

Hills Limited

ABN 35 007 573 417

**Interim Financial Report
for the half year ended 31 December 2014**

Hills Limited

ASX Half year information - 31 December 2014

Lodged with the ASX under Listing Rule 4.2A.
This information should be read in conjunction with the
30 June 2014 Annual report

Contents

	Page
Results for Announcement to the Market	2
Directors' report	3
Lead Auditor's Independence Declaration under Section 307C of the <i>Corporations Act 2001</i>	7
Interim financial report	
Consolidated income statement	8
Consolidated statement of comprehensive income	9
Consolidated statement of financial position	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12
Notes to the consolidated financial statements	13
Directors' declaration	29
Independent auditor's review report to the members	30

This Interim Financial Report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2014 and any public announcements made by Hills Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This Interim Financial Report is the consolidated financial statements for the consolidated entity consisting of Hills Limited (the "Company") and its subsidiaries (together referred to as the "Group" and individually as "Group Entities"). The Interim Financial Report is presented in the Australian currency.

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

Hills Limited
Level 7, 130 Pitt Street
Sydney NSW 2000

A description of the nature of the Group's operations is included in the Directors' report on pages 3 – 4.

The Interim Financial Report was authorised for issue by the Directors on 23 February 2015. The Company has the power to amend and reissue the Interim Financial Report.

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

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

Hills Limited
For the half year ended 31 December 2014
(Previous corresponding period: half year ended 31 December 2013)

Results for Announcement to the Market
31 December 2014

	31 Dec 2013 A\$'000		Change A\$'000			31 Dec 2014 A\$'000
Revenue from continuing operations	\$225,703	up	\$1,327	0.6%	to	227,030
Profit after tax attributable to owners from continuing and discontinued businesses	\$14,076	down	\$5,060	35.9%	to	9,016
Underlying profit after tax attributable to owners from continuing and discontinued businesses ¹	\$16,193	down	\$6,685	41.3%	to	9,508
Basic earnings per share (cents per share)	5.8	down	1.9	32.8%	to	3.9
Basic earnings per share using underlying profit (cents per share) ¹	6.7	down	2.6	38.8%	to	4.1
Dividends	Amount per security (cents)		Franked amount per security (cents)			
Final dividend (<i>Prior year</i>)	3.6		3.6			
Interim dividends						
- <i>current reporting period (to be paid 30 April 2015)</i>	2.1		2.1			
- <i>previous corresponding period ²</i>	3.4		3.4			

Record date for determining entitlements to interim dividend

16 April 2015

Refer attached press release and Directors' report on pages 3 to 4 of this Interim Financial Report for a brief explanation of the figures reported above.

This Interim Financial Report is the half year information provided to the Australian Stock Exchange under listing rule 4.2A. The Report also satisfies the half year reporting requirements of the *Corporations Act 2001*.

This Interim Financial Report should be read in conjunction with the 2014 Annual Financial Report.

¹ The report includes the following non-IFRS measures:

- Underlying profit after tax attributable to owners of \$9.508 million (half year ended 31 December 2013: \$16.193 million) is a non-IFRS measure which has been calculated as: profit for the half year of \$9.016 million (half year ended 31 December 2013: \$14.076 million) adjusted for business combination acquisition transaction costs and costs of sale of properties in the current half year of \$2.178 million and tax credits of \$1.686 million (net impact \$0.492 million) (half year ended 31 December 2013: business combination acquisition transaction costs of \$2.117 million). Reconciliation is provided in Note 10(c).

The non-IFRS measures used by the Company are relevant because they are consistent with measures used internally by management and some in the investment community to assess the operating performance of the business in light of its change program. The non-IFRS measures have not been subject to audit or review.

Directors' report

The Directors present their report on the consolidated entity (referred to hereafter as the "Group" or "Hills") consisting of Hills Limited (the "Company") and the entities it controlled at the end of, or during, the half year ended 31 December 2014 and the independent auditor's review report thereon.

Directors

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

Name	Details
Jennifer Helen Hill-Ling <i>Chairman Non-Independent Non-Executive Director</i>	Appointed Director in August 1985. Appointed Deputy Chairman in June 2004. Appointed Chairman 28 October 2005.
Edward (Ted) Noel Pretty <i>Group Managing Director & Chief Executive Officer</i>	Appointed Group Managing Director and Chief Executive Officer 3 September 2012.
Fiona Rosalyn Vivienne Bennett <i>Independent Non-Executive Director</i>	Appointed Director on 31 May 2010.
Ian Elliot <i>Independent Non-Executive Director</i>	Appointed Director in August 2003.
David Moray Spence <i>Independent Non-Executive Director</i>	Appointed Director on 1 September 2010
Philip Bullock <i>Independent Non-Executive Director</i>	Appointed Director on 23 June 2014.

Peter William Stancliffe was an Independent Non-Executive Director from the beginning of the financial year until his resignation on 31 October 2014.

Consolidated result

The consolidated profit after tax for the half year attributable to owners of the Company was:

	31 December 2014 \$'000	31 December 2013 \$'000
Profit for the half year attributable to the owners of the Company	9,016	14,076
Loss for the half year from business combination acquisition transaction costs and costs of sale of properties in the current half year of \$2.178 million and tax credits of \$1.686 million (2013: business combination acquisition costs of \$2.117 million) (refer Note 10(c))	492	2,117
Underlying profit for the half year attributable to the owners of the Company	9,508	16,193

Review of operations

A summary of consolidated revenues and operating results for the half year by operating segments is set out below:

	Segment revenues		Segment results ¹	
	31 December 2014 \$'000	31 December 2013 \$'000	31 December 2014 \$'000	31 December 2013 \$'000
Hills Technologies Segment	229,470	206,479	20,414	22,077
Other Hills Businesses sold or closed	-	20,439	-	2,278
Building and Industrial (discontinued)	-	220,749	-	3,810
Total segment revenues / segment results	229,470	447,667	20,414	28,165

¹ Segment results are adjusted operating earnings before interest, tax, depreciation and amortisation, which is the measure of segment result that is reported to the Board of Directors to assess the performance of the operating segments. For a reconciliation to profit before tax refer to Note 2.

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

While Hills has a number of operating segments, after the restructure and transformation program, all of its remaining operating segments have characteristics that are so similar in nature that they can reasonably be expected to have the same prospects. Hills operating segments have similar economic characteristics, provide similar products and services, have a similar production process, similar types of customers, similar methods for distribution and are subject to a similar regulatory environment. Hills operating segments have therefore been aggregated into one reportable segment under AASB 8 *Operating Segments*, called the Hills Technologies Segment. This is also borne out by the fact that after its restructure and transformation program, Hills has actively consolidated its operating structure into what is known as a 'One Hills' approach where the business operates as an integrated business rather than a holding company owning disparate operations. The previously reported Lifestyle & Sustainability segment is no longer a material reportable segment and has been aggregated into the Hills Technologies Segment while the previously reported Building & Industrial Segment has been sold.

Comments on the operations and the results of those operations are set out below.

The core Security, AV, Audio and Communications business continues to see pressure from aggressive competition and the impact on margins from a lower exchange rate. In response, Hills has stepped up innovative marketing efforts to drive sales.

The Health business has continued its steady performance and results for the first half were pleasing. We have built our Health business on the back of four successful health acquisitions and recent licensing agreement with Ireland and US based Lincor Solutions, a leader in patient engagement technology platforms.

During the period, we announced our licensing agreement with Woolworths Limited. This strategic relationship has effectively converted the original Hills Home manufacturing and distribution business, which faced the challenges of both limited scale and challenging supply chain logistics, into a brand licensing annuity business.

Funding

Hills net cash as at 31 December 2014 was \$1.7m (30 June 2014: net cash of \$8.5m). Gearing, measured as net debt to net debt plus equity, stood at zero at 31 December 2014 and 30 June 2014. The earliest date for review of any of the Company's bank and debt facilities is February 2018. Hills continues to comfortably meet all of its banking covenants.

Net tangible asset (NTA) backing

	31 December 2014 \$	31 December 2013 \$
Net tangible assets per ordinary share	0.39	0.55

Calculated as net assets less intangible assets and deferred tax assets over the total number of shares on issue

Dividends

Dividends paid to owners during the financial half year were as follows:

	31 December 2014 \$'000	31 December 2013 \$'000
Final ordinary dividend for the year ended 30 June 2014 of 3.6 cents per fully paid share paid on 26 September 2014 (half year ended 31 December 2013: interim ordinary dividend for the year ending 30 June 2014 of 3.25 cents per fully paid ordinary share paid on 27 September 2013)	8,402	8,000

The Directors have announced a fully franked dividend of 2.1 cents per share. The Directors have determined not to offer the Dividend Reinvestment Plan or the Share Investment Plan in respect to this interim dividend. The Record Date for the dividend will be 16 April 2015 and the dividend will be paid on 30 April 2015.

Matters subsequent to the end of the financial half year

On 6 February 2015 the Group acquired 100% of the issued shares in Hospital Communications Pty Ltd. The acquisition is consistent with Hills stated strategy to be the number one provider of interactive patient care solutions to hospitals and aged care facilities in Australia.

On 23 February 2015, Hills entered into a new 3-year banking facility agreement with its incumbent bankers on substantially better terms and pricing than its previous facility. The new facility consists of a \$90million cash revolver tranche and a \$20million multi-option facility tranche. Deferred borrowing costs of \$0.2m carried on the balance sheet in relation to the old facility will be expensed to profit (as a non-underlying expense) in the second half of the financial year. Costs directly incurred in establishing the new facility will be deferred on the balance sheet and expensed to profit over the 3-year term of the new facility agreement.

Other than the above, no matter or circumstance has occurred subsequent to half 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 years.

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 7.

Rounding of amounts

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

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



JH Hill-Ling

Chairman



EN Pretty

Group Managing Director & CEO

Sydney
23 February 2015



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 review for the half-year ended 31 December 2014 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG
KPMG

Paul Cenko
Partner

Adelaide

23 February 2015

Hills Limited
Consolidated income statement
For the half year ended 31 December 2014

	Notes	31 December 2014 \$'000	31 December 2013 \$'000
Continuing operations			
Revenue	3	227,030	225,703
Other income		<u>2,440</u>	1,215
		229,470	226,918
Expenses excluding net finance expenses	4	(217,496)	(207,579)
Profit before net finance expense and income tax		<u>11,974</u>	19,339
Finance income		89	554
Finance expenses		<u>(1,730)</u>	(2,357)
Net finance expenses	4	<u>(1,641)</u>	(1,803)
Profit before income tax		10,333	17,536
Income tax expense from continuing operations	5	<u>(1,098)</u>	(5,080)
Profit from continuing operations for the half year		9,235	12,456
Profit from discontinued operations (net of tax)	12	<u>-</u>	2,601
Profit for the half year		<u>9,235</u>	15,057
Profit is attributable to:			
Owners of Hills Limited		9,016	14,076
Non-controlling interests		<u>219</u>	981
		9,235	15,057
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	10	3.9	4.7
Diluted earnings per share	10	3.9	4.7
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	10	3.9	5.8
Diluted earnings per share	10	3.9	5.8

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

Hills Limited
Consolidated statement of comprehensive income
For the half year ended 31 December 2014

	Notes	31 December 2014 \$'000	31 December 2013 \$'000
Profit for the half year		9,235	15,057
Other comprehensive (loss) / income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges		1,573	1,220
Exchange differences on translation of foreign operations		454	1,057
Income tax relating to components of other comprehensive income		(472)	(366)
Other comprehensive income for the half year that may be reclassified to profit or loss, net of tax		1,555	1,911
<i>Items that will not be reclassified to profit or loss</i>			
Reversal of previous revaluation of land and buildings	7	(5,395)	-
Income tax relating to components of other comprehensive income		1,618	-
Other comprehensive (loss) for the half year that will not be reclassified to profit or loss, net of tax		(3,777)	-
Other comprehensive (loss) / income for the half year, net of tax		(2,222)	1,911
Total comprehensive income for the half year		7,013	16,968
Total comprehensive income for the half year is attributable to:			
Owners of Hills Limited		6,794	15,987
Non-controlling interests		219	981
		7,013	16,968
Total comprehensive income for the half year attributable to owners of Hills Limited arises from:			
Continuing operations		6,794	13,386
Discontinued operations		-	2,601
		6,794	15,987

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 31 December 2014

		31 December 2014 \$'000	30 June 2014 \$'000
	Notes		
ASSETS			
Current assets			
Cash and cash equivalents	6	31,689	45,482
Trade and other receivables		92,147	104,479
Inventories		61,939	59,351
Derivative financial instruments		1,477	-
		<u>187,252</u>	<u>209,312</u>
Assets classified as held for sale	12	-	7,800
Total current assets		<u>187,252</u>	<u>217,112</u>
Non-current assets			
Trade and other receivables		1,029	-
Investments	3	3	2
Property, plant and equipment		32,009	47,605
Intangible assets		94,036	83,183
Deferred tax assets		57,261	56,043
Total non-current assets		<u>184,338</u>	<u>186,833</u>
Total assets		<u>371,590</u>	<u>403,945</u>
LIABILITIES			
Current liabilities			
Trade and other payables		62,055	75,759
Borrowings		-	1,983
Current tax liability		1,033	1,812
Provisions		30,096	36,389
Derivative financial instruments		60	472
Total current liabilities		<u>93,244</u>	<u>116,415</u>
Non-current liabilities			
Borrowings		30,000	35,000
Provisions		7,217	6,774
Derivative financial instruments		440	528
Total non-current liabilities		<u>37,657</u>	<u>42,302</u>
Total liabilities		<u>130,901</u>	<u>158,717</u>
Net assets		<u>240,689</u>	<u>245,228</u>
EQUITY			
Contributed equity	8	278,440	281,624
Reserves		27,326	28,900
(Accumulated losses)		(66,359)	(66,359)
Capital and reserves attributable to owners of Hills Limited		<u>239,407</u>	<u>244,165</u>
Non-controlling interests		1,282	1,063
Total equity		<u>240,689</u>	<u>245,228</u>

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 half year ended 31 December 2014

	Notes	Attributable to owners of Hills Limited				Non-controlling interests \$'000	Total equity \$'000
		Contributed equity \$'000	Reserves \$'000	(Accumulated losses) / Retained earnings \$'000	Total \$'000		
Balance at 1 July 2013		303,890	32,589	(66,359)	270,120	898	271,018
Total comprehensive income for the half year		-	1,911	14,076	15,987	981	16,968
Transactions with owners in their capacity as owners:							
Share buy-back, net of transaction costs and tax		(18,146)	-	-	(18,146)	-	(18,146)
Dividends provided for or paid	9	-	-	(8,000)	(8,000)	-	(8,000)
Dividends paid to non-controlling interests in subsidiaries		-	-	-	-	(82)	(82)
Transfer current period profit to profits reserve		-	6,076	(6,076)	-	-	-
Balance at 31 December 2013		285,744	40,576	(66,359)	259,961	1,797	261,758
Balance at 1 July 2014		281,624	28,900	(66,359)	244,165	1,063	245,228
Total comprehensive income for the half year		-	(2,222)	9,016	6,794	219	7,013
Transactions with owners in their capacity as owners:							
Share buy-back, net of transaction costs and tax		(3,184)	-	-	(3,184)	-	(3,184)
Dividends provided for or paid	9	-	(8,402)	-	(8,402)	-	(8,402)
Employee share schemes – value of employee services		-	34	-	34	-	34
Transfer current period profit to profits reserve		-	9,016	(9,016)	-	-	-
Balance at 31 December 2014		278,440	27,326	(66,359)	239,407	1,282	240,689

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 half year ended 31 December 2014

	31 December 2014 \$'000	31 December 2013 \$'000
Notes		
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	264,563	488,719
Payments to suppliers and employees (inclusive of goods and services tax)	(257,612)	(496,558)
	<u>6,951</u>	<u>(7,839)</u>
Net finance costs paid	(1,641)	(1,553)
Net income taxes paid	(1,285)	(508)
	<u>4,025</u>	<u>(9,900)</u>
Net cash inflow / (outflow) from operating activities		
Cash flows from investing activities		
Payments for acquisition of subsidiary / business operations, net of cash acquired	(16,768)	(38,267)
Payments for property, plant and equipment	(5,369)	(6,569)
Payments for intangible assets	(1,955)	(1,653)
Proceeds from sale of business operations	1,943	8,149
Proceeds from sale of property, plant and equipment and intangibles	13,736	9,699
Proceeds from sale of assets held for sale	7,570	-
Rent received	1,575	671
	<u>732</u>	<u>(27,970)</u>
Net cash inflow / (outflow) from investing activities		
Cash flows from financing activities		
Proceeds from borrowings	-	17,250
Repayment of borrowings	(5,172)	(141)
Payments for shares bought back, inclusive of transaction costs	(3,184)	(18,146)
Dividends paid to the Company's shareholders	(8,402)	(8,000)
Dividends paid to non-controlling interests in subsidiaries	-	(82)
	<u>(16,758)</u>	<u>(9,119)</u>
Net cash (outflow) from financing activities		
Net (decrease) in cash and cash equivalents	(12,001)	(46,989)
Cash and cash equivalents at the beginning of the half year	43,671	61,480
Effects of exchange rate changes on cash and cash equivalents	19	378
	<u>31,689</u>	<u>14,869</u>
Cash and cash equivalents at end of the half year	6	14,869

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

1 Basis of preparation of Interim Financial Statements

(a) Basis of preparation

These general purpose Interim Financial Statements for the half year reporting period ended 31 December 2014 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These Interim Financial Statements do not include all the notes of the type normally included in the Annual Financial Statements. Accordingly, this report is to be read in conjunction with the Annual Financial Statements for the year ended 30 June 2014 and any public announcements made by Hills Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

These consolidated Interim Financial Statements were approved by the Board of Directors on 23 February 2015.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

(b) New and amended standards adopted by the Group

The Group has not applied any new standards and amendments for the first time in its annual reporting period commencing 1 July 2014.

(c) Critical accounting estimates

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

In preparing this consolidated Interim Financial Report, the judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2014. These comprised:

- Assets and disposal groups held for sale and discontinued operations
- Valuation of land and buildings and measurement of the useful lives of property, plant and equipment and intangible assets
- Measurement of the recoverable amounts of cash generating units containing goodwill
- Provisions and contingencies
- Measurement of share based payments
- Measurement of fair value
- Business combinations and contingent consideration payable

(d) Rounding of amounts

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

2 Segment information

(a) Description of segments

As a result of the Group's restructure and transformation programs and after the disposal of its Building & Industrial Segment, the Group reviewed the way it presents segment information under AASB 8 *Operating Segments*.

The Group has determined that its chief operating decision maker (CODM) is the Board of Hills Limited. The Board of Hills Limited ultimately makes decisions regarding the allocation of resources to the operating segments of Hills and ultimately is the Group's "chief operating decision maker" within the meaning of AASB 8.

While Hills has a number of operating segments, after the restructure and transformation program, all of its remaining operating segments have characteristics that are so similar in nature that they can reasonably be expected to have the same prospects. Hills operating segments have similar economic characteristics, provide similar products and services, have a similar production process, similar types of customers, similar methods for distribution and are subject to a similar regulatory environment. Hills operating segments have therefore been aggregated into one reportable segment under AASB 8 called the Hills Technologies Segment. This is also borne out by the fact that after its restructure and transformation program, Hills has actively consolidated its operating structure into what is known as a 'One Hills' approach where the business operates as an integrated business rather than a holding company owning disparate operations. The previously reported Lifestyle & Sustainability segment is no longer a material reportable segment and has been aggregated into the Hills Technologies Segment while the previously reported Building & Industrial Segment has been sold.

In terms of reviewing the Group as it has gone through its restructuring and transformation program, the CODM is presented with information that separates Hills results into its continuing business (the Hills Technologies Segment) and discontinuing business results in two categories: the Discontinuing Building & Industrial Segment (which is also the discontinuing operations under IFRS) and Other Discontinued Hills Businesses (which are businesses that have been closed or sold and regardless of whether these are classified as discontinuing under IFRS or not). That information, 'through the eyes of management' has been presented in this Segment note in accordance with the principles of AASB 8.

(b) Description of segments

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

Hills Technologies

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

Other Hills businesses sold or closed

Businesses that have been closed or sold (and that were not classified as discontinuing under IFRS), are shown separately to enable the CODM to assess the true continuing operations of the Group which are shown within the Hills Technologies segment. In the previous half year this included the operations of LW Gemmell, UHS and OptiComm.

Building & Industrial (Discontinued operations under IFRS)

In the previous financial year, the Building & Industrial Segment that was sold (and was treated as a separate discontinuing operation under IFRS), was shown separately to enable the CODM to assess the true continuing operations of the Group which are shown within the Hills Technologies segment.

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.

2 Segment information (continued)

(b) Information about reportable segments

	Hills Technologies Segment		Other Hills Businesses sold or closed		Building & Industrial (Discontinued operations under IFRS)		Total
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2013
Total segment revenue	229,470	206,479	-	20,439	-	221,225	448,191
Inter-segment revenue	-	-	-	-	-	(524)	(524)
Revenue from external customers	229,470	206,479	-	20,439	-	220,749	447,667
Segment EBITDA	20,414	22,077	-	2,278	-	3,810	28,165
Segment Assets	257,746	233,023	-	13,491	-	127,928	374,442
Segment Liabilities	67,050	76,629	-	7,734	-	49,624	133,987

2 Segment information (continued)

(c) Other segment information

(i) Segment revenue

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

Segment revenue reconciles to the income statement.

(ii) Segment EBITDA

Segment EBITDA reconciles to profit before income tax as follows:

	31 December 2014 \$'000	31 December 2013 \$'000
Segment EBITDA	20,414	28,165
Depreciation and amortisation	(5,804)	(4,082)
Finance income	89	458
Finance expenses	(1,730)	(2,357)
Fair value gain on derivatives	-	101
Other	(2,636)	(934)
Less discontinued operations profit before tax and restructuring costs	-	(3,815)
Profit before income tax from continuing operations	10,333	17,536

(iii) Segment assets

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

	31 December 2014 \$'000	31 December 2013 \$'000
Segment assets	257,746	374,442
Unallocated assets:		
Deferred tax assets	57,261	52,487
Cash assets	31,689	14,869
Derivative financial instruments	1,477	1,044
Investments	3	2
Corporate assets	23,414	65,369
Total assets as per the consolidated statement of financial position	371,590	508,213

2 Segment information (continued)

(c) Other segment information (continued)

(iv) Segment liabilities

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

	31 December 2014 \$'000	31 December 2013 \$'000
Segment liabilities	67,050	133,987
Unallocated liabilities:		
Tax liabilities (including GST payable)	4,944	7,645
Current borrowings	-	2,220
Non-current borrowings	30,000	80,550
Derivative financial instruments	500	2,111
Corporate liabilities	28,407	19,942
Total liabilities as per the consolidated statement of financial position	130,901	246,455

3 Revenue

	31 December 2014 \$'000	31 December 2013 \$'000
Revenue from continuing operations		
<i>Sales revenue</i>		
Sale of goods	208,223	202,655
Services	17,232	22,377
	225,455	225,032
<i>Other revenue</i>		
Rents and sub-lease rentals	1,575	671
Total revenue from continuing operations	227,030	225,703
Revenue from discontinued continuing operations		
Sales revenue – sale of goods	-	220,560
Total revenue	227,030	446,263

4 Profit for the half year

	31 December 2014 \$'000	31 December 2013 \$'000
Classification of expenses by function		
Cost of goods sold	134,799	130,333
Cost of services provided	9,715	11,688
Other expenses from ordinary activities:		
Sales and marketing expenses	33,054	35,689
Distribution expenses	12,417	9,381
Administration expenses	24,875	18,303
Other expenses	2,636	2,185
	<u>217,496</u>	<u>207,579</u>
Profit before income tax includes the following specific expenses:		
	31 December 2014 \$'000	31 December 2013 \$'000
<i>Depreciation</i>		
Buildings	48	314
Plant and equipment	2,476	2,678
Total depreciation	<u>2,524</u>	<u>2,992</u>
<i>Amortisation</i>		
Patents and trademarks	31	327
Research and development	96	174
Customer contracts, relationships and brands	1,286	508
Software	1,867	81
Total amortisation	<u>3,280</u>	<u>1,090</u>
Total depreciation and amortisation	<u>5,804</u>	<u>4,082</u>
<i>Finance expenses</i>		
Interest and finance charges paid/payable	(1,730)	(2,014)
Wind-back of discount on provisions	-	(343)
	<u>(1,730)</u>	<u>(2,357)</u>
<i>Finance income</i>		
Interest income	89	453
Fair value gains on derivatives	-	51
Ineffectiveness in fair value of cash flow hedges	-	50
	<u>89</u>	<u>554</u>
Finance costs expensed	<u>(1,641)</u>	<u>(1,803)</u>

5 Income tax expense

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 31 December 2014 was 10.6% (for the six months ended 31 December 2013: 29.0%). The change in effective tax rate was caused mainly by the income tax benefit of the recognition of previously unrecognised capital losses.

6 Reconciliation of Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the period as shown in the consolidated statement of cash flows is reconciled to the related items in the consolidated statement of financial position as follows:

	31 December 2014 \$'000	31 December 2013 \$'000
Cash at bank and in hand	26,413	13,868
Deposits at call	5,276	1,001
	31,689	14,869

7 Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2014, the Group acquired assets with a cost of \$5.369 million (six months ended 31 December 2013: \$6.569 million). Assets, principally land and buildings, with a net book value of \$13.005 million were disposed of during the six months ended 31 December 2014 (six months ended 31 December 2013: \$9.614 million), resulting in a gain on disposal of \$0.337 million (six months ended 31 December 2013: gain of \$0.085 million).

Revaluation of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. As at 31 December 2014 independent valuers reassessed the fair value of land and buildings taking into consideration current market assessments and property offers received and the asset class was revalued. The Directors reviewed the assessment and determined a further revaluation decrement of \$5.395 million was appropriate. This amount was debited to the asset revaluation reserve in shareholders' equity.

Capital commitments

Commitments for the purchase of plant and equipment, electronic equipment, leasehold improvements and software yet to be delivered as at 31 December 2014 were \$3.323 million (as at 31 December 2013: \$5.952 million).

8 Contributed equity

31 December 2014 Shares '000	30 June 2014 Shares '000	31 December 2014 \$'000	30 June 2014 \$'000
------------------------------------	--------------------------------	-------------------------------	---------------------------

(a) Share capital

Ordinary shares – fully paid	231,706	233,913	278,440	281,624
------------------------------	---------	---------	---------	---------

(b) Ordinary shares

During the half year to 31 December 2014, the Company bought back 2.207 million shares for a total cost of \$3.184 million (inclusive of transaction costs) (half year ended 31 December 2013: 9.881 million shares for a total cost of \$18.146 million (inclusive of transaction costs)) under an on-market share buy-back as announced on 15 August 2014 (half year ended 31 December 2013: 6 August 2013).

9 Dividends

31 December 2014 \$'000	31 December 2013 \$'000
-------------------------------	-------------------------------

(a) Ordinary shares

Dividend of 3.6 cents fully franked based on tax paid 30% (2014: 3.25 cents fully franked based on tax paid 30%) per fully paid share paid on 26 September 2014 (2014: 27 September 2013)

8,402	8,000
-------	-------

(b) Dividends not recognised at the end of the half year

Following the end of the half year, the Directors recommended the payment of an interim dividend of 2.1 cents per fully paid ordinary share fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend to be paid on 30 April 2015 out of current year profits at 31 December 2014, but not recognised as a liability at the end of the half year, was \$4.866 million.

4,866	8,037
-------	-------

10 Earnings per share

31 December 2014 Cents	31 December 2013 Cents
------------------------------	------------------------------

(a) Basic earnings per share

Basic earnings per share from continuing operations attributable to the ordinary equity holders of the Company

3.9	4.7
-----	-----

Basic earnings per share from discontinued operations attributable to the ordinary equity holders of the Company

-	1.1
---	-----

Basic earnings per share attributable to the ordinary equity holders of the Company

3.9	5.8
-----	-----

Basic earnings per share from underlying profit attributable to the ordinary equity holders of the Company¹

4.1	6.7
-----	-----

10 Earnings per share (continued)

(b) Diluted earnings per share

	31 December 2014 Cents	31 December 2013 Cents
Diluted earnings per share from continuing operations attributable to the ordinary equity holders of the Company	3.9	4.7
Diluted earnings per share from discontinued operations attributable to the ordinary equity holders of the Company	-	1.1
Diluted earnings per share attributable to the ordinary equity holders of the Company	3.9	5.8
Diluted earnings per share from underlying profit attributable to the ordinary equity holders of the Company ¹	4.1	6.7

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

	31 December 2014 \$'000	31 December 2013 \$'000
<i>Profit / (loss) used in basic earnings per share</i>		
Profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	9,016	11,475
From discontinued operations	-	2,601
	9,016	14,076
<i>Profit / (loss) used in diluted earnings per share</i>		
Profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	9,016	11,475
From discontinued operations	-	2,601
	9,016	14,076
<i>Underlying profit / (loss) used in basic and diluted earnings per share¹</i>		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	9,016	14,076
Items not considered part of underlying profit ¹	492	2,117
Underlying profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share ¹	9,508	16,193

¹ Underlying profit has been calculated after adjusting profit / (loss) attributable to the ordinary equity holders of the Company for business combination acquisition transaction costs and costs of disposing of properties in the current half year of \$2.178 million and tax credits of \$1.686 million (net impact \$0.492 million) and business combination acquisition transaction costs in the previous half year of \$2.117 million. Underlying profit is relevant because it is consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business in light of its change program.

11 Business combination

(a) Current period – APG

Summary of acquisition

On 1 July 2014 the Group acquired 100% of the issued shares in EMG Finance Pty Ltd and Audio Products Group Pty Ltd (together “APG”). The acquisition complements and extends the Group’s building technologies business in the specialised audio market. The acquired business contributed revenues of \$13.746 million from the date of acquisition. The contribution of net profit to the Group is not separately determinable because APG has been integrated into the Technology segment by 31 December 2014.

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

	\$'000
Purchase consideration	
Cash paid	13,692
Contingent consideration	1,000
Total purchase consideration	<u>14,692</u>
Fair value of net identifiable assets acquired (refer below)	<u>5,605</u>
Goodwill (refer below)	<u>9,087</u>

The goodwill is attributable to the synergies expected to arise within the Hills Technologies division.

Assets and liabilities acquired

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

	Fair value \$'000
Cash	247
Trade and other receivables	4,147
Inventories	3,589
Plant and equipment	315
Deferred tax assets	536
Trade creditors and other liabilities	(2,125)
Provision for income tax	(4)
Provision for employee benefits	(1,100)
Net identifiable assets acquired	<u>5,605</u>
Add: Goodwill	<u>9,087</u>
Net assets acquired	<u>14,692</u>

Contingent consideration

Contingent consideration comprises retention and is payable to the former owners of APG twelve months after the acquisition was completed. The amount of retention payable is reduced by the value of agreed claims as defined in the sale agreement. Contingent consideration recorded has been determined on the basis of the probability of agreed claims arising.

Acquisition related costs

Acquisition-related costs of \$0.3 million relating to legal fees and due diligence costs are included in other expenses in profit or loss and in operating cash flows in the consolidated statement of cash flows.

11 Business combination (continued)

(b) Previous period

Summary of acquisitions

In the previous financial year the Group acquired the following businesses:

On 4 September 2013 the Group acquired two healthcare technology businesses. 100% of the issued shares in New Tone Pty Ltd (including TV Rentals Pty Ltd) ("HTR") were acquired with an effective date of 1 September 2013 and the assets and business of Merlon Technology NSW Pty Limited, Merlon Healthcare Communications Pty Limited and Statewide Communications Australia Pty Limited, (collectively known as "Merlon") were acquired with an effective date of 1 October 2013. On 31 March 2014 the Group acquired the majority of the assets and business of a healthcare technology business, Questek Pty Ltd ("Questek").

On 31 March 2014 the Group acquired the assets and business of a security solutions business, Open Platform Systems Pty Ltd ("OPS") and on 31 May 2014 the Group acquired the assets and business of a New Zealand based security solutions business, Intek Ltd ("Intek").

Details of the purchase consideration, the net assets acquired and goodwill is set out below. The acquisition accounting for Questek, OPS and Intek is classified as provisional as the measurement period has not ended.

	HTR & Merlon Final \$'000	Questek Provisional \$'000	OPS Provisional \$'000	Intek Provisional \$'000
Purchase consideration				
Cash paid	32,137	3,312	8,444	5,700
Contingent consideration	548	-	1,500	-
Total purchase consideration	32,685	3,312	9,944	5,700
Fair value of net identifiable assets acquired (refer below)	9,321	(154)	3,623	2,950
Goodwill (refer below)	23,364	3,466	6,321	2,750

Assets and liabilities acquired

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

	Fair value HTR & Merlon Final \$'000	Fair value Questek Provisional \$'000	Fair value OPS Provisional \$'000	Fair Value Intek Provisional \$'000
Cash / (overdraft)	(111)	-	-	-
Trade and other receivables	1,702	1,871	1,926	1,092
Inventories	2,388	323	1,233	1,902
Plant and equipment	2,233	268	120	577
Intangible assets: software	807	345	-	47
Intangible assets: customer contracts / relationships / brands	8,298	1,995	3,053	-
Intangible assets: patents and trademarks	2	-	-	-
Trade creditors and other liabilities	(1,661)	(4,046)	(1,617)	(609)
Provision for income tax	(1,184)	-	-	-
Deferred tax liability (net)	(2,382)	(447)	(841)	2
Provision for employee benefits	(771)	(463)	(251)	(61)
Net identifiable assets acquired	9,321	(154)	3,623	2,950
Add: Goodwill	23,364	3,466	6,321	2,750
Net assets acquired	32,685	3,312	9,944	5,700

11 Business combination (continued)

(b) Previous period (continued)

Assets and liabilities acquired (continued)

During the period since acquisition date the Company has undertaken reviews of the fair values attributed to assets and liabilities assumed as part of the acquisition. As a result of those reviews the following adjustments were identified:

- Merlon and HTR – provision for income tax initially recognised at \$1.356 million was reassessed at \$1.184 million, resulting in the value of net assets acquired increasing from \$9.149 million to \$9.321 million.
- Questek – trade and other receivables initially recognised at \$2.130 million was reassessed at \$1.871 million, inventory initially recognised at \$0.565 million was reassessed at \$0.323 million and trade and other payables initially recognised at \$2.391 million was reassessed at \$4.046 million. This results in the value of net assets / liabilities acquired reducing from \$2.002 million to \$(0.154 million).
- OPS – inventory initially recognised at \$1.818 million was reassessed at \$1.233 million and net deferred tax liabilities initially recognised at \$0.836 million was reassessed at \$0.841 million. This resulted in the value of net assets acquired reducing from \$4.213 million to \$3.623 million.
- Intek – inventory initially recognised at \$2.038 million was reassessed at \$1.902 million and net deferred tax liabilities initially recognised at \$0.053 million was reassessed at \$0.002 million. This resulted in the value of net assets acquired reducing from \$3.165 million to \$2.950 million.

Contingent consideration

Contingent consideration is payable to the former owners of Merlon, subject to certain contracts being signed. Additional contracts were signed compared to provisional estimates and as a result contingent consideration has been revised up from nil to \$0.548 million. Contingent consideration is payable to the former owners of Questek subject to material contracts being signed and subject to any claims arising. Contingent consideration has been revised down from \$0.950 million to nil. Contingent consideration was payable to the former owners of OPS if certain EBITDA results were achieved for the year ended 30 June 2014 and if certain revenue targets are achieved for the year ending 30 June 2015. Consideration paid has been revised up from \$5.244 million to \$8.444 million.

Goodwill

Impact on goodwill as a result of post-acquisition information received:

	HTR & Merlon Final \$'000	Questek Provisional \$'000	OPS Provisional \$'000	Intek Provisional \$'000
Goodwill at 30 June 2014	22,988	2,260	4,531	2,411
Adjustment to purchase consideration	548	(950)	1,200	124
Adjustment to fair value of net assets acquired	172	(2,156)	(590)	(215)
Goodwill at 31 December 2014	23,364	3,466	6,321	2,750

12 Assets and liabilities classified as held for sale, discontinued operations and disposal of businesses

(a) Assets classified as held for sale

Certain land and buildings were classified as held for sale at 30 June 2014 and were sold during the half year ended 31 December 2014.

	31 December 2014 \$'000	30 June 2014 \$'000
Non-current assets held for sale		
Land and buildings	-	7,800
Total assets classified as held for sale	-	7,800

(b) Discontinued operations – previous financial year

(i) Description

Fielders and Orrcon

At 31 December 2013 the significant operations of Fielders Australia Pty Ltd (Fielders) and Orrcon Operations Pty Ltd (Orrcon) were presented as disposal groups held for sale and discontinued operations. Fielders and Orrcon were sold on 28 February 2014.

In note 2, the assets of Fielders and Orrcon are presented within the total assets of the Building and Industrial segment.

Financial information relating to the discontinued operations for the previous financial half year is set out below.

(ii) Financial performance and cash flow information

	31 December 2014 \$'000	31 December 2013 \$'000
Revenue (note 3)	-	220,560
Expenses	-	(216,939)
Other income	-	189
Finance income	-	5
Profit / (loss) before income tax	-	3,815
Income tax (expense) / benefit	-	(1,214)
Profit / (loss) after income tax of discontinued operation	-	2,601
Profit / (loss) attributable to owners of Hills Limited	-	2,601
Net cash (outflow) / inflow from operating activities	-	(12,814)
Net cash (outflow) from investing activities	-	(704)
Net cash (outflow) from financing activities	-	(6,000)
Net (decrease) / increase in cash generated by the discontinued operations	-	(19,518)

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

(c) Disposal of businesses

On 31 August 2013 the Group sold the LW Gemmell business for net consideration of \$8.149 million. This business was not reclassified as a discontinued operation as it was not a significant separate major line of business. The profit on sale was not material to the Group.

13 Contingencies

There have been no material changes in contingent liabilities or contingent assets since 30 June 2014.

14 Financial instruments

(a) Carrying amounts versus fair values

The carrying amounts of financial assets and financial liabilities in the consolidated statement of financial position approximate their fair values.

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2014.

(b) Financial instruments carried at fair value

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

- Derivative financial instruments
- Contingent consideration payable

(i) Fair value hierarchy

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

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

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value:

At 31 December 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Derivatives used for hedging	-	1,477	-	1,477
Total financial assets	-	1,477	-	1,477
Financial liabilities				
Derivatives used for hedging	-	500	-	500
Contingent consideration payable	-	-	3,048	3,048
Total financial liabilities	-	500	3,048	3,548
At 31 December 2013	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Derivatives used for hedging	-	1,044	-	1,044
Total financial assets	-	1,044	-	1,044
Financial liabilities				
Derivatives used for hedging	-	2,111	-	2,111
Contingent consideration payable	-	-	9,618	9,618
Total financial liabilities	-	2,111	9,618	11,729

14 Financial instruments (continued)

(b) Financial instruments carried at fair value (continued)

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 period.

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

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

	Contingent consideration	
	31 December 2014	31 December 2013
	\$'000	\$'000
Balance at 1 July	4,450	10,607
Unwinding discount on provision	-	343
Payment of contingent consideration	(2,000)	(4,851)
Arising from business combination	598	3,519
Balance at 31 December	3,048	9,618

A discussion on the unobservable inputs is included within Note 11. The valuation of contingent consideration considers the possible scenarios of expected contracts to be signed, revenue and claims, the amount to be paid under each scenario and the probability of each scenario. The estimated fair value would increase / (decrease) if revenue growth is higher / (lower), the number of contracts signed increases / (decreases) and the number and value of agreed claims (increases) / decreases. Reasonably possible changes to the significant unobservable inputs, holding other inputs constant would have the following effect upon profit:

	Profit or loss	
	Increase	Decrease
	\$'000	\$'000
Revenue (5% movement)	-	195

15 Related party transactions

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 30 June 2014 Annual Financial Statements.

Transactions with other related parties

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

Sales of goods and services within the Group, that eliminated with cost of goods sold and services provided amounted to \$5.281 million (2014: \$6.795 million).

Loans and borrowings with Australian wholly owned controlled entities are interest free and payable on demand while loans to or from non wholly owned subsidiaries are charged interest at rates no more favourable than current market rates. Inter entity interest paid and received during the year was \$0.007 million (2014: \$0.088 million).

Entities within the Group rent properties to or from other entities within the Group at rentals that are market related. Property rentals within the Group during the year were \$nil (2014: \$0.708 million).

16 Events occurring after the reporting period

On 6 February 2015 the Group acquired 100% of the issued shares in Hospital Communications Pty Ltd. The acquisition is consistent with Hills stated strategy to be the number one provider of interactive patient care solutions to hospitals and aged care facilities in Australia.

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

	\$'000
Purchase consideration – Cash paid	9,406
Fair value of net identifiable assets acquired (refer below)	4,724
Goodwill (refer below)	4,682

The goodwill is attributable to the synergies expected to arise within the Hills Technologies division.

Assets and liabilities acquired

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

	Fair value \$'000
Cash	118
Trade and other receivables	670
Inventories	152
Plant and equipment	2,964
Intangible assets - software	534
Intangible assets – customer contracts and relationships	1,779
Deferred tax assets	57
Trade creditors and other liabilities	(674)
Provision for employee benefits	(191)
Deferred tax liabilities	(685)
Net identifiable assets acquired	4,724
Add: Goodwill	4,682
Net assets acquired	9,406

On 23 February 2015, Hills entered into a new 3-year banking facility agreement with its incumbent bankers on substantially better terms and pricing than its previous facility. The new facility consists of a \$90million cash revolver tranche and a \$20million multi-option facility tranche. Deferred borrowing costs of \$0.2m carried on the balance sheet in relation to the old facility will be expensed to profit (as a non-underlying expense) in the second half of the financial year. Costs directly incurred in establishing the new facility will be deferred on the balance sheet and expensed to profit over the 3-year term of the new facility agreement.

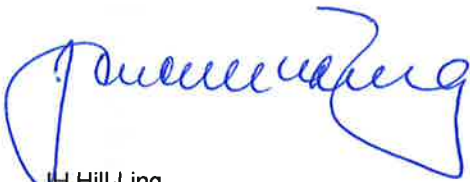
Other than the above, no matter or circumstance has occurred subsequent to half year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years.

**Hills Limited
Directors' declaration
31 December 2014**

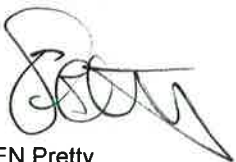
In the opinion of the Directors of Hills Limited ("the Company"):

- (a) the consolidated financial statements and notes set out on pages 8 to 28 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the half year ended on that date, and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; 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.

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



JH Hill-Ling
Chairman



EN Pretty
Group Managing Director & CEO

Sydney

23 February 2015



Independent auditor's review report to the members of Hills Limited

We have reviewed the accompanying interim financial report of Hills Limited, which comprises the interim consolidated statement of financial position as at 31 December 2014, interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the half-year ended on that date, notes 1 to 16 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 half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation of the interim 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 interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Hills Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Hills Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Paul Cenko
Partner

Adelaide

23 February 2015