and employees

Hills Business Strategy

Integrated solutions into trusted environments

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 which are aligned to the Strategic Settings.	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 delivery the corporate strategy.

Remuneration Framework & Policy

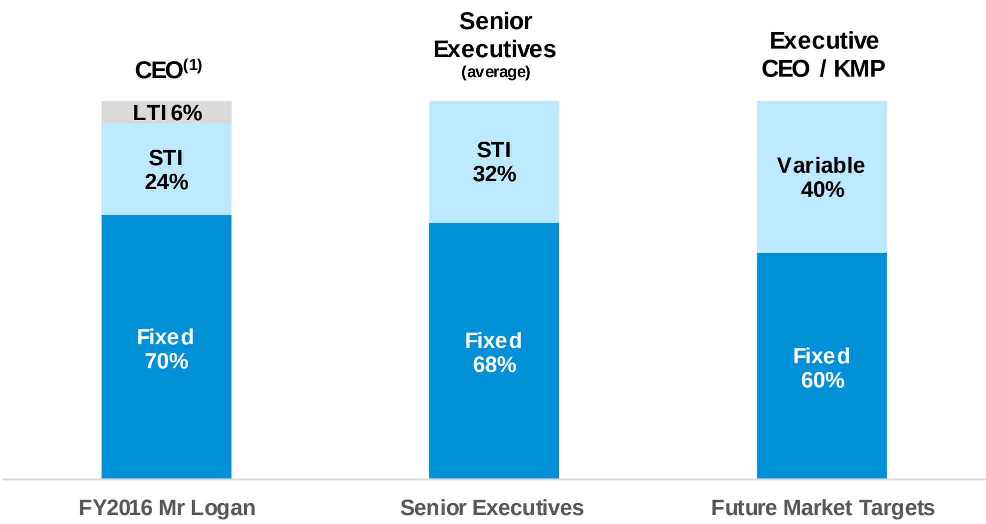
Fixed Remuneration	Short Term Incentive	Long Term Incentive
Set at levels to attract a senior executive team with the skills and experience required to successfully complete transformation and delivery of the corporate strategy.	Aligned to the achievement of Hills business objectives measured over the short term (12 months). Both financial and non-financial measures directly support achievement of the company's strategic settings.	Suspended during FY2016

Remuneration report – audited (continued)

3 Executive remuneration (continued)

3.2 Remuneration mix

Senior executive remuneration for 2016 was comprised of fixed remuneration (made up of base salary and superannuation) plus short term incentive (STI) and the long term incentive (LTI) was suspended. The following diagrams show the remuneration mix at target performance.



(1) Includes G Logan's cash based retention plan

Mr Logan received a retention bonus in lieu of an LTI. As outlined below in section 3.4, the reason for this bonus is historical and will not be replicated in future CEO's salary packages.

3.4 Chief Executive Officer remuneration (Mr Logan)

Mr Logan has a fixed remuneration of $825,000 per annum (inclusive of superannuation).

Fixed remuneration is reviewed annually by the Board with reference to performance of the Company, performance of the CEO and market information.

Retention Plan – Mr Logan prior to his appointment as Chief Executive Officer

In FY2013, the terms of employment of 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, given his in-depth knowledge of Hills and in order to drive future financial performance. Since this plan was introduced Mr Logan has moved from CFO to COO and to CEO. Through each of these roles it has been important to retain his services as the Company continues to evolve.

The plan provided a retention bonus of $75,000 per annum based only on service.

Short Term Incentive FY2016

Mr Logan had an STI opportunity of up to $300,000.

Given the significant changes that have occurred over the last 12 months the Board focussed the 'CEO's KPI's on the following items:

- Group Results
- Capital Management – New Banking Arrangements

Remuneration report – audited (continued)

3 Executive remuneration (continued)

3.5 Senior Executive Short Term Incentive FY2016

STI – how it worked

The STI is an at risk component of remuneration and is designed to reward performance against the achievement of KPIs, which are set annually.

As with the CEO, the Board took the opportunity to refocus performance around the following measures:

- Group Results
- Capital Management

Thus, Senior Executives' KPIs were aligned to the KPIs of the CEO.

The STI performance period was from 1 July 2015 to 30 June 2016.

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 3.6 as an absolute dollar amount and as a percentage of the Senior Executive's fixed remuneration.

The following table summarises the potential FY2016 STI payments where a senior executive ceases employment with Hills:

Resignation and retirement	Any entitlement to a payment is subject to the participant being employed by Hills at the time of payment.
Company initiated termination	Any entitlement to a payment would be for completed months, with no pro-rata for partly completed months where notice is given before 31 December. The calculation of an entitlement would be based on actual results for the year and paid on the scheduled date.
Summary dismissal	If summarily dismissed, a participant forfeits all rights to any payments under the FY2016 STI which had not already been made.

Assessment of performance and approval of payment

The Remuneration Committee assessed each individual Senior Executive's performance based on the CEO's recommendations, against the KPIs set at the beginning of the financial year. The assessment of individual performance was combined with the achievement of financial results to determine the amount of payment for each senior executive. The Remuneration Committee recommended the STI payment outcome to the Board for approval. Following approval by the Board, STI payments for FY2016 will be delivered as cash payments. Details of STI payments are provided in section 3.6.

3.6 FY2016 STI performance and outcomes

FY2016 has been a difficult year for the Company which is reflected in the STI plan results detailed in this report. A summary of Company performance compared to previous years is provided in section 5.

CEO STI Plan

The specific KPIs for FY2016 for the CEO are set out in the following table:

Objective	Link to strategy	Measurement	Weighting	Outcome
Group results	Financial measures which are drivers to achieving annual results	Measured by reference to financial and specified individual outcomes	67%	27%
Capital management	New banking arrangements in place	New banking arrangements in place	33%	33%

Remuneration report – audited (continued)

3 Executive remuneration (continued)

3.6 FY2016 STI performance and outcomes (continued)

The KPIs for the Senior Executives were aligned to the CEO's KPIs. The STIs received by the CEO and senior executives for FY2016 (if any) are set out in the following table:

	Target STI opportunity $	% of fixed remuneration	Actual STI outcome $	% Achieved	% Forfeited
G Logan	300,000	34%	45,000	15%	85%
G Turner	155,000	48%	60,000	39%	61%
D Lenz	150,000	50%	25,000	17%	83%
D McKim-Smith	80,000	39%	12,000	15%	85%
G Stephens	149,500	51%	18,688	13%	87%
TOTAL	**834,500**	**42%**	**160,688**	**19%**	**81%**

3.7 Long Term Incentive for the CEO

FY2016 Long Term Incentive

In FY2016, the LTI plan was suspended for the CEO.

3.8 FY2016 Long Term Incentive for Senior Executives

In FY2016, the LTI plan was suspended for senior executives.

The FY2015 LTI plan was designed to link senior executives to growth in long term shareholder wealth.

The Board selected the following performance hurdles for the FY2015 grant:

50%	vesting when the TSR is greater than the 50^{th} percentile of companies in the S&P/ASX Small ordinaries index (excluding companies identified by S&P as members of the materials, energy or financials sectors)
33.33%	vesting when the EPS is equal to a CAGR of 15%
16.67%	vesting when the EPS reaches a CAGR of 19.2% CAGR, with a linear vesting scale between 15% and 19.2%

The rights will vest after 3 years, subject to achievement of the above performance hurdles, but shares received from vested rights are required to be held for an additional year

3.9 FY2017 incentive design

As outlined in the letter from the Chairman of the Remuneration Committee, which is at the front of this report, your Board has assessed the most appropriate remuneration structure for the CEO and Senior Executives for Hills whilst in its "turnaround" phase.

For FY2017, the CEO and Senior Executives will receive:

Base pay	consistent with market benchmarks (including superannuation); and
Variable incentive	awarded in cash (50%) and equity (50%)

Remuneration report – audited (continued)

3 Executive remuneration (continued)

3.9 FY2017 incentive design (continued)

Variable Incentive Plan – FY2017

The Variable incentive for KMPs will be approximately 30% - 40% of Total Remuneration and will be dependent upon the satisfaction of KPIs. The KPIs will be set at the beginning of each year once the annual budget process is complete and the needs of the business for the following 12 months are clear. It is anticipated that the KPIs will be a combination of financial KPIs representing 70% and non-financial KPIs of 30%. These weightings may vary from year to year.

The cash component will be paid annually once the annual audited financial results are released. The equity will vest over three years:

20%	vest after one year
30%	vest after two years
50%	vest after three years

The amount of equity that will be awarded will be determined by 50% of the total Variable incentive divided by the Company's share price. The share price will be determined by the volume average weighted share price of the share price 30 days before issue and after the announcement of the full year results.

The equity will either be purchased on market or be a fresh issue of shares. The Company will make this determination based on cash flow and capital management considerations.

4 Executive contracts and termination arrangements

Employment contracts

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

Chief Executive Officer	▪ The contract for the Chief Executive Officer commenced on 27 May 2015 and will expire on 1 September 2016, with the ability for the parties to agree on an extension for a further term. The Chief Executive Officer's employment may be terminated by Hills giving six months' notice. ▪ The Chief Executive Officer may terminate his employment at any time by giving Hills six months' written notice.
Senior Executives	▪ The contracts may be terminated by either party on notice by giving 3 months' written notice. ▪ If a senior executive is retrenched there is no entitlement to contractual termination payments.
Chief Executive Officer and Senior Executives	▪ There is no guaranteed base pay increases included in any senior executive contract. ▪ In the instance of serious misconduct, Hills may terminate employment at any time. The executive will only receive payment to the date of termination and any statutory entitlements. ▪ Retirement benefits comprise employer contributions to defined contribution superannuation funds.

Remuneration report – audited (continued)

5 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 last five years.

Key Financials		FY2016	FY2015	FY2014	FY2013	FY2012
Underlying earnings before interest and tax[1]	$000	2,305	17,887	41,689	33,138	44,702
Shareholders' funds	$000	69,077	136,600	245,228	271,018	400,963
Underlying net (loss) / profit[1]	$000	(775)	11,045	27,277	19,201	28,822
Statutory net (loss) / profit	$000	(68,305)	(85,780)	26,387	(91,387)	28,822
Underlying Basic Earnings per Share[1]	cents	(0.3)	4.8	11.4	7.8	10.5
Dividends	cents	-	2.1	7.0	5.0	10.0
Share Price – as at 30 June	$	0.245	0.455	1.74	1.01	1.06
Short Term Incentive Payments – % of Target Opportunity	%	19%	4%	85%	87%	36%

[1] Underlying earnings before interest and tax, net (loss) / profit and basic earnings per share have been calculated after adjusting the (loss) / profit attributable to the ordinary equity holders of the Company for the impact of asset impairments, de-recognition of deferred tax assets relating to tax losses and other temporary differences, costs of acquisitions, other associated gains or losses on the disposal of businesses and other restructure and closure costs. Underlying (loss) / profit is a non-IFRS measure used by the Company which is relevant because it is consistent with the 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.

Remuneration report – audited (continued)

6 Statutory remuneration tables

6.1 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 (and not necessarily paid) in the Company's financial statements.

2016	Short-term employee benefits			Post-employment benefits	Long term benefits		
Name	Cash salary and fees $	Cash bonus $	Other $	Superannuation $	LSL & Cash based LTIP $	Performance rights $	Total $
Senior Executives							
G Logan	826,059	45,000	18,110	6,428	94,382	-	989,979
G Turner	288,044	60,000	6,529	23,889	3,907	2,183	384,552
D Lenz[1]	262,276	25,000	15,030	24,699	684	-	327,689
D McKim-Smith[2]	178,149	12,000	10,432	15,883	174	-	216,638
G Stephens[3]	263,401	18,688	-	25,607	3,905	3,567	315,168
Total Senior Executives Compensation	**1,817,929**	**160,688**	**50,101**	**96,506**	**103,052**	**5,750**	**2,234,026**

[1] D Lenz was a KMP for the full financial year, as the head of the Technologies business until 13 April 2016 and as Chief Operating Officer thereafter
[2] D McKim-Smith was appointed on 30 November 2015
[3] G Stephens was a KMP for the full financial year

Remuneration report – audited (continued)

6 Statutory remuneration tables (continued)

6.1 Senior Executive remuneration (continued)

2015	Short-term employee benefits			Post-employment benefits	Long term benefits		Share-based payments		
Name	Cash salary and fees $	Cash bonus $	Other $	Superannuation $	LSL & Cash based LTIP $	Termination benefits $	Performance rights $[1]	Shares $	Total $
Executive Director									
E Pretty[2]	848,435	-	5,418	35,121	-	900,000	(64,222)	-	1,724,752
Other Senior Executives									
G Logan[3]	529,002	45,000	16,948	19,696	83,422	-	-	-	694,068
G Turner[4]	117,636	19,947	8,993	10,128	-	-	728	-	157,432
L Ison[5]	461,225		11,122	31,384		28,100	-	-	531,831
B Newton[6]	270,753	-	15,902	15,688	-	-	-	-	302,343
Total Senior Executives Compensation	2,227,051	64,947	58,383	112,017	83,422	928,100	(63,494)	-	3,410,426

[1] The expense relating to unvested performance rights granted to key management personnel was reversed in the year as service conditions were not met.

[2] E Pretty ceased as Managing Director and Chief Executive Officer on 27 May 2015. $900,000 is shown as a termination benefit in accordance with the separation deed and calculated with reference to the notice period and restraint in his employment contract.

[3] G Logan ceased as Chief Financial Officer on 2 February 2015, and was promoted to Chief Operating Officer. He was promoted to Chief Executive Officer on 27 May 2015.

[4] G Turner became a KMP when he was promoted to Chief Financial Officer on 2 February 2015.

[5] L Ison ceased as Chief of Health, Innovation & Growth on 10 June 2015. $112,001 of her cash salary relates to a payment in lieu of notice.

[6] B Newton ceased as Chief Operating Officer on 5 February 2015.

Remuneration Report – audited (continued)

6 Statutory remuneration tables (continued)

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

The following table reflects the fixed remuneration, STI and LTI for FY2016 calculated in accordance with the accounting standards as a proportion of the total.

	Full Year Potential STI	Pro rata Potential STI	Actual STI payable $	Actual STI payable as % of full year potential STI	Actual STI payable as % of pro rata potential STI	STI payable as % of fixed remuner-ation
G Logan	$300,000	$300,000	$45,000	15%	15%	5%
G Turner	$155,000	$155,000	$60,000	39%	39%	19%
D Lenz	$150,000	$150,000	$25,000	17%	17%	8%
D McKim-Smith	$80,000	$46,667	$12,000	15%	26%	6%
G Stephens	$149,500	$149,500	$18,688	13%	13%	6%

The following table reflects the fixed remuneration, STI and LTI and total performance based remuneration for FY2016 calculated in accordance with the accounting standards as a proportion of the total remuneration.

	Fixed Remuneration %	At Risk / STI Paid or Payable %	Value of performance rights/cash LTI %	Total performance based %
G Logan	87%	5%	8%	13%
G Turner	83%	16%	1%	17%
D Lenz	92%	8%	0%	8%
D McKim-Smith	94%	6%	0%	6%
G Stephens	93%	6%	1%	7%

The following table shows the proportion weighting of each element of remuneration for each of the senior executives employed during FY2016 based on maximum potential outcome.

	Fixed remuneration %		Maximum STI %		Maximum LTI %	
	FY2016	FY2015	FY2016	FY2015	FY2016	FY2015
G Logan	70%	58%	24%	27%	6%	15%
G Turner	68%	66%	32%	27%	0%	7%
D Lenz	67%	-	33%	-	0%	-
D McKim-Smith	72%	-	28%	-	0%	-
G Stephens	65%	-	34%	-	1%	-

Remuneration Report – audited (continued)

6 Statutory remuneration tables (continued)

6.3 Details of share based compensation and bonuses

FY2015 LTI Plan

Senior Executives

The terms of the Senior Executive FY2015 LTI Plan granted on 27 February 2015 are as follows:

A 3-year performance period from 1 July 2014 to 30 June 2017 with the following hurdles:

50%	vesting if the TSR is greater than the 50th percentile of companies in the S&P/ASX Small ordinaries index (excluding companies identified by S&P as members of the materials, energy or financials sectors)
33.33%	vesting if the EPS is equal to a CAGR of 15%
16.67%	vesting if the EPS reaches a CAGR of 19.2% CAGR, with a linear vesting scale between 15% and 19.2%

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

The numbers of performance rights granted, vested and expired / forfeited in FY2016

	Performance Rights	Performance Rights Granted	Performance Rights Vested	Performance Rights Expired/	Balance
	1 July 2015				30 June 2016
G Logan[1]	-	-	-	-	-
G Turner	19,588	-	-	-	19,588
G Stephens	32,010	-	-	-	32,010

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 granted in FY2015 was:

Non-market hurdle: EPS	$0.77
Market hurdle: TSR	$0.52

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 29 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 senior executives are set out below. 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 29 to the financial statements.

[1] G Logan participates in a retention plan and is not eligible to participate in any LTI equity plan

Remuneration Report – audited (continued)

6 Statutory remuneration tables (continued)

6.3 Details of share based compensation and bonuses (continued)

The numbers and value of performance rights granted, vested and expired/forfeited in FY2016

			Fair value at grant date		Accounting value	
	Measure	Number of rights	$ per right	Total value $	Exercised during period $	Expired / forfeited $
G Turner	TSR	9,794	$0.52	$5,093	-	-
	EPS	9,794	$0.77	$7,541	-	-
G Stephens	TSR	16,005	$0.52	$8,323	-	-
	EPS	16,005	$0.77	$12,324	-	-

Shares issued on the exercise of options

No performance rights vested during FY2016. Therefore, 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.

7 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.

7.1 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 did not change in FY2016.

7.2 Directors' FY2016 fee structure

The following table outlines the main Board and Committee fees as at 30 June 2016.

	Chair fee $	Member fee $
Board	160,000	80,000
Audit and Risk Committee	16,000	8,000
Remuneration Committee	8,000	Nil
Nomination Committee	8,000	Nil

Remuneration Report – audited (continued)

7 Non-executive Directors' remuneration (continued)

7.3 Non-executive Directors' remuneration details

Non-Executive Directors	Year	Board and Committee fees $	Superannuation $	Total $
J Hill-Ling	**2016**	**146,119**	**13,881**	**160,000**
	2015	177,512	16,800	194,312
F Bennett	**2016**	**87,671**	**8,329**	**96,000**
	2015	106,507	10,080	116,587
P Bullock	**2016**	**82,507**	**8,312**	**90,820**
	2015	94,293	9,022	103,315
I Elliot	**2016**	**80,366**	**7,634**	**88,000**
	2015	97,632	9,240	106,872
D Spence	**2016**	**85,096**	**8,084**	**93,180**
	2015	106,507	10,080	116,587
TOTAL	**2016**	**481,759**	**46,241**	**528,000**
	2015	582,451	55,222	637,673

7.4 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 last three years) with a vesting period of eight years, which has been achieved. Since the scheme was discontinued, no new Directors have become entitled to any benefit and the benefit multiple (up to a maximum of two times fees) remains fixed. The benefit is fully provided for in the financial statements.

8 Equity instrument disclosures relating to Key Management Personnel

8.1 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 Company, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

During the year, and as announced at the 2015 AGM, the Company has introduced a policy requiring directors to hold a minimum number of shares. Specifically, directors are required to hold the equivalent of one year of directors fees in Hills shares to be achieved over a 3-year period.

2016 Directors of Hills Limited

	Ordinary shares			
	Balance at 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
J Hill-Ling	18,035,377	-	111,300	18,146,677
F Bennett	4,000	-	84,444	88,444
P Bullock	10,000	-	90,000	100,000
I Elliot	51,735	-	-	51,735
D Spence	300,000	-	142,272	442,272

Remuneration Report – audited (continued)

8 Equity instrument disclosures relating to Key Management Personnel (continued)

8.1 Share holdings (continued)

2016 Senior Executives of Hills Limited

	Ordinary shares			
	Balance at 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
G Logan	228,409	-	-	228,409
G Turner	50,000	-	-	50,000
G Stephens	150,000	-	861,408	1,011,408

8.2 Loans to Key Management Personnel

There were no outstanding loans to KMP or their related parties at the reporting date.

8.3 Other transactions with Key Management Personnel

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.

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

Environmental regulation

Manufacturing

Hills holds all required environmental licences, registrations and permits for its sole remaining manufacturing site in O'Sullivan's Beach in South Australia. No significant environmental incidents were reported over the 2015-16 financial year and Hills continued to meet or exceed the requirements specified in relevant licenses and authorisations.

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 established ongoing action plans aimed at optimising packaging design, material recovery, recycling and product stewardship. Hills remains supportive of the goals and initiatives of the APC and remains compliant following the submission of its annual report during March 2016.

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 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.

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.*

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:

	2016 **$**	2015 $
KPMG audit and non-audit services		
Audit and other assurance services		
KPMG Australia - audit and review of the financial statements	**343,375**	485,909
Overseas KPMG firms - audit and review of the financial statements	**39,951**	38,957
Total remuneration for audit and other assurance services	**383,326**	524,866
Taxation services		
KPMG Australia - taxation and other services	**76,239**	203,867
Overseas KPMG firms - taxation services	**11,605**	40,253
Total remuneration for taxation services	**87,844**	244,120
Other services		
Financial advisory services	**-**	397,534
Other consulting services	**8,342**	-
Total remuneration for other services	**8,342**	397,534
Total remuneration of KPMG	**479,512**	1,166,520

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 an entity to which the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* applies. Amounts have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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

Jennifer Helen Hill-Ling
Director

Philip Bullock
Director

Sydney
17 August 2016

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 2016 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

Scott Fleming
Partner

Adelaide

17 August 2016

Hills Limited ABN 35 007 573 417

Consolidated financial statements
for the year ended 30 June 2016

Contents

Hills Limited
Consolidated income statement
For the year ended 30 June 2016

	Notes	**2016 $'000**	2015 $'000
Continuing operations			
Revenue	2	**328,913**	428,822
Other income	3	**3,192**	4,323
		332,105	433,145
Expenses excluding net finance expenses	4	**(377,068)**	(488,101)
Loss before net finance expense and income tax		**(44,963)**	(54,956)
Finance income		**305**	200
Finance expenses		**(3,659)**	(3,236)
Net finance expenses	4	**(3,354)**	(3,036)
Loss before income tax		**(48,317)**	(57,992)
Income tax expense from continuing operations	5	**(19,988)**	(27,788)
Loss from continuing operations		**(68,305)**	(85,780)
Loss for the year		**(68,305)**	(85,780)
Loss is attributable to:			
Owners of Hills Limited		**(68,305)**	(85,947)
Non-controlling interests		**-**	167
		(68,305)	(85,780)
		Cents	Cents
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
Basic and diluted earnings per share	6	**(29.4)**	(37.0)

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

Hills Limited
Consolidated statement of comprehensive income
For the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Loss for the year		**(68,305)**	(85,780)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	15	**(113)**	1,127
Exchange differences on translation of foreign operations	15	**945**	(710)
Income tax relating to components of other comprehensive income	5	**34**	(338)
Other comprehensive income for the year that may be reclassified to profit or loss, net of tax		**866**	79
Items that will not be reclassified to profit or loss			
Reversal of previous revaluation of land and buildings		**-**	(7,534)
Income tax relating to components of other comprehensive income	5	**-**	2,261
Other comprehensive loss for the year that will not be reclassified to profit or loss, net of tax		**-**	(5,273)
Other comprehensive loss for the year, net of tax		**866**	(5,194)
Total comprehensive loss for the year		**(67,439)**	(90,974)
Total comprehensive loss for the year is attributable to:			
Owners of Hills Limited		**(67,439)**	(91,141)
Non-controlling interests		**-**	167
		(67,439)	(90,974)

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

Hills Limited
Consolidated statement of financial position
As at 30 June 2016

	Notes	**2016 $'000**	2015 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	**3,994**	18,801
Trade and other receivables	8	**71,911**	92,136
Inventories	9	**55,617**	72,446
Current tax assets	5	**183**	-
Derivative financial instruments	18	**103**	606
Total current assets		**131,808**	183,989
Non-current assets			
Trade and other receivables	8	**534**	653
Investments		**2**	3
Property, plant and equipment	11	**19,948**	32,822
Intangible assets	12	**753**	39,237
Deferred tax assets	5	**10,808**	30,833
Total non-current assets		**32,045**	103,548
Total assets		**163,853**	287,537
LIABILITIES			
Current liabilities			
Trade and other payables	10	**50,400**	67,690
Borrowings	17	**472**	5,831
Current tax liabilities	5	**-**	407
Provisions	13	**12,512**	27,133
Derivative financial instruments	18	**-**	310
Total current liabilities		**63,384**	101,371
Non-current liabilities			
Borrowings	17	**27,695**	45,000
Provisions	13	**3,697**	4,566
Total non-current liabilities		**31,392**	49,566
Total liabilities		**94,776**	150,937
Net assets		**69,077**	136,600
EQUITY			
Contributed equity	14	**278,439**	278,439
Reserves	15	**11,249**	10,467
Accumulated losses		**(220,611)**	(152,306)
Total equity		**69,077**	136,600

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

Hills Limited
Consolidated statement of changes in equity
For the year ended 30 June 2016

	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 2014		281,624	28,900	(66,359)	244,165	1,063	245,228
Total comprehensive income for the year		-	(5,194)	(85,947)	(91,141)	167	(90,974)
Transactions with owners in their capacity as owners:							
Share buyback, net of transaction costs		(3,185)	-	-	(3,185)	-	(3,185)
Dividends provided for or paid	16	-	(13,272)	-	(13,272)	-	(13,272)
Dividends paid to non-controlling interests in subsidiaries		-	-	-	-	(732)	(732)
Disposal of non-controlling interests in subsidiaries		-	-	-	-	(498)	(498)
Employee share schemes	29	-	33	-	33	-	33
Balance at 30 June 2015		278,439	10,467	(152,306)	136,600	-	136,600
Balance at 1 July 2015		**278,439**	**10,467**	**(152,306)**	**136,600**	**-**	**136,600**
Total comprehensive income for the year		**-**	**866**	**(68,305)**	**(67,439)**	**-**	**(67,439)**
Transactions with owners in their capacity as owners:							
Employee share schemes	29	**-**	**(84)**	**-**	**(84)**	**-**	**(84)**
Balance at 30 June 2016		**278,439**	**11,249**	**(220,611)**	**69,077**	**-**	**69,077**

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

Hills Limited
Consolidated statement of cash flows
For the year ended 30 June 2016

	Notes	**2016 $'000**	2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**386,190**	486,657
Payments to suppliers and employees (inclusive of goods and services tax)		**(372,974)**	(494,547)
		13,216	(7,890)
Net finance costs paid		**(3,354)**	(3,036)
Net income taxes paid		**(486)**	(2,117)
Net cash flows from operating activities	7	**9,376**	(13,043)
Cash flows from investing activities			
Payments for acquisitions of subsidiaries / business operations, net of cash acquired		**(2,653)**	(26,676)
Payments for property, plant and equipment	11	**(4,247)**	(10,928)
Payments for intangible assets	12	**(3,244)**	(3,468)
Proceeds from sale of business operations and subsidiaries		**-**	5,970
Proceeds from sale of property, plant and equipment and intangible assets		**6,902**	14,029
Proceeds from sale of assets held for sale		**-**	7,570
Rent received		**1,526**	3,149
Net cash flows from investing activities		**(1,716)**	(10,354)
Cash flows from financing activities			
Proceeds from borrowings		**46,510**	15,831
Payments for shares bought back, inclusive of transaction costs		**-**	(3,185)
Repayment of borrowings		**(69,175)**	(172)
Dividends paid to the Company's shareholders	16	**-**	(13,272)
Payments to non-controlling interests in subsidiaries	22	**-**	(732)
Net cash flows from financing activities		**(22,665)**	(1,530)
Net (decrease) in cash and cash equivalents		**(15,005)**	(24,927)
Cash and cash equivalents at the beginning of the year		**18,801**	43,672
Effects of exchange rate changes on cash and cash equivalents		**198**	56
Cash and cash equivalents at end of the year	7	**3,994**	18,801

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

Hills Limited
Notes to the consolidated financial statements
For the year ended 30 June 2016

Section A: About this report

These 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").

The notes to the consolidated financial statements that follow present information relevant to understanding the Group's:

- business performance;
- operating assets and liabilities;
- capital and financing arrangements, including the Group's approach to risk;
- structure, including related party transactions and parent entity information; and
- unrecognised items at the end of the reporting period.

Other information that is required to be disclosed to comply with the accounting standards, the *Corporations Act 2001* or the Corporations Regulations, but are not considered significant to understand the financial performance or financial position of the Group are provided at the end of the notes.

Hills Limited is a for profit company limited by shares, incorporated and domiciled in Australia.

The consolidated financial statements were authorised for issue by the Directors on 17 August 2016. The Directors have the power to amend and reissue the consolidated financial statements.

Basis of preparation

These general purpose consolidated financial statements:

- are presented in Australian dollars;
- have been prepared in accordance with Australian Accounting Standards (AASBs), other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001*;
- comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB); and
- have been prepared on the basis of historical costs, except for the following that are measured at fair value:
    - financial instruments (derivatives) at fair value through profit or loss;
    - land and buildings; and
    - contingent consideration assumed in a business combination.

  The methods used to measure fair values are discussed further in notes 8, 11, 20 and 21.

Key accounting estimates

In preparing these financial statements, management are required 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:

Key accounting estimates (continued)

Note 5	Tax losses for which no deferred tax asset has been recognised
Notes 11 and 12	Valuation of land and buildings and measurement of the useful lives of property, plant and equipment and intangible assets
Note 12	Measurement of the recoverable amounts of cash generating units containing goodwill
Notes 13 and 26	Provisions and contingencies
Note 20	Measurement of fair value
Note 21	Business combinations and contingent consideration payable

Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2016 and the results of all subsidiaries for the year then ended. A list of subsidiaries is included in note 22.

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 obtained by 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 (see note 21).

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.

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.

Foreign currency translation

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'). Australian dollars is the Company's functional and presentation currency and the functional and presentation currency of the majority of the Group.

Foreign currency translation (continued)

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.

Group entities

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

Closing rate	Assets and liabilities for each statement of financial position
Average rate	Income and expenses for each income statement: average rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions dates (in which case, the rates on the transaction dates are used)

All resulting exchange differences are recognised in other comprehensive income.

Rounding

The Company is an entity to which the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* applies. Amounts have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Section B: Business performance

This section contains information relevant to understanding the results and performance of the Group during the reporting period:

1 Segment information
2 Revenue
3 Expenses
4 Income Tax
5 Earnings per share

1 Segment information

The Board of Hills Limited examine and monitor the Group's performance according to the nature of the products and services provided. Four reportable segments of the Group's business have been identified:

Building Technologies	Value added distributor of 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 and amplifiers
Hills Health Solutions	Includes the supply and installation of health technology solutions, Nursecall and patient entertainment systems to hospitals, aged care facilities and similar institutions.
Home	Includes the Hills Home Living business, which has been licensed to Woolworths Limited for a period of 7 years, extendable to 19 years. This converted the original manufacturing and distribution business that included products such as garden sprayers and washing lines into a brand licensing annuity stream.
Corporate	This includes the costs of running Hills' Corporate, Compliance and Shared Services functions.

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.

Recognition and measurement

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The CODM, 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.

Hills Limited
Notes to the consolidated financial statements
For the year ended 30 June 2016
(continued)

1 Segment information (continued)

(a) Information about reportable segments

	Building Technologies		Hills Health Solutions		Home		Corporate		Total	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	**2015 $'000**
Total segment revenue	**293,973**	348,380	**31,309**	33,530	**2,020**	43,763	**1,611**	3,149	**328,913**	428,822
Revenue from external customers	**293,973**	348,380	**31,309**	33,530	**2,020**	43,763	**1,611**	3,149	**328,913**	428,822
Segment EBITDA	**12,108**	26,789	**1,271**	4,083	**1,854**	6,365	**(3,484)**	(8,275)	**11,749**	28,962
Segment Assets	**122,822**	187,716	**19,593**	33,784	**1,254**	2,981	**5,094**	12,813	**148,763**	237,294
Additions to non-current assets (other than financial assets and deferred tax)	**3,478**	10,817	**3,414**	2,862	**-**	175	**599**	542	**7,491**	14,396
Segment Liabilities	**44,062**	65,844	**6,054**	6,199	**599**	3,439	**11,611**	19,715	**62,326**	95,197

1 Segment information (continued)

(b) Other segment information

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

Segment EBITDA

The CODM assesses performance based on a measure of underlying EBITDA. This excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs and goodwill and other intangible asset 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.

Segment underlying EBITDA reconciles to the loss before income tax as follows:

	Notes	**2016 $'000**	2015 $'000
Segment EBITDA		**11,749**	28,962
Depreciation and amortisation	4	**(9,444)**	(11,075)
Finance income	4	**305**	200
Finance expenses	4	**(3,659)**	(3,236)
Net costs not considered part of underlying profit		**(47,268)**	(72,843)
Loss before income tax from continuing operations		**(48,317)**	(57,992)

Net costs not considered part of underlying profit comprise:

Impairment of goodwill	**26,435**	55,353
Impairment of intangible assets	**12,685**	5,661
Impairment of property, plant and equipment	**3,786**	1,053
Impairment of inventories and inventory write offs	**-**	3,222
Impairment of other receivables	**2,900**	-
Costs relating to the acquisitions of businesses (for transactions completed and terminated)	**-**	3,885
Loss and costs incurred on sale of properties and assets held for sale	**-**	1,229
Net loss on sale, closure or licensing of business operations and subsidiaries	**-**	464
Costs relating to departure of the previous Chief Executive Officer	**-**	913
Other net costs arising as a result of the Company's restructure and transformation program	**1,462**	1,063
	47,268	72,843

Segment assets

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:

	2016 $'000	2015 $'000
Segment assets	**148,763**	237,294
Unallocated assets:		
Cash assets	**3,994**	18,801
Current tax receivable	**183**	-
Deferred tax assets	**10,808**	30,833
Derivative financial instruments	**103**	606
Investments	**2**	3
Total assets as per the consolidated statement of financial position	**163,853**	287,537

1 Segment information (continued)

(b) Other segment information (continued)

Segment liabilities

Liabilities are allocated based on the operations of the segment. Reportable segments' liabilities are reconciled to total liabilities as follows:

	2016 $'000	2015 $'000
Segment liabilities	**62,326**	95,197
Unallocated liabilities:		
Tax liabilities (including GST payable)	**4,283**	4,599
Borrowings	**28,167**	50,831
Derivative financial instruments	**-**	310
Total liabilities as per the consolidated statement of financial position	**94,776**	150,937

The amounts provided to the CODM with respect to total assets and total liabilities are measured in a manner consistent with that of the consolidated financial statements.

Geographical information

Segment revenue and non-current assets (excluding financial instruments and deferred tax assets) by geographical location are shown below. Segment revenues are allocated based on the country in which the customer is located. Segment assets are allocated based on where the assets are located.

	Revenue		Non-current assets	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Australia	**302,606**	393,085	**20,203**	67,972
Other countries	**26,307**	35,737	**1,034**	4,743
	328,913	428,822	**21,237**	72,715

2 Revenue

	2016 $'000	2015 $'000
Revenue from continuing operations		
Sales revenue		
Sale of goods	**264,169**	354,969
Services	**61,218**	69,704
	325,387	424,673
Other revenue		
Rents and sub-lease rentals	**1,526**	3,149
Licence fee revenue	**2,000**	1,000
Total revenue from continuing operations	**328,913**	428,822

2 Revenue (continued)

Recognition and measurement

Revenue

Revenue is recognised for the major business activities as follows:

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.

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.

Rental income

Rental income from 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.

Licence fee revenue

Licence fee revenue is recognised on an accrual basis in accordance with the substance of the relevant licence agreement when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably.

3 Other income

	2016 $'000	2015 $'000
Net gain on disposal of plant and equipment	**155**	522
Net gain on disposal of businesses	**-**	1,074
Other income	**3,037**	2,727
	3,192	4,323

4 Expenses

	Notes	**2016 $'000**	2015 $'000
(a) Classification of expenses by function			
Cost of goods sold		**188,140**	237,287
Cost of services provided		**36,683**	40,971
Other expenses from ordinary activities:			
Sales and marketing expenses		**64,389**	77,959
Distribution expenses		**18,390**	20,718
Administration expenses		**22,198**	38,323
Other expenses	1	**47,268**	72,843
		377,068	488,101

4 Expenses (continued)

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

	2016 $'000	2015 $'000
Depreciation		
Buildings	**13**	66
Plant and equipment	**6,652**	5,654
Total depreciation	**6,665**	5,720
Amortisation		
Patents and trademarks	**3**	72
Research and development	**213**	86
Customer contracts, relationships and brands	**1,310**	3,021
Software	**1,253**	2,176
Total amortisation	**2,779**	5,355
Total depreciation and amortisation	**9,444**	11,075
Employee benefit expenses		
Wages and salaries	**59,587**	70,148
Defined contribution superannuation expense	**5,294**	6,150
Other employee benefit expenses	**4,231**	4,956
Equity-settled share-based payment transactions	**(84)**	33
Total employee benefits expenses	**69,028**	81,287
Finance expenses		
Interest and finance charges paid/payable	**(3,659)**	(3,236)
	(3,659)	(3,236)
Finance income		
Interest income	**305**	200
Fair value gains on derivatives	**-**	-
	305	200
Net finance costs expensed	**(3,354)**	(3,036)

Recognition and measurement

Depreciation and amortisation

Refer to notes 11 and 12 for recognition and measurement of depreciation and amortisation.

Employee benefits expense

Refer to note 13 for information relating to employee benefits expense.

Finance income and expense

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss.

Finance expenses comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs are recognised in profit or loss using the effective interest method.

5 Income tax

	2016 $'000	2015 $'000
(a) Income tax expense		
Current tax	**(100)**	789
Deferred tax	**20,088**	26,999
	19,988	27,788

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2016 $'000	2015 $'000
Loss from continuing operations before income tax expense	**(48,315)**	(57,992)
Tax at the Australian tax rate of 30% (2015: 30%)	**(14,494)**	(17,398)
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Goodwill and other intangible assets impairment	**7,930**	18,090
Non-deductible expenses	**222**	212
Research and development allowances	**-**	(60)
Acquisition costs	**(304)**	497
Gains on sale of assets	**805**	(282)
Impairment of land and buildings	**-**	662
De-recognition of deferred tax assets	**20,282**	26,123
Tax effect of prior year adjustments	**5,526**	-
	19,967	27,844
Difference in overseas tax rates	**21**	(56)
Total income tax expense	**19,988**	27,788

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

	2016 $'000	**2015 $'000**
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) on revaluation of land and buildings	**-**	(2,262)
(Losses) / gains on cash flow hedges	**(34)**	338
Aggregate income tax expense / (benefit)	**(34)**	(1,924)

(d) Current tax assets and liabilities

The current tax asset for the Group of $0.183 million (2015: $0.407 million liability) represents the amount of income taxes refundable (2015: payable) in respect of current and prior financial periods.

5 Income tax (continued)

(e) Deferred tax

	2016 $'000	2015 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**149**	3,559
Inventories	**9,009**	2,503
Employee benefits	**1,283**	2,865
Receivables	**16**	846
Loans and borrowings	**-**	1,218
Provisions	**16**	5,471
Other accruals	**366**	66
Derivative financial instruments	**(31)**	(65)
Tax losses	**-**	16,014
Software & other intangible assets	**-**	(2,327)
Other	**-**	683
	10,808	30,833

	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 2015					
Property, plant and equipment	2,510	(1,211)	2,262	(2)	3,559
Inventories	1,864	648	-	(9)	2,503
Employee benefits	3,399	(880)	-	346	2,865
Receivables	1,096	(268)	-	18	846
Loans and borrowings	1,218	-	-	-	1,218
Provisions	8,163	(2,890)	-	198	5,471
Other accruals	1,044	(976)	-	(2)	66
Derivative financial instruments	274	(1)	(338)	-	(65)
Tax losses	31,067	(15,053)	-	-	16,014
Software & other intangible assets	5,218	(6,860)	-	(685)	(2,327)
Other	190	492	-	1	683
	56,043	(26,999)	1,924	(135)	30,833
Movements 2016					
Property, plant and equipment	**3,559**	**(3,410)**	**-**	**-**	**149**
Inventories	**2,503**	**6,506**	**-**	**-**	**9,009**
Employee benefits	**2,865**	**(1,582)**	**-**	**-**	**1,283**
Receivables	**846**	**(830)**	**-**	**-**	**16**
Loans and borrowings	**1,218**	**(1,218)**	**-**	**-**	**-**
Provisions	**5,471**	**(5,455)**	**-**	**-**	**16**
Other accruals	**66**	**300**	**-**	**-**	**366**
Derivative financial instruments	**(65)**	**-**	**34**	**-**	**(31)**
Tax losses	**16,014**	**(16,014)**	**-**	**-**	**-**
Software & other intangible assets	**(2,327)**	**2,327**	**-**	**-**	**-**
Other	**683**	**(683)**	**-**	**-**	**-**
Exchange differences	**-**	**(29)**	**29**	**-**	**-**
	30,833	**(20,088)**	**63**	**-**	**10,808**

5 Income tax (continued)

(f) Tax losses

At the end of the reporting period, the Group had unused tax losses in respect of revenue items of $125.6 million (2015: $158.1 million) and capital items of $54.4 million (2015: $29.2 million).

	Revenue items		Capital items	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Unused losses for which no deferred tax asset has been recognised	**125,613**	104,733	**54,398**	29,212
Potential tax benefit	**37,684**	31,420	**16,319**	8,764

Revenue and capital tax losses do not expire under current legislation.

Revenue losses	Deferred tax assets have not been recognised in respect of all revenue tax losses because the period over which the Group expects to utilise the benefits from these items extends beyond 3 years (the time horizon during which their recovery is considered probable). Revenue losses for which a deferred tax asset has been recognised at 30 June 2016 total $nil (2015: $53.4 million).
Capital losses	Deferred tax assets have not been recognised in respect of capital losses because it is not probable that future capital gains will be available against which the Group can utilise the benefits from these items.

(g) Tax consolidation legislation

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

Tax sharing agreement	On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement that, 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.
Tax funding agreement	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 reporting period. 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.
	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.

5 Income tax (continued)

Recognition and measurement

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.

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.

Deferred tax

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.

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.

Offsetting

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.

Tax consolidation

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.

Key estimate: unrecognised deferred tax assets

Deferred tax assets are only recognised for deductible temporary differences and tax losses to the extent that it is probable that taxable profits will be available to utilise them. The financial projections used in assessing the probability of taxable profits are inherently subject to management judgement.

6 Earnings per share

	2016 Cents	2015 Cents
(a) Basic and diluted earnings per share		
From loss from continuing operations attributable to the ordinary equity holders of the Company	**(29.4)**	(37.0)
From underlying (loss) / profit attributable to the ordinary equity holders of the Company[1]	**(0.3)**	4.8

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

	2016 $'000	2015 $'000
Basic and diluted earnings per share		
Loss attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**(68,305)**	(85,947)
Underlying loss earnings per share		
Loss attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**(68,305)**	(85,947)
Items not considered part of underlying loss per note 1[1]	**47,268**	72,843
Income tax expense not considered part of underlying loss[1]	**20,262**	24,149
Underlying (loss) / profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share[1]	**(775)**	11,045

(c) Weighted average number of shares used as denominator

	2016 '000	2015 '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	**231,986**	**232,215**
Effect of performance rights on issue	**-**	**52**
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**231,986**	**232,267**

Recognition and measurement

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

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

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.

[1] Underlying (loss) / profit has been calculated after adjusting the (loss) / profit attributable to the ordinary equity holders of the Company for the impact of asset impairments, de-recognition of deferred tax assets relating to tax losses and other temporary differences, costs of acquisitions, other associated gains or losses on the disposal of businesses and other restructure and closure costs. Underlying (loss) / profit is a non-IFRS measure used by the Company which is relevant because it is consistent with the 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.

Section C: Operating assets and liabilities

This section provides information on the operating assets used and the operating liabilities incurred by the Group:

7 Cash and cash equivalents
8 Trade and other receivables
9 Inventories
10 Trade and other payables
11 Property, plant and equipment
12 Intangible assets
13 Provisions

7 Cash and cash equivalents

	2016 $'000	2015 $'000
Cash at bank and in hand	**3,994**	13,800
Deposits at call	**-**	5,001
	3,994	18,801

(a) Reconciliation of loss after income tax to net cash inflow from operating activities

Loss for the period	**(68,305)**	(85,780)
Depreciation and amortisation	**9,444**	11,075
Impairment of goodwill	**26,435**	55,353
Impairment of other receivables	**2,900**	-
Impairment of inventories	**-**	3,221
Impairment of property, plant and equipment	**3,786**	1,053
Impairment of intangible assets	**12,685**	5,662
Net gains on disposal of businesses	**-**	(1,853)
Non-cash employee benefits (credit) / expense - share-based payments	**(84)**	33
Net gain on sale of non-current assets (including assets held for sale)	**(141)**	(292)
Fair value adjustment to derivatives	**82**	(169)
Rent received	**(1,526)**	(3,149)
Change in operating assets and liabilities, net of effects from purchases and sales of controlled entities and business operations:		
Decrease in trade and other receivables	**17,893**	14,258
Decrease / (increase) in inventories	**17,204**	(16,353)
Decrease in deferred tax assets	**20,096**	27,014
Decrease in trade and other payables	**(17,632)**	(9,994)
Decrease in provision for income taxes payable	**(593)**	(1,374)
Decrease in other provisions	**(12,868)**	(11,748)
Net cash flows from operating activities	**9,376**	(13,043)

Recognition and measurement

Cash and cash equivalents

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 that are subject to an insignificant risk of changes in value.

8 Trade and other receivables

	2016			2015		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Trade receivables	**61,319**	**-**	**61,319**	81,096	-	81,096
Provision for impairment of receivables (a)	**(1,275)**	**-**	**(1,275)**	(1,481)	-	(1,481)
	60,044	**-**	**60,044**	79,615	-	79,615
Other receivables	**6,573**	**534**	**7,107**	7,930	653	7,930
Prepayments	**5,294**	**-**	**5,294**	4,591	-	5,244
	71,911	**534**	**72,445**	92,136	653	92,789

(a) Impaired trade receivables

	2016 $'000	2015 $'000
The ageing of the Group's trade receivables at the reporting date is as follows:		
Not past due	**39,462**	42,930
Past due 0 – 30 days	**13,819**	20,883
Past due 31 – 90 days	**5,610**	12,466
Past due more than 90 days	**2,428**	4,817
	61,319	81,096
Movements in the provision for impairment of receivables are as follows:		
At 1 July	**1,481**	2,750
Provision for impairment recognised during the period	**389**	314
Receivables written off during the period as uncollectable	**(595)**	(1,583)
At 30 June	**1,275**	1,481

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 $1.275 million (2015: $1.481 million) relates to receivables past due more than 30 days, on a case by case assessment. Receivables past due between 0 and 30 days are not considered impaired.

(b) Financial risk

See note 19 for information about the Group's exposure to foreign currency risk, interest rate risk and credit risk in relation to trade and other receivables.

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 re-pledged.

Recognition and measurement

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.

8 Trade and other receivables (continued)

Recognition and measurement (continued)

Trade receivables (continued)

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. 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.

9 Inventories

	2016 **$'000**	2015 $'000
Raw materials and stores	**1,730**	2,046
Work in progress	**1,298**	136
Finished goods	**52,589**	70,264
	55,617	72,446

(a) Impaired inventory

Write downs of inventories to net realisable value recognised as an expense during the period amounted to $1.392 million (2015: $3.722 million). The expense has been included in cost of sales $1.392 million (2015: $0.501 million) and other expenses $nil (2015: $3.222 million).

Recognition and measurement

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.

10 Trade and other payables

	2016 **$'000**	2015 $'000
Trade payables	**29,538**	41,441
Other trade payables and accrued expenses	**20,862**	26,249
	50,400	67,690

Other trade payables and accrued expenses include amounts payable in respect of certain employee benefits including superannuation/pension contributions and bonuses.

10 Trade and other payables (continued)

Recognition and measurement

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 reporting period that 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 twelve months after the reporting period.

11 Property, plant and equipment

	Land $'000	Buildings $'000	Plant & equipment $'000	Total $'000
Year ended 30 June 2015				
Opening net book amount	17,803	12,982	16,820	47,605
Exchange differences	-		(67)	(67)
Revaluation to fair value	(4,762)	(2,772)	-	(7,534)
Acquisition through business combinations	-	-	3,268	3,268
Additions	-	30	10,898	10,928
Disposals	(4,825)	(7,286)	(2,494)	(14,605)
Depreciation charge	-	(66)	(5,654)	(5,720)
Impairment charge	(1,375)	(831)	-	(2,206)
Reversal of impairment charge	-	-	1,153	1,153
Closing net book amount	6,841	2,057	23,924	32,822
At 30 June 2015				
Cost	6,841	2,057	73,414	82,312
Accumulated depreciation and impairment	-	-	(49,490)	(49,490)
Net book amount	6,841	2,057	23,924	32,822
Year ended 30 June 2016				
Opening net book amount	**6,841**	**2,057**	**23,924**	**32,822**
Exchange differences	**-**	**-**	**100**	**100**
Additions	**-**	**-**	**4,247**	**4,247**
Disposals	**(5,625)**	**(593)**	**(552)**	**(6,770)**
Depreciation charge	**-**	**(13)**	**(6,652)**	**(6,665)**
Impairment charge	**(1,216)**	**(1,451)**	**(1,119)**	**(3,786)**
Closing net book amount	**-**	**-**	**19,948**	**19,948**
At 30 June 2016				
Cost	**-**	**-**	**73,350**	**73,350**
Accumulated depreciation and impairment	**-**	**-**	**(53,402)**	**(53,402)**
Net book amount	**-**	**-**	**19,948**	**19,948**

11 Property, plant and equipment (continued)

(a) Assets in the course of construction

The carrying amounts of the assets disclosed above and in note 12 Intangible assets include the following expenditure recognised in relation to non-current assets (principally plant and equipment, leasehold improvements and software development) which is in the course of construction:

	2016 $'000	2015 $'000
Plant and equipment, leasehold improvements and software development	**2,284**	3,102

(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.

As at 30 June 2015	Independent valuers provided updated informal advice on the fair value of land and buildings, taking into consideration current market assessments and property offers received. The Directors reviewed the assessment and determined that revaluation decrements totalling $9.740 million were appropriate. Of this, $7.534 million was debited to the asset revaluation reserve in shareholders' equity and $2.206 million was recognised in profit and loss.
As at 31 December 2015	Independent valuers reassessed the fair value of land and buildings, taking into consideration current market assessments and the asset class was revalued. The Directors reviewed the assessment and determined a net revaluation decrement of $2.675 million was appropriate. This amount was recognised within other expenses in profit or loss.
As at 30 June 2016	In May 2016, the Group sold its last remaining land and buildings.

Key estimate: useful lives of property, plant and equipment

The assessment of the useful lives of property, plant and equipment requires management judgement based on past experience and industry practice. Management reassess the useful lives when there are indications of a change in economic circumstances that may impact the assets.

Recognition and measurement

Property, plant and equipment

Land and buildings

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.

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.

11 Property, plant and equipment (continued)

Recognition and measurement (continued)

Property, plant and equipment (continued)

Plant and equipment

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.

Depreciation

Land is not depreciated. Depreciation on other assets is calculated using the 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, including leasehold improvements	5.0% to 66.7%

Impairment

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.

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.

12 Intangible assets

	Goodwill	Patents, trademarks & other rights	Distribution agreements, customer contracts & brands	Software[1]	Development costs	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2015						
Opening net book amount	64,085	220	11,910	5,998	970	83,183
Exchange differences	(154)	-	-	(18)	-	(172)
Additions	-	106	-	2,623	739	3,468
Acquisition through business combinations	17,702	-	1,779	534	-	20,015
Amortisation charge	-	(72)	(3,021)	(2,176)	(86)	(5,355)
Impairment charge	(55,353)	-	(4,710)	(951)	-	(61,014)
Derecognised on disposal	-	-	-	(232)	(656)	(888)
Closing net book amount	26,280	254	5,958	5,778	967	39,237
At 30 June 2015						
Cost	145,896	449	15,125	21,761	967	184,198
Accumulated amortisation and impairment	(119,616)	(195)	(9,167)	(15,983)	-	(144,961)
Net book amount	26,280	254	5,958	5,778	967	39,237
Year ended 30 June 2016						
Opening net book amount	**26,280**	**254**	**5,958**	**5,778**	**967**	**39,237**
Exchange differences	**155**	**-**	**-**	**16**	**-**	**171**
Additions	**-**	**-**	**-**	**2,871**	**373**	**3,244**
Transfers between categories	**-**	**(208)**	**-**	**-**	**208**	**-**
Amortisation charge	**-**	**(3)**	**(1,253)**	**(1,310)**	**(213)**	**(2,779)**
Impairment charge	**(26,435)**	**(43)**	**(4,705)**	**(6,723)**	**(1,214)**	**(39,120)**
Closing net book amount	**-**	**-**	**-**	**632**	**121**	**753**
At 30 June 2016						
Cost	**146,131**	**58**	**15,125**	**23,234**	**1,779**	**186,327**
Accumulated amortisation and impairment	**(146,131)**	**(58)**	**(15,125)**	**(22,602)**	**(1,658)**	**(185,574)**
Net book amount	**-**	**-**	**-**	**632**	**121**	**753**

(a) Impairment tests for goodwill

Management have comprehensively reviewed the carrying value of the Group's assets, having due consideration to its market capitalisation, market growth assumptions and cash flows from ongoing operations. Cash Generating Unit (CGU) impairment tests were based on value in use calculations that were determined by discounting the future cash flows generated from the continuing use of the unit and based on the assumptions that follow:

[1] Software includes capitalised development costs being an internally generated intangible asset

12 Intangible assets (continued)

(a) Impairment tests for goodwill (continued)

Key assumptions	Cash flow projections have been based on the coming year's Board-approved budget.
	An explicit five year forecast period detailing projected sales, gross margins, operating expenses, capital expenditure and investment in working capital and other assets.
	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, operating expenses and capital expenditure and working capital investment levels are based on past experience along with CGU-specific assumptions about the future.
	A terminal value has been determined at the end of the five-year strategic plan using a growth rate of 3.0% (2015: 3.0%), which is no greater than the long term average growth rate for the market to which the asset is dedicated.

The following pre-tax discount rates were used in the value in use calculations:

	2016	2015
Building Technologies	16.3%	16.3%
Hills Health Solutions	18.7%	18.7%

These were determined by reference to the Group's weighted average cost of capital and specific industry factors applied in determining the recoverable amount of the units. Where a range of outputs were established, the mid-point of the range was used. The following key Capital Asset Pricing Model (CAPM) assumption inputs were used in arriving at the applicable discount rates:

	Building Technologies	Hills Health Solutions
Risk free rate	3%	3%
Asset betas	0.9 – 1.0	0.8 – 0.9
Equity betas	0.97 – 1.08	0.94 – 1.01
Equity market risk premium	6.5%	6.5%
Alpha risk adjustment for company size	2%	4% - 5%
Alpha risk adjustment for company specific factors	0% – 1%	1%
Long term debt to value ratio	10%	20% – 15%
Long term cost of debt	5.5% - 6.5%	6% – 7%
Long term tax rate	30%	30%

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.

For the purposes of completing the value in use calculations, Hills' Corporate Segment costs are allocated to the Hills Health Solutions and Building Technologies segments on a rational basis (directly where a direct utilisation is apparent, or otherwise on a relative revenue mix basis).

The Home segment has no allocation of goodwill. The carrying value of the Home segment CGU consists almost entirely of net monetary items (receivables, payables and accruals) that are virtually certain of recovery from Woolworths Limited. In addition, the Group receives a minimum licence fee of $2 million per annum from Woolworths in relation to this business. The carrying value of this CGU was therefore considered to be fully recoverable with reference to that counterparty analysis rather than with reference to a separate discounted cash flow calculation.

12 Intangible assets (continued)

(b) Impairment charges

Impairment of goodwill

During the current period, it was determined that the carrying values of the Hills Health Solutions and Building Technologies Segments exceeded their recoverable amounts with reference to the value in use calculations described above and an impairment charge was recognised in the profit and loss statement.

The aggregate carrying amounts of goodwill allocated to each CGU before and after impairment charges are as follows:

	Building Technologies		**Hills Health Solutions**		**Total**	
	2016	2015	**2016**	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Goodwill before impairment charge	**24,287**	50,061	**2,148**	31,572	**26,435**	81,633
Impairment charge	**(24,287)**	(25,929)	**(2,148)**	(29,424)	**(26,435)**	(55,353)
Carrying value of Goodwill after impairment charge	**-**	24,132	**-**	2,148	**-**	26,280

The difference between the carrying amount of goodwill at 30 June 2015 and the carrying amount of goodwill at 30 June 2016 before impairment charges is due to the effect of movements in the NZD exchange rate during the year on goodwill related to the New Zealand part of the Building Technologies business.

Impairment of other intangible assets

While performing the CGU value in use calculation, the carrying values of other separately identified intangible assets were reviewed. These assets include patents, trademarks and other similar rights, distribution agreements, customer contracts and brands, internally generated software and development costs. During the current period, it was determined that the carrying values of other intangible assets were impaired and an impairment charge of $12.685 million was recognised in the profit and loss statement. These are included within other expenses shown in note 1.

Recognition and measurement

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 but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. It 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 1).

Patents and trademarks, customer relationships, distribution agreements 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. The Group's intangible assets were fully impaired at 31 December 2015. To that date, amortisation was calculated using the straight line method to allocate the cost over their estimated useful lives, which varied from:

Patents and trademarks:	10 to 20 years
Customer relationships, distribution agreements and brands	2 to 5 years

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

12 Intangible assets (continued)

Recognition and measurement (continued)

IT development and software (continued)

spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 5 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.

Research and development

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

13 Provisions

	2016			2015		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Employee benefits	**7,040**	**926**	**7,966**	8,882	1,418	10,300
Outstanding claims	**2,188**	**954**	**3,142**	3,846	-	3,846
Restructuring costs	**3,200**	**1,153**	**4,353**	11,273	2,484	13,757
Contingent consideration	**-**	**-**	**-**	3,048	-	3,048
Other provisions	**84**	**664**	**748**	84	664	748
	12,512	**3,697**	**16,209**	27,133	4,566	31,699

(a) Description of provisions

Employee benefits	Provisions for employee benefits include liabilities for annual leave and long service leave.
Outstanding claims	The provision for claims comprises the amounts set aside for estimated warranty claims, as well as the estimated future liability of the Group's self-insurance arrangements. The value of the self-insurance 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.
Restructuring costs	The restructuring costs provision comprises onerous lease and make-good costs, redundancy costs and other costs of closing and restructuring businesses.
Contingent consideration	See note 21 for details of contingent consideration.
Other provisions	Other provisions mainly comprise provisions for site restoration.

13 Provisions (continued)

(b) Movements in provisions

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

	Outstanding claims $'000	Restructuring costs $'000	Contingent consideration $'000	Other $'000	Total $'000
Movements 2015					
Carrying amount at the start of the year	6,963	19,556	4,450	1,149	32,118
Charged/(credited) to profit or loss – additional provisions recognised	(948)	5,782	-	(185)	4,649
Amounts used during the year	(2,169)	(12,240)	(3,200)	(216)	(17,825)
Increase through acquisition of businesses / subsidiaries	-	659	1,798	-	2,457
Carrying amount at end of year	3,846	13,757	3,048	748	21,399
Movements 2016					
Carrying amount at the start of the year	**3,846**	**13,757**	**3,048**	**748**	**21,399**
Charged/(credited) to profit or loss – additional provisions recognised	**762**	**2,169**	**(395)**	**-**	**2,536**
Amounts used during the year	**(1,466)**	**(11,573)**	**(2,653)**	**-**	**(15,692)**
Carrying amount at end of year	**3,142**	**4,353**	**-**	**748**	**8,243**

Recognition and measurement

Provisions

Provisions for legal claims, service warranties, make good obligations and onerous leases 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.

Employee benefits

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.

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.

13 Provisions (continued)

Recognition and measurement (continued)

Employee benefits (continued)

Other long term employee benefit obligations (continued)

Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds rates 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.

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.

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.

Section D: Capital and financing

This section provides information on how the Group manages its capital structure and financing, including its exposure to financial risk:

14 Contributed equity
15 Reserves
16 Dividends
17 Borrowings
18 Derivative financial instruments
19 Capital and financial risk management
20 Fair value measures

14 Contributed equity

(a) Share capital

	2016 Shares '000	2015 Shares '000	2016 $'000	2015 $'000
Ordinary shares - fully paid	**231,986**	231,986	**278,439**	278,439

(b) About share capital

Ordinary shares	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. Ordinary shares have no par value. The Company does not have a limited amount of ordinary share capital.
Performance rights	Information relating to the Long Term Incentive Share Plan, including details of performance rights issued, exercised, lapsed and forfeited during the reporting period and performance rights outstanding at the end of the reporting period, is set out in note 29.

Recognition and measurement

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.

15 Reserves

	2016 $'000	2015 $'000
Hedging reserve - cash flow hedges	**72**	151
Equity compensation reserve	**670**	754
Foreign currency translation reserve	**374**	(571)
Profits reserve	**10,133**	10,133
	11,249	10,467

15 Reserves (continued)

(a) Movements in reserves

Hedging reserve – cash flow hedges		
Opening balance 1 July	**151**	(638)
Revaluation - gross	**(113)**	1,127
Deferred tax	**34**	(338)
Closing balance 30 June	**72**	151
Equity compensation reserve		
Opening balance 1 July	**754**	721
Employee share plan (credit) / expense	**(84)**	33
Closing balance 30 June	**670**	754
Foreign currency translation reserve		
Opening balance 1 July	**(571)**	**139**
Currency translation differences arising during the year	**945**	**(710)**
Closing balance 30 June	**374**	**(571)**
Profits reserve		
Opening balance 1 July	**10,133**	**10,293**
Transfers from other reserves	**-**	**13,112**
Dividends paid	**-**	**(13,272)**
Closing balance 30 June	**10,133**	**10,133**

(b) Nature and purpose of reserves

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. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.
Equity compensation reserve	The equity compensation reserve represents the value of performance rights held by an equity compensation plan of the Group. This reserve will be reversed against share capital when the underlying performance rights 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.
Foreign currency translation reserve	Exchange differences arising on translation of the financial statements of a foreign controlled entity are recognised in other comprehensive income and accumulated in this reserve. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.
Profits reserve	Current period and realised profits are transferred from retained earnings and other reserves to the profits reserve and dividends are paid out of the profits reserve.

16 Dividends

(a) Ordinary shares

Year ended 30 June 2016	No dividends were paid during the year and no final dividend has been declared.
Year ended 30 June 2015	Fully franked dividends (based on tax paid at 30%) were paid on the follow dates: ▪ 26 September 2014: $8.400 million (3.6 cents per fully paid share) ▪ 30 April 2015: $4.872 million (2.1 cents per fully paid share) A final dividend was not declared for the year.

16 Dividends (continued)

(b) Franked dividends

	2016 $'000	2015 $'000
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2015: 30.0%)	**1,787**	1,787

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for franking credits that will arise from:

- the payment of the amount of the provision for income tax;
- the payment of dividends recognised as a liability at the reporting date; and
- 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.

Recognition and measurement

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.

17 Borrowings

	2016			**2015**		
	Current $'000	**Non-current $'000**	**Total $'000**	**Current $'000**	**Non-current $'000**	**Total $'000**
Other loans	**472**	**27,695**	**28,167**	5,831	-	5,831
Bills payable	**-**	**-**	**-**	-	45,000	45,000
Total borrowings	**472**	**27,695**	**28,167**	5,831	45,000	50,831

(a) Loans

Secured loans

The Group has its banking facilities with Commonwealth Bank (CBA) through a Bilateral Facility Deed and with Recfin Nominees Pty Ltd through a Receivables Purchase Facility.

The CBA facility totals $10 million, and consists of a multi-option facility tranche comprising bank loans, bank overdraft and contingent liabilities, expiring on 13 November 2017.

The Recfin Nominees Pty Ltd facility totals $36 million with funding provided based upon the Group's accounts receivable book. The facility expires on 13 May 2021.

CBA loans and Recfin Nominees Pty Ltd loans are denominated in AUD.

Interest is charged at prevailing market rates plus a fixed margin.

The Company and its wholly owned subsidiaries have provided an interlocking guarantee and indemnity to its financiers for these facilities.

The Recfin Nominees Pty Ltd facility is secured on the Group's Accounts Receivable book, with a second mortgage over the other assets of the Group.

CBA hold a fixed and floating charge over the assets of the Group (excluding Accounts Receivable).

An assessment of the contractual maturities of financial liabilities is provided in note 19.

17 Borrowings (continued)

Recognition and measurement

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 capitalised as a prepayment 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.

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.

18 Derivative financial instruments

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 19).

	2016 $'000	2015 $'000
Current assets		
Forward foreign exchange contracts - cash flow hedges	**103**	526
Forward foreign exchange contracts - held for trading	**-**	80
Total current derivative financial instrument assets	**103**	606
Current liabilities		
Interest rate swap contracts - cash flow hedges	**-**	(310)
Total current derivative financial instrument liabilities	**-**	(310)
Net derivative financial instrument assets / (liabilities)	**103**	296

(a) Instruments used by the Group

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 following 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 2016 a loss of $5,000 was recognised in profit or loss for the ineffective portion of these hedging contracts (2015: $1,000).
Forward exchange contracts: held-for-trading	Group Entities have entered into forward foreign exchange contracts that 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 19 for details. However, they are accounted for as held for trading. There were no forward exchange contracts outstanding at 30 June 2016 that were accounted for as held for trading.

18 Derivative financial instruments (continued)

(a) Instruments used by the Group (continued)

Interest rate swap contracts: cash flow hedges	In the prior year, the Group had entered into interest rate swaps to manage its exposure to interest rate risk on variable interest rate borrowings. Interest rate swaps in place at 30 June 2015 covered 22% of the loan principal outstanding. There were no outstanding interest rate swaps at 30 June 2016.

Recognition and measurement

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 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.

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.

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.

19 Capital and financial risk management

(a) Capital risk management

The Group's objective when managing capital is to safeguard its 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.

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

The Group monitors capital by assessing its gearing ratio in conjunction with monitoring its banking covenants. The gearing ratio is calculated as:

$$\frac{\text{net debt}}{\text{net debt} + \text{total capital}}$$

Net debt	Total borrowings as shown in the consolidated statement of financial position less cash and cash equivalents
Total capital	Equity as shown in the consolidated statement of financial position (including non-controlling interests)

During 2016, the Group's strategy was to maintain a target gearing ratio (calculated as net debt divided by net debt plus equity) of less than 40%. The gearing ratios at 30 June 2016 and 30 June 2015 were as follows:

	Notes	2016 $'000	2015 $'000
Total borrowings	17	**28,167**	50,831
Less: cash and cash equivalents	7	**(3,994)**	(18,801)
Net debt		**24,173**	32,030
Total equity		**69,077**	136,600
Gearing ratio		**25.9%**	19.0%

(b) Financial risk management

The Group’s central treasury function (“Group Treasury”) manages the Group’s exposure to financial risks under policies approved by the Board. Group Treasury identifies, evaluates and manages financial risks in close cooperation with the Group's business 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 financial instruments and investment of excess liquidity.

The risk management approach 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 exclusively for risk mitigation and not as trading or other speculative instruments.

The Group holds the following financial instruments:

	2016 $'000	2015 $'000
Financial assets		
Cash and cash equivalents	**3,994**	18,801
Trade and other receivables	**67,151**	87,545
Derivative financial instruments	**103**	606
Investments	**2**	3
	71,250	106,955

19 Capital and financial risk management (continued)

(b) Financial risk management (continued)

	2016 $'000	2015 $'000
Financial liabilities		
Trade and other payables	**50,400**	67,690
Borrowings	**28,167**	50,831
Derivative financial instruments	**-**	310
Contingent consideration	**-**	3,048
	78,567	121,879

The Group uses different methods to measure different types of risk, including sensitivity analysis (for interest rate, foreign exchange and other price risks) and aging analysis (for credit risk).

(i) Market risk

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.
Foreign exchange risk	Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in currencies other than the Group's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. The Group's main foreign exchange risk exposure is to US dollars. Group Entities and business units are required to hedge their foreign exchange risk exposure using forward exchange contracts transacted by Group Treasury. The Group's policy is to hedge approximately three months' of anticipated cash flows (mainly purchases of inventories) in US dollars.
Cash flow and fair value interest rate risk	Borrowings issued at variable rates expose the Group to cash flow interest rate risk. See details of the Group's borrowings in note 17.

Foreign exchange risk

The Group's exposure to foreign exchange risk at the reporting date, expressed in Australian dollars at the closing exchange rates, was:

	USD $'000	EUR $'000	GBP $'000	Total $'000
30 June 2015				
Cash at bank	1,145	3	-	1148
Trade receivables	257	-	-	257
Trade payables	(7,201)	(828)	(156)	(8,185)
Forward exchange contracts				
▪ buy foreign currency (cash flow hedges)	(21,848)	-	-	(21,848)
▪ buy foreign currency (FVTPL)[1]	-	(2,197)	-	(2,197)

[1] Fair Value Through Profit and Loss

19 Capital and financial risk management (continued)

(b) Financial risk management (continued)

(i) Market risk (continued)

Foreign exchange risk (continued)

	USD $'000	EUR $'000	GBP $'000	Total $'000
30 June 2016				
Cash at bank	**703**	**-**	**-**	**703**
Trade receivables	**1,126**	**-**	**-**	**1,126**
Trade payables	**(8,986)**	**(234)**	**(14)**	**(9,234)**
Forward exchange contracts:				
▪ buy foreign currency (cash flow hedges)	**(22,955)**	**-**	**-**	**(22,955)**
▪ buy foreign currency (FVTPL)	**-**	**-**	**-**	**-**

Cash flow interest rate risk

Group policy was previously to maintain approximately 50% to 75% of its borrowings at fixed rate using interest rate swaps to achieve this when necessary. The Group’s financing arrangement is now principally a Receivables Purchase Facility, where the balance outstanding changes daily. Accordingly, the Group no longer uses interest rate swaps and interest rate swaps in existence at the beginning of the financial year expired during the year.

During 2016 and 2015, the Group's borrowings at variable rate were denominated in Australian Dollars and NZ Dollars.

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

	2016 Weighted average interest rate %	**2016** Balance $'000	2015 Weighted average interest rate %	2015 Balance $'000
Bank overdrafts and loans	**5.71%**	**(27,695)**	2.1%	(45,000)
Cash and cash equivalents	**0.67%**	**3,994**	1.7%	18,801
Other loans	**8.33%**	**(472)**	0.0%	(5,830)
Interest rate swaps (notional principal amount)	**-**	**-**	5.6%	10,000

An analysis by maturities is provided in section (iii) below.

Sensitivity analysis

Foreign exchange rates	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 forward exchange contracts designated as cash flow hedges.
Interest rates	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.

19 Capital and financial risk management (continued)

(b) Financial risk management (continued)

(i) Market risk (continued)

Sensitivity analysis (continued)

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
30 June 2015									
Financial assets									
Cash and cash equivalents	18,801	(186)	-	186	-	127	-	(104)	-
Trade and other receivables	87,545	-	-	-	-	918	-	(751)	-
Derivatives - cash flow hedges	526	-	-	-	-		3,680	-	(2,054)
Derivatives - fair value through profit or loss	80	-	-	-	-	28	-	(23)	-
Total increase / (decrease) in financial assets		(186)	-	186	-	1,073	3,680	(878)	(2,054)
Financial liabilities									
Derivatives - cash flow hedges	(310)	-	(235)		286	-	-	-	-
Trade payables	(67,690)	-	-	-	-	(911)	-	751	-
Borrowings	(50,831)	508	-	(508)	-	-	-	-	-
Contingent consideration	(3,048)	-	-	-	-	-	-	-	-
Total increase / (decrease) in financial liabilities		508	(235)	(508)	286	(911)	-	751	-
Total increase / (decrease)		322	(235)	(322)	286	162	3,680	(127)	(2,054)
30 June 2016									
Financial assets									
Cash and cash equivalents	**3,994**	**(22)**	**-**	**44**	**-**	**78**	**-**	**(64)**	**-**
Trade and other receivables	**67,151**	**-**	**-**	**-**	**-**	**125**	**-**	**(102)**	**-**
Derivatives - cash flow hedges	**103**	**-**	**-**	**-**	**-**	**-**	**2,601**	**-**	**(2,045)**
Total increase / (decrease) in financial assets		**(22)**	**-**	**44**	**-**	**203**	**2,601**	**(166)**	**(2,045)**
Financial liabilities									
Trade payables	**50,400**	**-**	**-**	**-**	**-**	**(1,039)**	**-**	**850**	**-**
Borrowings	**28,167**	**282**	**-**	**(282)**	**-**	**-**	**-**	**-**	**-**
Total increase / (decrease) in financial liabilities		**282**	**-**	**(282)**	**-**	**(1,039)**	**-**	**850**	**-**
Total increase / (decrease)		**260**	**-**	**(238)**	**-**	**(836)**	**2,601**	**684**	**(2,045)**

19 Capital and financial risk management (continued)

(b) Financial risk management (continued)

(ii) Credit risk

Nature of the risk	Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's customers.
Risk management	Credit risk is managed at a Group level through a credit policy and trade credit insurance, which is carried for the majority of Group debtors. Each new customer is assessed for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The assessment considers external credit risk ratings.
	Purchase limits are established for each customer, which represent the maximum open amount without requiring further approval. These limits are reviewed periodically and credit worthiness is continually monitored. Limits in excess of $150,000 must be endorsed by the trade credit insurer. Customers that fail to comply with the terms of the Trade Credit Insurance Policy or meet the Group's benchmark creditworthiness may only transact with the Group on a prepayment basis.
	In most cases, goods are sold subject to retention of title clauses and this security is registered on the Personal Property Securities Register, 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 may require personal guarantees from customer company directors and charging clauses over real property. Failure to pay Hills in accordance with the account terms may result in cessation of supply, loss of credit facilities, and/or recovery and legal action.

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

(iii) Liquidity risk

Nature of the 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.
Risk management	The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

Financing arrangements

Details of the Group's borrowings are discussed in note 17. The Group had access to the following undrawn borrowing facilities from its bankers at the end of the reporting period:

	2016 **$'000**	2015 $'000
Floating rate		
- Expiring within one year (bank overdraft and short term money market)	**-**	1,000
- Expiring beyond one year (loans)	**4,212**	54,746
	4,212	55,746

19 Capital and financial risk management (continued)

(b) Financial risk management (continued)

(iii) Liquidity risk (continued)

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.

	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Total contract-ual cash flows	Carrying amount liabilities
	$'000	$'000	$'000	$'000	$'000	$'000
At 30 June 2015						
Non-derivatives						
Trade payables	67,690	-	-	-	67,690	67,690
Borrowings	6,305	474	948	45,629	53,356	50,831
Contingent consideration	3,048	-	-	-	3,048	3,048
Total non-derivatives	77,043	474	948	45,629	124,094	121,569
Derivatives						
Interest rate swaps	168	175	-	-	343	310
Total	77,211	649	948	45,629	124,437	121,879
At 30 June 2016						
Trade payables	**50,400**	**-**	**-**	**-**	**50,400**	**50,400**
Borrowings	**810**	**1,282**	**1,581**	**32,187**	**35,860**	**28,167**
Total	**51,210**	**1,282**	**1,581**	**32,187**	**86,260**	**78,567**

20 Fair value measurements

(a) Fair value measurements for financial assets and liabilities

The fair values of cash and cash equivalents, trade receivables, trade payables and borrowings approximate their carrying amounts due to their short term nature and the impact of discounting not being significant.

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

- Derivative financial instruments
- Contingent consideration payable

AASB 13 requires disclosure of fair value measurements by reference to the following fair value measurement hierarchy:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
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).
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

20 Fair value measurements (continued)

(a) Fair value measurements for financial assets and liabilities (continued)

The Group's financial assets and financial liabilities at fair value are as follows:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2015				
Assets				
Derivatives used for hedging	-	606	-	606
Total assets	**-**	**606**	**-**	**606**
Liabilities				
Derivatives used for hedging	-	310	-	310
Contingent consideration payable	-	-	3,048	3,048
Total liabilities	**-**	**310**	**3,048**	**3,358**
30 June 2016				
Assets				
Derivatives used for hedging	-	103	-	103
Total assets	**-**	**103**	**-**	**103**

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 2016.

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

	Contingent consideration	
	2016 $'000	2015 $'000
Balance at 1 July	**3,048**	4,450
Reassessment of contingent consideration	**(395)**	798
Payment of contingent consideration	**(2,653)**	(3,200)
Arising from business combination	**-**	1,000
Balance at 30 June	**-**	3,048

Key estimate: measurement of fair value

The assessment of the fair values of financial and non-financial assets and liabilities involves significant management judgement. The measurement of the fair values of land and buildings is discussed in note 11 and contingent consideration is discussed in note 21.

Section E: Group structure

This section provides information on the Hills Limited Group structure, including business acquisitions and disposals, controlled entities and related parties:

21 Business combinations

There were no business combinations during the current reporting period and no adjustments were made to the fair values attributed to assets acquired and liabilities assumed as part of business combination in prior years.

Contingent consideration in respect of business combinations was paid during the reporting period as follows:

Business	Effective date	Segment	Details
APG	1 Jul 2014	Building Technologies	The Group acquired 100% of the issued shares in EMG Finance Pty Ltd and Audio Products Group Pty Ltd (together “APG”), complementing and extending the Group’s business in the specialised audio market. Contingent consideration of $1.000 million comprised retention, payable twelve months after the acquisition was completed. The amount was paid during the reporting period.
OPS	31 Mar 2014	Building Technologies	The Group acquired the assets and business of a security solutions business, Open Platform Systems Pty Ltd (“OPS”). The consideration was subject to certain EBITDA results being achieved for the year ended 30 June 2014 and certain revenue targets being achieved for the year ended 30 June 2015. Contingent consideration of $0.998 million was paid during the reporting period.
Merlon	1 Oct 2013	Hills Health Solutions	The Group acquired 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”). The consideration was subject to certain contracts being signed. Additional contracts were signed compared to provisional estimates and contingent consideration of $0.655 million was paid during the reporting period.

Recognition and measurement

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

21 Business combinations (continued)

Recognition and measurement (continued)

Business combinations (continued)

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.

Key estimate: contingent consideration

Accounting for contingent consideration requires significant management judgement in assessing the likely outcome. Management consider the possible scenarios of expected contracts to be signed, revenue generated and claims made; the amount to be paid under each scenario; and the probability of each scenario.

22 Interests in other entities

(a) Investments in subsidiaries

The controlled entities of the Group listed below were wholly owned during the current and prior year, unless otherwise stated.

Australia
Hills Finance Pty Ltd ▲
Hills Group Operations Pty Ltd ▲
Hills Integrated Solutions Pty Ltd (formerly DAS Security Wholesalers Pty Ltd) ▲
Audio Products Group Pty Ltd ▲
EMG Finance Pty Ltd
Pacific Communications (PACOM) Pty Ltd
Pacom Security Pty Ltd ▲
Hills Health Solutions Pty Ltd (formerly Hills Health Solutions Australia Pty Ltd, CBS Hardware Pty Ltd) ▲
New-Tone (Aust) Pty Ltd ▲
T.V Rentals Pty Ltd ▲
Hospital Telecommunications Pty Ltd ▲
Hills Polymers Pty Ltd ▲
Hills Hoists Pty Ltd ▲
Hills Share Plans Pty Ltd (formerly ACN 089 622 622 Pty Ltd)
Step Electronics 2005 Pty Ltd ●
Cygnus Satellite Pty Ltd ■
Lan 1 Pty Ltd ▲
Woodroffe Industries Pty Ltd ▲
ACN 091 954 442 Pty Ltd (formerly Fielders Australia Pty Ltd) ▲
ACN 099 403 139 Pty Ltd (formerly Fielders Mobile Mill Pty Ltd)
Zen 99 Pty Ltd ▲
ACN 010 853 817 Pty Ltd (formerly Orrcon Holdings Pty Ltd) ▲
ACN 094 103 090 Pty Ltd (formerly Orrcon Operations Pty Ltd) ▲
ACN 093 760 895 Pty Ltd (formerly Orrcon Tubing Pty Ltd)
Access Television Services Pty Ltd ▲

22 Interests in other entities (continued)

(a) Investments in subsidiaries (continued)

New Zealand
Hills NZ Limited (formerly Hills Holdings NZ Limited)
Audio Products Group Limited

▲ These entities are party to a Deed of Cross Guarantee – see note 25.

● 50% ownership interest. Step Electronics 2005 Pty Ltd is controlled by virtue of the Company's control of this entity's Board through the Chairman's casting vote, effective management of the entity and exposure to the risks and benefits of ownership, or control of voting rights through the dilution of the minority shareholders.

■ On 25 June 2015, the Group sold its 50% interest in Cygnus Satellite Pty Ltd.

(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 reporting period. The Group sold its interest in Cygnus Satellite Pty Ltd during the previous reporting period.

23 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 22.

(c) Key management personnel

	2016	2015
	$	$
Short-term employee benefits (fixed and STI remuneration)	**2,510,910**	2,966,471
Post-employment benefits (superannuation)	**142,314**	170,435
Long term benefits (cash LTI and accrued long service leave)	**103,052**	83,422
Termination benefits	**-**	928,100
Share-based payments (LTI expense and employee share bonus plan expense)	**5,750**	(63,494)
	2,762,026	4,084,934

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	Sales of goods and services within the Group, that eliminated with cost of goods sold and services provided amounted to \$13.757 million (2015: \$19.162 million).
Loans and borrowings	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 and overseas wholly controlled entities are charged interest at rates no more favourable than current market rates. Intragroup interest paid and received during the year was \$0.152 million (2015: \$0.219 million).
Dividends	Intragroup dividends paid and received during the year amounted to \$3.837 million (2015: \$0.735 million).

23 Related party transactions (continued)

(d) Transactions with other related parties (continued)

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 the following related party transactions with director related entities took place:

Entity	Association	Details
CSG	Associated with P Bullock	Goods purchased by the Group from CSG totalled $0.102 million (2015: $0.127 million)

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 reporting period with KMP and their related parties.

From time to time, KMP of the Company or its controlled entities, or their related entities, may purchase goods or services from Hills or make sales of goods or services to Hills. These purchases or sales are on the same terms and conditions as those entered into by Hills employees, customers or suppliers 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 2016 the Group current assets and liabilities that were eliminated totalled $37.355 million (2015: $50.066 million).

24 Parent entity financial information

(a) Summary financial information

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

	2016 $'000	2015 $'000
Balance sheet		
Current assets	**55,431**	109,233
Non-current assets	**99,617**	97,300
Total assets	**155,048**	206,533
Current liabilities	**57,486**	31,308
Non-current liabilities	**31,392**	49,506
Total liabilities	**88,878**	80,814
Net assets	**66,170**	125,719
Shareholders' equity		
Contributed equity	**278,439**	278,439
Reserves		
Hedging reserve - cash flow hedges	**72**	151
Equity compensation reserve	**670**	754
Profits reserve	**32,859**	32,859
Retained earnings	**(245,870)**	(186,484)
	66,170	125,719
Loss for the year	**(59,384)**	(45,530)
Total comprehensive income	**(59,463)**	(50,724)

24 Parent entity financial information (continued)

(b) Guarantees, contingent liabilities and commitments of the parent entity

Guarantees	Bank guarantees given by the Company in favour of customers and suppliers amounted to $5.788 million (2015: $9.224 million). Cross guarantees are given by the Company and its wholly owned subsidiaries as described in note 25. 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 $94.062 million (2015: $149.255 million). No material deficiency in net tangible assets exists in these companies at reporting date with net tangible assets amounting to $49.551 million (2015: $53.297 million).
Contingent liabilities	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.
Contractual commitments	As at 30 June 2016, the Company had contractual commitments for the acquisition of plant or equipment totalling $0.426 million (2015: $2.126 million). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

Recognition and measurement

Parent entity financial information

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements.

25 Deed of cross guarantee

The wholly owned subsidiaries identified with a '▲' in note 22 are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports and Directors' reports, under ASIC Class Order 98/1418 (as amended).

The Company and each of these subsidiaries have entered into a Deed of Cross Guarantee (the "Deed"), under which each company guarantees the debt of the others. No entities have become a party to the Deed during the reporting period.

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

The entities identified with a '▲' in note 22 represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the Deed 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 2016 and a consolidated statement of financial position as at 30 June 2016 of the Company and controlled entities that are a party to the Deed, after eliminating all transactions between parties.

25 Deed of cross guarantee (continued)

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

	2016 $'000	2015 $'000
Consolidated income statement		
Revenue from continuing operations	**309,809**	384,208
Other income	**2,949**	5,183
Finance costs	**(3,514)**	(3,239)
Other expenses	**(348,003)**	(445,673)
Loss before income tax	**(38,759)**	(59,521)
Income tax expense	**(20,282)**	(27,032)
Loss for the year	**(59,041)**	(86,553)
Consolidated statement of comprehensive income		
Loss for the year	**(59,041)**	(86,553)
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	**(113)**	1,127
Income tax relating to these items	**34**	(338)
Other comprehensive income for the year that may be reclassified to profit or loss, net of tax	**(79)**	789
Items that will not be reclassified to profit or loss		
Reversal of previous revaluations of land and buildings	**-**	(7,534)
Income tax relating to these items	**-**	2,261
Other comprehensive loss for the year that will not be reclassified to profit or loss, net of tax	**-**	(5,273)
Other comprehensive loss for the period, net of tax	**(79)**	(4,484)
Total comprehensive loss for the year	**(59,120)**	**(91,037)**
Summary of movements in consolidated retained earnings		
Accumulated losses at the beginning of the reporting period	**(167,781)**	(81,228)
Loss for the year	**(59,041)**	(86,553)
Accumulated losses at the end of the reporting period	**(226,822)**	(167,781)

25 Deed of cross guarantee (continued)

(b) Consolidated statement of financial position

	2016 $'000	2015 $'000
Current assets		
Cash and cash equivalents	**2,666**	16,044
Trade and other receivables	**67,941**	86,106
Inventories	**50,987**	66,867
Derivative financial instruments	**103**	526
Total current assets	**121,697**	169,543
Non-current assets		
Trade and other receivables	**534**	653
Investments	**814**	1,102
Property, plant and equipment	**18,915**	31,471
Intangible assets	**753**	35,845
Deferred tax assets	**10,212**	30,460
Total non-current assets	**31,228**	99,531
Total assets	**152,925**	269,074
Current liabilities		
Trade and other payables	**48,306**	66,873
Borrowings	**472**	5,831
Provisions	**12,136**	26,675
Derivative financial instruments	**-**	310
Total current liabilities	**60,914**	99,689
Non-current liabilities		
Borrowings	**27,695**	45,000
Provisions	**3,697**	4,566
Total non-current liabilities	**31,392**	49,566
Total liabilities	**92,306**	149,255
Net assets	**60,619**	119,819
Equity		
Contributed equity	**278,439**	278,439
Reserves	**9,002**	9,161
Accumulated losses	**(226,822)**	(167,781)
Total equity	**60,619**	119,819

Section F: Unrecognised items

This section contains information about items that are not recognised in the financial statements but may have a significant impact on the Group's financial position or performance.

26 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities at 30 June 2016 in respect of:

Claims	In consultation with the Environmental Protection Authority, ground water contamination potentially originating from the Company's former 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. The Group has various commercial legal claims common to businesses of its type that 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.
Guarantees	Bank guarantees in favour of customers and suppliers totalling $5.788 million (2015: $9.224 million).

27 Commitments

(a) Capital commitments

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

	2016 $'000	2015 $'000
Plant and equipment	**426**	2,335

(b) Lease commitments: Group as lessee

Non-cancellable operating leases

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

The leases run for a period from 1 to 12 years with the majority running for a period of 3 to 5 years, with options 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.

	2016 $'000	2015 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**6,914**	6,958
Later than one year but not later than five years	**8,294**	11,166
Later than five years	**478**	1,214
	15,686	19,338

27 Commitments (continued)

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

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

	2016 $'000	2015 $'000
Within one year	375	1,884
Later than one year but not later than five years	-	4,133
	375	6,017

Recognition and measurement

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. 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.

28 Events occurring after the reporting period

No 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 reporting periods.

Section G: Other

This section contains disclosures required for the Group to comply with the accounting standards and other pronouncements, the *Corporations Act 2001* or the Corporations Regulations but are not considered to be significant in understanding the financial position or performance of the Group:

29 Share-based payments
30 Remuneration of auditors
31 Other accounting policies

29 Share-based payments

(a) Executive share options

All executive share options were forfeited or cancelled during the previous reporting period.

(b) Employee performance rights

In 2010, the Group established the Long Term Incentive Share Plan (LTIP). The LTIP was designed to provide long term incentives to eligible senior employees of 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).

Details of performance rights under the LTIP are as follows:

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited / cancelled during the year	Balance at the end of the year	Vested & exercisable at the end of the year
			Number	Number	Number	Number	Number	Number
2015								
Performance rights								
17 Feb 2014	30 Jun 2016	-	1,133,332	-	-	(1,133,332)	-	-
27 Feb 2015	30 Jun 2017	-	-	389,410	-	(267,398)	122,012	-
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)	-	-
Total			1,413,332	389,410	-	(1,680,730)	122,012	-
2016								
Performance rights								
27 Feb 2015	30 Jun 2017	-	**122,012**	**-**	**-**	**(38,404)**	**83,608**	**-**
Total			**122,012**	**-**	**-**	**(38,404)**	**83,608**	**-**

Fair value of performance rights granted

The fair value assessed in accordance with AASB 2 *Share Based Payment* at grant date of performance rights granted during the previous reporting period was 52.0 cents per performance right for the performance rights subject to market hurdles and 77.0 cents per performance right for the performance rights subject to non-market hurdles.

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

29 Share-based payments (continued)

(b) Employee performance rights (continued)

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 granted during the year ended 30 June 2015 included:

Exercise price	$0.00
Life	2.3 years
Grant date (for Accounting Standards)	27 February 2015
Expiry date	30 June 2017
Share price at grant	$0.88
Expected price volatility	40%
Expected dividend yield	5.7%
Risk free interest rate	1.8%

(b) Expenses arising from share-based payment transactions

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

	2016 $'000	2015 $'000
Performance rights issued under Long Term Incentive Share Plan	**(84)**	33

Recognition and measurement

Share-based payments

Share based compensation benefits are provided to employees via the Long Term Incentive Share Plan – see below:

Long Term Incentive Share Plan

The Long Term Incentive Share Plan allows Group executives to acquire shares of the Company.

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

The valuation method takes into account the exercise price of the performance right, the life of the performance right, the current price of the underlying shares, the expected volatility of the share price, the dividends expected of the shares and the risk free interest rate for the life of the performance right.

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

30 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:

	2016 $	2015 $
KPMG audit and non-audit services		
Audit and other assurance services		
KPMG Australia - audit and review of the financial statements	**343,375**	485,909
Overseas KPMG firms - audit and review of the financial statements	**39,951**	38,957
Total remuneration for audit and other assurance services	**383,326**	524,866
Taxation services		
KPMG Australia - taxation and other services	**76,239**	203,867
Overseas KPMG firms - taxation services	**11,605**	40,253
Total remuneration for taxation services	**87,844**	244,120
Other services		
Financial advisory services	**-**	397,534
Other consulting services	**8,342**	-
Total remuneration for other services	**8,342**	397,534
Total remuneration of KPMG	**479,512**	1,166,520

31 Other accounting policies

(a) New and amended standards adopted by the Group

The Group has not applied any new accounting standards and amendments for the first time for the annual reporting period commencing 30 June 2016.

(b) Early adoption of standards

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

(c) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 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.

Title	Effective date (reporting periods beginning on or after…)	Details
AASB 9 *Financial Instruments*	1 January 2018 (early adoption permitted)	Addresses the classification, measurement and derecognition of financial assets and financial liabilities and sets out new rules for hedge accounting. It is likely to affect the Group's accounting for its financial assets and financial liabilities. The Group has not yet decided when to adopt AASB 9 and has not yet determined the potential effect of the standard.
AASB 15 *Revenue from Contracts with Customers*	1 January 2018 (early adoption permitted)	Replaces AASB 118 Revenues and applies to contracts with customers. The Group has not yet decided when to adopt AASB 15 and has not yet determined the potential effect of the standard.

31 Other accounting policies (continued)

(c) New accounting standards and interpretations not yet adopted (continued)

Title	Effective date (reporting periods beginning on or after…)	Details
AASB 16 *Leases*	1 January 2019 (early adoption permitted)	Removes the classification of leases as either operating or finances leases for the lessee, effectively treating all leases as finance leases. Short term leases and leases of low value assets are exempt from the lease accounting requirements. The Group has not yet decided when to adopt AASB 16 and has not yet determined the potential effect of the standard.
AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*	1 January 2016 (early adoption permitted)	Amendments to existing accounting standards, particularly in relation to: AASB 5 – when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such AASB 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for derecognition AASB 7 – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by AASB 134 AASB 119 – that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise These changes are not expected to have a material impact on the Group.
AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative*	1 January 2016 (early adoption permitted)	The amendments do not require any significant changes to current practice but facilitate improved reporting. They do not affect the Group's accounting policies or any of the disclosures.

(d) 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 that are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Directors' declaration
For the year ended 30 June 2016

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

(a) the consolidated financial statements and notes set out on pages 38 to 94 and the Remuneration Report on pages 19 to 33 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 2016 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 22 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.

Section A of the notes 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.

Jennifer Helen Hill-Ling
Director

Philip Bullock
Director

Sydney
17 August 2016

KPMG

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 2016, and consolidated income statement, 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 31 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 Section 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 2016 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 Section A.

Report on the remuneration report

We have audited the Remuneration Report included in pages 19 to 33 of the directors' report for the year ended 30 June 2016. 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 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

S.A. Fleming

Scott Fleming
Partner

Adelaide

17 August 2016

Shareholder information

The shareholder information set out below was applicable as at 15 August 2016.

Distribution of equity securities

Analysis of numbers of ordinary shareholders by size of holding:

Size of holding	Number of holders
1 - 1000	4,056
1,001 - 5,000	6,265
5,001 - 10,000	2,770
10,001 - 100,000	2,728
100,001 and over	179

There were 6,235 holders of less than a marketable parcel of ordinary shares.

Twenty largest shareholders

The names of the 20 largest holders of ordinary shares are listed below:

Name	Number of shares	% of shares issued
HILLS ASSOCIATES LIMITED	16,768,441	7.23
POPLAR PTY LIMITED	16,550,845	7.13
CITICORP NOMINEES PTY LIMITED	11,723,794	5.05
CARISTE PTY LTD <CARISTE PTY LTD S/FUND A/C>	6,691,872	2.88
JACARANDA PASTORAL PTY LTD	5,968,699	2.57
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,644,295	2.00
RBC INVESTOR SERVICES AUSTRALIA PTY LIMITED <VFA A/C>	4,593,972	1.98
GREYBOX HOLDINGS PTY LTD	4,550,042	1.96
J P MORGAN NOMINEES AUSTRALIA LIMITED	3,553,223	1.53
CAMBROSE PTY LIMITED	3,176,510	1.37
IQ RENTAL & FINANCE PTY LTD <WATTS FAMILY A/C>	1,800,000	0.78
ACE PROPERTY HOLDINGS PTY LTD	1,600,000	0.69
VENN MILNER SUPERANNUATION PTY LTD	1,500,000	0.65
DONALD CANT PTY LTD	1,337,578	0.58
HILLS ASSOCIATES LIMITED & POPLAR PTY LTD	1,188,918	0.51
MR JOHN GASSNER	1,181,752	0.51
COLLEEN SIMS NOMINEES PTY LTD <C J H SIMS FAMILY A/C>	1,162,445	0.50
MR JACK BOGHOS	1,100,000	0.47
CVC LIMITED	987,509	0.43
BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE NO 1 A/C>	983,097	0.42

Shareholder information (continued)

Substantial holders

Substantial holders in the Company are set out below:

Name	Number held	% of shares issued
Poplar Pty Ltd[1]	17,775,724	7.66
Hills Associates Limited	16,768,441	7.23

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.

On-market buyback

The Company originally announced an on market buyback on 23 August 2011, giving the Company the option to acquire up to 10% of its issued ordinary shares. The buyback was for ongoing capital management purposes and was to take place over the twelve months from the date of the announcement. The on market buyback was extended on 13 August 2012, again on 6 August 2013 and again on 15 August 2014 and 25 February 2015.

The Company did not buy back any shares during the current reporting period. The on market buyback has now expired.

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.

Securities exchange

The Company is listed on the Australian Securities Exchange. The home exchange is Adelaide.

[1] The total number of shares held includes the joint shareholding held by Poplar Pty Ltd and Hills Associates Limited and the shareholding held by Ling Nominees Pty Ltd

Corporate directory

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Facsimile: (02) 9216 5999

Web: http://www.hills.com.au

Executives

Grant Logan, *Chief Executive Officer*

Gareth Turner, *Chief Financial Officer*

Non-executive directors

Jennifer Helen Hill-Ling
Fiona Rosalyn Vivienne Bennett
Philip Bullock
Ian Elliot
David Moray Spence

Company secretary

Ms Gai Stephens

Share registry

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