Hills Limited

ABN 35 007 573 417

Annual report

for the year ended 30 June 2015

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Annual report - 30 June 2015

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Shareholders' Letter

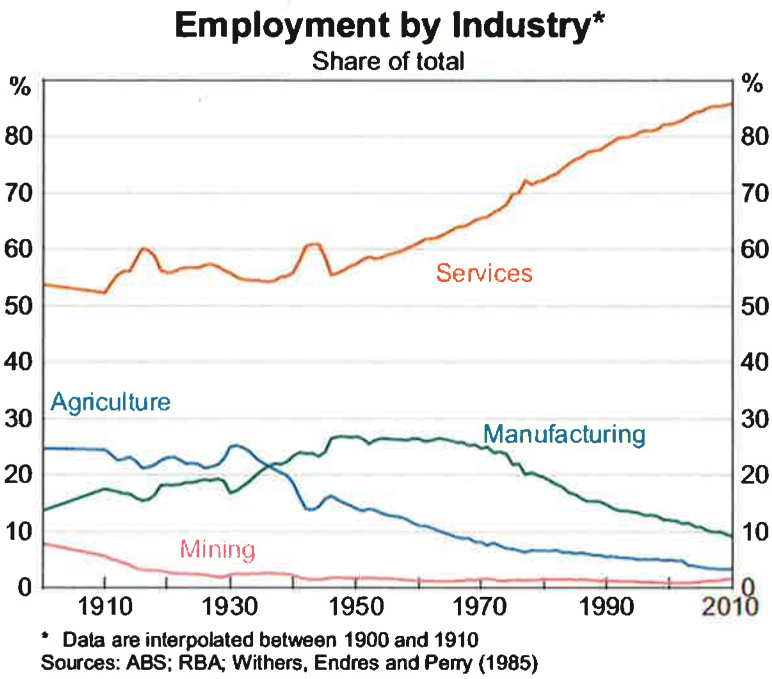
Dear Shareholders,

The First 70 Years

The 2015 financial year has been a challenging one for your Company. We have had many shareholders ask whether the strategic direction we took 3 years ago was the right one. To this we answer absolutely!

When Hills started in business 70 years ago, Australia was in a post war boom with manufacturing growing and reaching its highest levels in the following few decades. In the 1970's, Asia started to emerge as a major producer of manufactured goods and its share of global manufacturing doubled from 1970 to 2010, and continues to grow. In Australia, our manufacturing industry could not compete with Asian manufacturers.

At the same time, the Australian government started the reduction in trade protection to 'goods-providing industries'. From the early 1980's, trade barriers were progressively wound back. Consequently, the decline of the manufacturing industry in Australia over the following decades continued. The loss of Australia's motor industry, particularly visible in South Australia, is the latest casualty of this change. The Hills story since 1945 is closely linked to the Australian manufacturing "story". The graph below is taken from the Reserve Bank of Australia's September 2010 business bulletin titled "Structural Change in the Australian Economy".



Source: RBA September 2010 Quarterly Bulletin "Structural Change in the Australian Economy" by Connolly and Lewis.

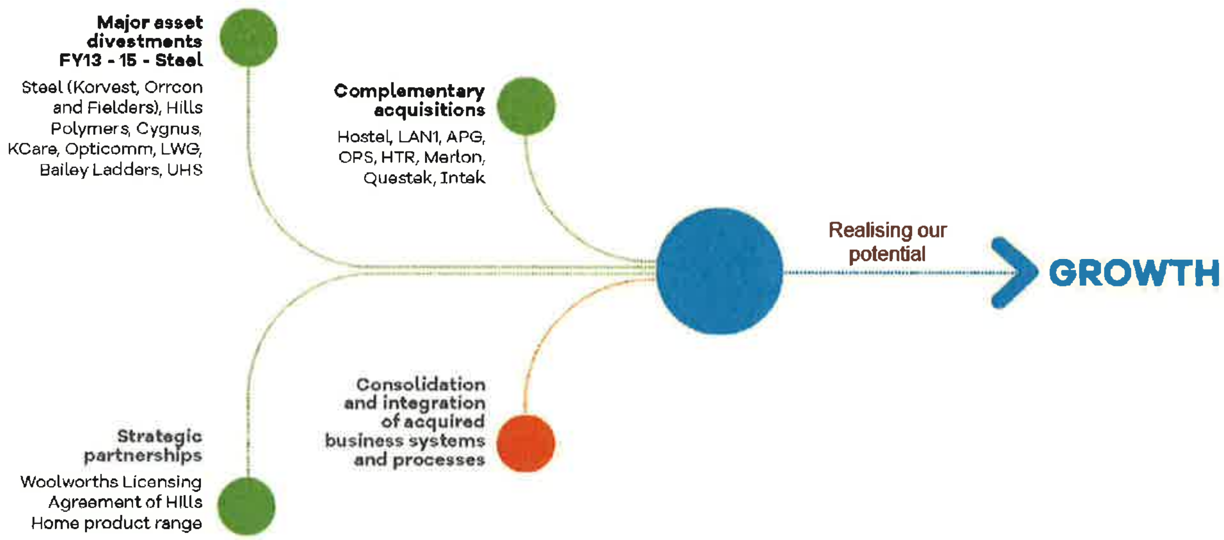
It was against this backdrop and declining profitability that your Board decided after much deliberation that the direction of your Company needed to change. Accordingly, the decision was made to "de-risk" the Company by:

- exiting low margin, capital intensive manufacturing operations exposed to competition from low cost products;
- using the funds from the sale of these businesses to pay down debt and to give your Company a sound balance sheet for organic growth and growth by acquisition; and
- exiting businesses and joint ventures where we had limited customers.

Your Company has transformed from a conglomerate dependent upon low margin, capital intensive steel and steel fabrication to a higher margin value added distributor of Security, AV and Health Services.

Our competitive advantage is our ability to add value for our customers by providing a broad range of products across both Australia and New Zealand with a bespoke service offering.

The Story So Far



In the appendix to this letter financial data shows what Hills looked like before we began the restructure and transformation in 2012 and what it looks like today. A restructure and transformation of this magnitude over a period of 3 years is some feat. The stark contrast between the data as at the end of 2012 and 2015 is self-evident and a clear indication of why Hills embarked on this path.

We have now completed the divestment and restructure programme. Your Board acknowledges, however, that the transformation and restructure programme has not been a smooth process. The rapid transformation and integration of our businesses has impacted our results and it will take us further time to return the Company to the profitability expected for a company of our size. The next phase of our journey is to stabilise, consolidate and grow.

It is in this context that the results for FY2015 need to be considered.

The Year in Review

During the 2015 financial year (FY2015) Hills:

- completed the divestment and restructure programme;
- progressed the transformation programme – the business moved to a common shared services platform referred to as 'One Hills'. This included the reduction in sites from approximately 124 to 39. This process impacted our supply chain and our relationships with our customers but we are now seeing improvement in both of these;
- progressed the integration of the businesses acquired over the last 3 years. These are solid businesses with good fundamentals in growth sectors with higher margins. However, the integration did not go as well as it could have and results were impacted;
- entered into a strategic partnership with Woolworths which we see as very important. Prior to this transaction the Home Segment was not consistently profitable and was not likely to return to an acceptable level of profitability. We now have a steady long term income stream with limited downside risk and uncapped potential;
- was impacted by the loss of a key supplier. Unfortunately, Crestron our largest supplier decided to distribute its own product in Australia – this is consistent with its global strategy. The impact of this will affect our results in FY2016,

however, we have started to replace the lost revenue with profits on new contracts including Tyco which was agreed in February this year;

- was impacted by external events - reduced government spending, project deferrals across the construction, health and mining sectors and the declining Australian dollar have all impacted performance. Whilst we have taken corrective action we have been unable to recover all of the margin compression flowing from the decline in the Australian dollar during the financial year. Margin improvement is a key focus for management in FY2016;
- completed the purchase of Audio Products Group which strengthened our market leading position in our Building Technologies business in Australia and New Zealand. This business has now been fully integrated with the existing Hills AV business;
- acquired Hospital Telecommunications Pty Limited ('Hostel') which further strengthened our market leading position in patient entertainment and provided growth in the number of hospitals serviced – now 350 and aged care facilities now 800; and
- assessed a number of potential acquisitions locally and overseas – the buoyant market in the health and technology sectors meant prices for larger acquisitions moved higher during the year and the Company was unable to find suitable acquisitions within its financial capacity. Your Board is, and remains, determined to maintain financial discipline around mergers and acquisitions.

During the second half of FY2015, the Company undertook a realignment of the management team (including making some management changes) in order to focus on stabilising, consolidating and growing our business in Australia and New Zealand. As Chairman I am pleased to advise that Mr Grant Logan – the incumbent Chief Operating Officer – was appointed CEO on 27 May 2015. The management team under Grant's leadership is well qualified and has the experience and knowledge of the Hills business and is well placed to consolidate and grow your Company.

Results

Hills underlying FY2015 result was a profit of $11M which was in line with guidance.

The Company recorded a statutory net loss after tax attributable to owners of $86M for the year ended 30 June 2015. 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.

To explain the impairment a little further, under accounting standards, an indicator of impairment exists when the book value of the net assets of a company are higher than its market capitalisation. The drop in Hills' share price over recent months has seen a discrepancy emerge between the share price and book values, and the associated impairment testing identified that an impairment was required.

This is a non-cash accounting charge as at 30 June 2015 with no impact on the future operating cash flows or economics of the business. Our Health and Building Technologies businesses remain solid, operating in growth sectors and our immediate focus is on returning these businesses to their expected growth levels.

As part of the impairment process Hills has de-recognised $26M of deferred tax assets. These tax benefits will continue to be available to offset future taxable earnings.

We completed the year with net debt at 30 June 2015 of $32M, and total facilities in place of $110M. Hills continues to have significant headroom against all of its banking covenants and has capacity for further acquisitions in Australia and New Zealand, in line with our strategic objectives.

Dividends

Having paid a dividend of 2.1 cents per share in the first half and in the context of a statutory loss for FY2015, there will not be a final dividend in relation to the 2015 financial year.

The Company's dividend policy remains unchanged, with a target on an annual basis of 50-75 percent of underlying profits, subject to future acquisitions and working capital requirements.

Outlook

During the year, we received "Best Distributor of the Year" awards from two of our key suppliers, Axis and Genetec. We also won a number of major contracts, as detailed in our Annual Report. However, we recognise that we can and must do better and we are accelerating efforts to stabilise, consolidate and grow our businesses. Significant energy is being directed to the following areas:

- Customer engagement;
- Vendor relationships;
- Training our people;
- Tight capital management;
- Margin improvement; and
- Growth both organically and by acquisition.

This renewed focus on operational performance will continue through FY2016 and the Board has reaffirmed its commitment to consolidating and growing both organically and by acquisition within Australia and New Zealand.

As previously advised, we have reduced the annualised corporate costs by approximately $10M and will continue to focus on cost reduction into FY2016.

As we:

- roll out the back-to-basics programme to stabilise the business;
- work to replace the profit from the loss of the Crestron contract; and
- "right size" our cost structure in light of a significantly reduced business,

it will take further time for the businesses to return to the profit levels we expect. A full update will be given at the AGM in November.

Yours sincerely

Jennifer Hill-Ling
Chairman

Grant Logan
Chief Executive Officer

Appendix A

De-risking the Business

Hills could no longer sustain the significant fixed cost base in invested plant and equipment, working capital or staff numbers tied to manufacturing businesses, nor could Hills accept higher debt or leverage levels in the context of such substantial change. The following tables show the reduced investment in assets and debt levels and other operational risk items over the restructure period:

Annual fixed property costs have reduced by 66%:

FIXED PROPERTY COST PER ANNUM	FY12	FY15
Annual Rental Expense	$27.240M	$9.325M
Site Numbers	124	39

Staff numbers have reduced by 67%:

EMPLOYEES AT YEAR END	FY12	FY15
Employees – Australia and NZ	2,642	862

Funds tied up in working capital have reduced by 61%:

WORKING CAPITAL	FY12	FY15
Trade Receivables	$169.539M	$79.615M
Trade Payables	($51.129M)	($41.441M)
Inventory	$165.287M	$72.446M
Total Working Capital	**$283.697M**	**$110.620M**

Net debt and quasi-debt has reduced by 68%; Net debt and quasi-debt per share has reduced 66% from 53c to 18c per share:

NET DEBT, BANK GUARANTEES AND LETTERS OF CREDIT	FY12	FY15
Net debt, bank guarantees and letters of credits	$129.280M	$40.958M
Shares on offer	246.017M	231.986M
Net debt, bank guarantees and letters of credits per share	**0.53**	**0.18**

Annual capital expenditure has reduced by 62%:

CAPTIAL EXPENDITURE	FY12	FY15
Annual capital expenditure spend	$28.9M	$10.9M

Foreign exchange exposures have reduced by 53%:

FX EXPOSURE	FY12	FY15
Total FX Exposure in AUD	$51.387M	$24.045M

Workplace injuries have reduced by 87%:

WORKPLACE INJURIES	FY12	FY15
Lost time injuries	11	6
Medical treatment injuries	56	3
Total reportable injuries	**67**	**9**

Profitability

Hills is still a profitable Company after the restructure and divestment program, but most importantly, the earnings now come from the technology and health sector, where the risk-profile is substantially reduced:

Underlying NPAT is steady at 2.6% of sales both before and after the restructure:

UNDERLYING NPAT TO GROSS REVENUE	FY12	FY15
Underlying NPAT	$28.822M	$11.045M
Gross revenue	$1,082.272M	$427,822M
Underlying NPAT to gross revenue ratio calculation	**2.7%**	**2.6%**

Underlying EBITDA has improved from 6.1% of sales to 6.8% of sales after the restructure:

UNDERLYING EBITDA TO EMPLOYEES AND REVENUE	FY12	FY15
Gross revenue	$1,082.272M	$427,822M
Underlying EBITDA	$65.802M	$28.962M
Employees at 30 June	2,642	862
Underlying EBITDA to employees ratio	**24.91**	**33.60**
Underlying EBITDA to Gross Revenue	**6.1%**	**6.8%**

Directors' Report

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 2015 (FY2015), 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

Edward (Ted) Noel Pretty was a Director from the beginning of the financial year until 27 May 2015.

Director Mr Peter Stancliffe retired from the Board at the 2014 AGM held on 31 October 2014 after 11 years of service.

Principal Activities

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

Review of Operations

Overview

The Company recorded a net loss after tax attributable to owners of $85.947 million for the year ended 30 June 2015. 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 has de-recognised $26.100 million of the deferred tax assets. These tax benefits will continue to be available to be used to offset future taxable earnings.

The Company's underlying FY2015 result was a profit of $11.045 million (note that this is a non IFRS measure and is not subject to audit or review but is reconciled to the equivalent IFRS measure at note 22(c) in the Consolidated financial statements.

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

	2015 $'000	2014 $'000
Net (loss) / profit after tax attributable to the owners of the Company	**(85,947)**	24,798
Adjust for the after tax impact of any adjustments including asset impairments, de-recognition of deferred tax assets relating to tax losses, costs of acquisitions and other associated gains or losses on the disposal of businesses (refer note 22(c) in the Annual Report)	**96,992**	2,479
Underlying net profit after tax for the year attributable to the owners of the Company	**11,045**	27,277

Review of Operations (continued)

The Year in Review

The strategy of the Company continued to be based on creating value through a focus on delivering technology products and service solutions into the environments people trust most such as homes, schools, hospitals, aged care facilities, educational institutions, workplaces and governments, in growth segments such as health, security, audio visual and access control. It has been a challenging year due to reduced Government spending, project deferrals across the construction, health and mining sectors as well as the declining Australian dollar. These factors impacted the Company's ability to maintain strong margins.

In December 2014, Hills announced a strategic partnership with Woolworths Limited to licence the Hills heritage brand, converting the original manufacturing and distribution business into an annuity business. Prior to this transaction the business was not consistently profitable and was not likely to return to an acceptable level of profitability. Together with the divestment of the polymer manufacturing and SmartBar businesses, these activities completed Hills exit from sectors exposed to the challenges of the manufacturing industry. In June 2015, the sale of Hills 50% interest in joint venture company Cygnus Satellite was also completed. The Cygnus business had a single customer and it made financial sense for Hills to sell its share in that business to this customer.

During the year Hills announced the acquisition of Hospital Telecommunications Pty Ltd (Hostel) which further strengthened the Company's market leading position in patient entertainment offering, growing the number of hospital services (now 350) and aged care facilities (now 800). To strengthen our market leading position in its Building Technologies business in Australia and New Zealand, Hills completed the acquisition of Audio Products Group (APG), which has now been fully integrated with the existing Hills AV business.

During the year the Board continued to evaluate opportunities to prudently use the balance sheet to acquire new service revenue streams in the communications and health sectors, both onshore and offshore. Hills assessed a number of potential acquisitions locally and overseas – the buoyant market in the health and technology sectors meant prices for larger acquisitions moved higher during the year and the Company was unable to find suitable acquisitions within its financial capacity. Your Board is, and remains, determined to maintain financial discipline around mergers and acquisitions.

In May 2015, the Board reviewed and refined the Company's strategy and committed to consolidating its existing businesses and growing, both organically and by acquisition, within Australia and New Zealand. As a result, the Board agreed with the Group Managing Director and Chief Executive Officer, Edward (Ted) Pretty, that a change in the executive leadership would be appropriate and Mr Pretty left his position on 27 May 2015. Mr Grant Logan, the incumbent Chief Operating Officer, was appointed Chief Executive Officer (CEO).

Over the past two financial years, Hills divested businesses exposed to the manufacturing industry, acquired businesses to grow its Building Technologies business and capabilities in the health sector, and actively consolidated its operating structure. This has enabled Hills to operate as an integrated business and leverage its iconic and trusted brand across all markets in which the Company operates. The transformation of our existing business and the integration of its new businesses has taken longer than anticipated. While the rapid change over the last 3 years has had some impact on Hills customers and service capability, the Board stands behind its strategic decision to transform the Company from a diversified manufacturing, low margin and capital intensive business to a provider of integrated technology products and services into trusted environments. In the last quarter of FY2015, the Company accelerated efforts to focus on driving excellence in the basic elements of a value-added distribution business.

Combined with a renewed focus on operational performance, management have made significant cuts to the corporate overhead as the Company is no longer pursuing large acquisition opportunities. Now the streamlining of the processes and businesses acquired through FY2014 and FY2015 has been completed, Hills is committed to consolidating and growing both organically and by acquisition within Australia and New Zealand.

Review of Operations (continued)

Strategic Review and Update

At the 2014 AGM, Hills reported that the focus for FY2015 would be the expansion into new markets and a strong push for innovation. The aspirational targets that the Company was pursuing from FY2014 through FY2016 included:

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

While the Company succeeded in meeting the first two of these targets, the third and fourth objectives were not met as operational challenges in the rapid transformation and integration processes, delays in project work and the declining Australian dollar all had a significant impact on earnings growth.

In May 2015 the Board reviewed and refined the Company's strategy and is committed to:

- Delivering excellent customer service
- Taking a 'back to basics' approach to supply chain management
- Consolidating and integrating the existing businesses and processes to drive further improvements to customer experience
- Pursuing organic growth opportunities
- Growing scale by complementary acquisitions within Australia and New Zealand

Work began in the fourth quarter of FY2015 and will continue during FY2016. The Board continues to work with management to fine tune our strategy and objectives and the Company intends to provide an update to Shareholders at this year's AGM.

Vision and Values

Hills vision is to protect, improve and inspire people's lives. Over the past 70 years, Hills has built a heritage of trust launched from Australian backyards, where our innovative spirit began. The Company has moved with the times, identifying new technology and service opportunities, and will continue to seek out new innovations to support the core mission: To be a value-added distributor of technology and communication solutions that inspire, protect and improve people's daily lives in the environments they trust the most: their homes, schools, hospitals, aged care facilities, educational institutions, workplaces and governments across Australia and New Zealand. Hills will add value by choosing the best products and solutions available while delivering high quality service and expertise for all of our stakeholders. This will enable Hills to deliver steady returns to shareholders.

HILLS stands for:

- **HEROIC CUSTOMER SERVICE**
- **INNOVATION**
- **LEADING CHANGE**
- **LEARNING**
- **SAFE AND CONSIDERATE WORKPLACES**

Debt and Funding

Hills net debt as at 30 June 2015 was $32.030 million (2014: $8.499 million). Gearing, measured as net debt to net debt plus equity, stood at 19.0% at 30 June 2015 (zero at 30 June 2014). In February 2015, a new $110 million 3-year bank debt facility was entered into on substantially better terms and pricing than the previous facility. Hills continues to comfortably meet all of its banking covenants.

Review of Operations (continued)

Dividends

The Board declared a fully franked interim dividend of 2.1 cents per share paid to Hills Shareholders on 30 April 2015. In the context of the statutory loss for FY2015, there will not be a final dividend in relation to the 2015 financial year.

The Company's dividend policy remains unchanged with the Board to target, on an annual basis, a dividend payout ratio of 50-75 percent of underlying profits attributable to owners, subject to acquisitions and working capital requirements. Given the Company's accumulated tax losses following transformational activities, Hills does not expect to be in a tax paying position and it is unlikely that future dividends will be franked in the near term.

Hills strong balance sheet means the Company has continued to suspend its Dividend Reinvestment Plan and Share Investment Plan.

On-market Share Buyback

During FY2015 the Company acquired 2.207 million shares for a total consideration of $3.185 million (an average price of $1.44 per share). This equates to 0.9% of the issued capital being bought back in FY2015.

On 25 February 2015 the Company extended the period during which it may undertake an on-market buyback. No further buyback was undertaken after this announcement to the market as the Board, together with management, continued to consider transformational acquisition targets during this period and considered it prudent to conserve cash for this purpose.

Any decision to resume the buyback will be subject to cash required for acquisitions and dividends.

Change of Segments

The Company 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 Company's "chief operating decision maker" within the meaning of AASB 8.

Hills currently has four operating segments. The Company's restructure and divestment program has resulted in a number of changes to the relative characteristics of Hills segments. In FY2014, all of Hills remaining operating segments had characteristics that were materially so similar in nature that they could reasonably be expected to have had the same prospects. These operating segments had similar economic characteristics, provided similar products and services, had a similar production process, similar types of customers, similar methods for distribution and were subject to a materially similar regulatory environment. Hills operating segments were therefore aggregated into one reportable segment under AASB 8 called the Hills Technologies Segment. This was also borne out by the fact that after its restructure and divestment program, Hills had 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.

In the current year, the materiality of the Health and Home Segments are such that these have been disaggregated from the single reportable segment and the comparative results have been adjusted accordingly.

In terms of reviewing the Company as it has gone through its restructure and divestment program, the CODM is presented with information that separates Hills results into its continuing businesses (Building Technologies Segment, Health Segment, Home Segment, Corporate Segment) and discontinuing business results in one category: the Discontinued businesses Segment (which contains the results of businesses that have been closed or sold and regardless of whether these are classified as discontinued under IFRS or not). That information 'through the eyes of management' has been presented in the Segment note (note 2) in accordance with the principles of AASB 8.

Description of Segments

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

Building Technologies Segment

Comprising 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.

Review of Operations (continued)

Description of Segments (continued)

Health Segment

Comprising the supply and installation of health technology solutions, nursecall and patient entertainment systems to hospitals, aged care facilities and similar institutions. Hills earns ongoing revenue from patients utilising its patient entertainment systems on a daily rate basis.

Home Segment

Comprising the results of the Hills Home Living business which has now 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 clothes lines into a brand licensing annuity stream. Prior to this transaction the business was not consistently profitable and was not likely to return to an acceptable level of profitability. This partnership means that Hills shareholders will receive consistency of returns by way of an annuity which will increase as more Hills branded product are sold through Woolworths' retail outlets.

Corporate Segment

Comprising the costs of running Hills Corporate, Compliance and Shared Services functions. In prior periods, this cost pool was directly recharged or allocated to Hills other segments in whole or in part. As discontinued businesses have ceased operations, not all of the Corporate Segment could be recharged and while the gross costs have reduced substantially over the past few years, the net cost remaining in this Segment has increased.

As outlined in February the Company continues to reduce corporate costs. Corporate costs have reduced by approximately $10 million on an annualised basis.

Discontinued Businesses

Businesses that have been closed or sold under Hills restructure and divestment program (whether or not these were classified as discontinued under IFRS), are shown separately to enable the CODM to assess the true continuing operations of the Company.

Review of Operations by Reportable Segment

Building Technologies Segment

The business unit is the market leader – providing an extensive range of electronic security products in Australia and New Zealand ranging from simple domestic alarms to more complicated integrated surveillance and access control systems. The Building Technologies segment reported revenue of $348.4 million for the year (2014: $327.3 million), an increase of 6.54%. Segment EBITDA was $26.8 million for the year (2014: $36.5 million), a decrease of 26.6%.

The domestic alarm market is commoditising with selling prices and margins remaining lower than trend due to increased competition and downward pressure on the Australian dollar. In response, the Company has focused on innovative marketing initiatives to drive sales, undertaken appropriate price book increases and are providing additional value added services.

During the year Crestron, the Company's largest supplier, advised that they were establishing a local Australian presence with effect from 1 July this year and accordingly the Company's long term vendor agreement came to an end. In February 2015, 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 will replace Tyco's previous local distributors on a phased basis. It was anticipated that Tyco and other new distribution arrangements would replace the lost revenue and margin of Crestron in FY2016, however this is unlikely to be fully realised before the end of FY2016.

Hills is a distributor and as such the winning and losing of supply agreements is part of our ordinary business. The Company's aim is to be indispensable to its suppliers. During the year Hills has been recognised by two of its suppliers – Genetec and Axis – as distributor of the year.

Hills Security & IT practice secured a number of major contracts with system integrators including Ambulance Victoria with Telstra SNP, Aurizon Limited with Multi Communication Systems, Shangri La Fiji with Global Gossip, Arrow Energy with RCS Telecommunications and Bendigo Hospital with Siemens Australia, Busselton Hospital and the New Royal Adelaide Hospital.

Review of Operations (continued)

Review of Operations by Reportable Segment (continued)

Building Technologies Segment (continued)

Hills Antenna and TV Systems provides a comprehensive range of reception and distribution equipment for wireless and both subscription and free-to-air television along with a range of products for the distribution of internet protocol signals. The renewal of the Foxtel satellite Dish contract has seen the continuation of the manufacturing facility at the O'Sullivan Beach Antenna factory in Adelaide. The decision was taken to move electronic and traditional antenna manufacturing offshore, but retain the TruRange and other hardware products at O'Sullivan Beach.

STEP provides secure communications solutions with key deployments including an extension to the Government DFAT Contract to supply further equipment. Demand for free to air and satellite equipment remained steady.

The acquisition of Audio Products Group Pty Ltd completed at the start of FY2015. During the financial year, the Hills AV (Audio Visual) Product Practice was formed by the integration of the Hills SVL brand portfolio with the brands associated with the acquisition of Audio Products Group (APG). Combined, and following the new distribution rights, the Hills AV portfolio offers breadth and depth that are unmatched in the AV industry across Australia and New Zealand.

Most of the leading brands in the AV portfolio enjoyed record sales during the year, finding application in schools, universities, commercial premises, entertainment venues, courtrooms, houses of worship and transportation hubs throughout Australia and New Zealand.

Hills Connection Solutions in Australia and Signal Master in New Zealand provide subscription television, fixed wireless and satellite installation services. During FY2015, Hills Connection Solutions secured the renewal of the contract for the installation of NBN fixed wireless for a further 4 year period. In recognition of the services provided by Hills Connection Solutions, it was named as a finalist in the communication industry's prestigious ACOMMS Awards. Management continues to focus on actively tendering for new business in the broadband and media sectors.

During the year Hills sold its 50% owned Cygnus Satellite business which provides bandwidth to rural and remote markets in Australia to the single customer of the business.

Health Segment

Hills Health Solutions is a market leader and comprises the nurse call and patient engagement businesses of Questek, Merlon, HTR and Hostel. It is focused on 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 acquisition of Hostel in February 2015 further strengthened the patient entertainment footprint, adding a further 17 hospitals and 4,000 beds to Hills footprint. The strategic licencing agreement with Ireland and US based Lincor Solutions, a global leader in patient engagement technology and clinical access platforms, assisted Hills in securing the installation of a state-of-the-art system in the new Busselton hospital in Western Australia.

The Health segment reported revenue of $33.5 million for the year (2014: 22.6$ million), an increase of 48.2%. Segment EBITDA was $4.1 million for the year (2014: $5.3 million), a decrease of 22.6%. Whilst the fundamentals of its Health business are the right fit for Hills, the Board is disappointment with the trading results. The poor results have been impacted by:

- a longer timeframe for the integration of these businesses leading to the delayed benefit of synergies;
- delays in the sales pipeline; and
- a diversion from the day to day business with the focus on the former overseas health strategy.

The four businesses are now co-located and sales leads are being shared across the teams. The Health management team is focused on improving profitability in the Segment by realising synergies through the completion of integration activities and driving the sales pipeline to compensate for project slippage and opportunities or unsuccessful tenders.

Home Segment

During the year, Hills entered into a strategic partnership with Woolworths Limited to licence the Hills heritage brand, converting the original manufacturing and distribution business into an annuity business. Under the terms of the agreement, Hills will receive income from the use of the brand and intellectual property by way of a minimum annual licencing fee of $2 million per annum for a minimum of 7 years. The Segment also included Hills Polymers comprising of the polymer processing plant and Smart Bar range of frontal protection systems. During the year both these low margin, capital intensive businesses were sold.

Review of Operations (continued)

Review of Operations by Reportable Segment (continued)

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 Hills other segments in whole or in part. As discontinued businesses have ceased operations, not all of the Corporate Segment could be recharged and while the gross costs have reduced substantially over the past few years, the net cost remaining in this Segment has increased from $4.3 million in 2014 to $8.3 million in 2015. Additionally, the Company has entered into transitional services agreements (TSA's) as part of the sale of its businesses whereby Hills continues to undertake back office services for the new owners of these businesses for a service fee. As these TSA's with buyers of legacy businesses conclude, the Corporate costs that would otherwise remain within Hills ongoing operations will be reduced. Since the start of the year Hills has removed approximately $10 million of corporate costs on an annualised basis. The continuing reduction of Corporate overhead costs is a key imperative for the management team in 2016.

Discontinued Businesses

Businesses that have been closed or sold under Hills restructure and divestment program (whether or not these were classified as segment discontinued under IFRS), are shown separately to enable the CODM to assess the true continuing operations of the Company. The prior year included significant trading (revenues of $321.6m) from discontinued businesses, including Hills previous Steel operations for which the sale completed at the end of February 2014.

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

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

	2015 $'000	2014 $'000
Dividend of 3.6 cents fully franked based on tax paid @ 30.0% (2014: 3.25 cents) per fully paid share paid on 26 September 2014 (FY2014: 27 September 2013)	**8,400**	8,000
Dividend of 2.1 cents fully franked based on tax paid @ 30.0% (2014: 3.4 cents) per fully paid share paid on 30 April 2015 (FY2014: 31 March 2014).	**4,872**	8,037
Total dividends provided for or paid	**13,272**	16,037

For more information regarding dividends please refer to note 21 of the financial statements.

Significant Changes in the State of Affairs

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

Likely Developments and Expected Results of Operations

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

Information on Directors

Name	Details
Jennifer Helen Hill-Ling **LLB (Adel) FAICD** *Chairman* *Non-Independent* *Non-Executive Director* *Age 53*	***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*** 18,040,423 ordinary shares in Hills Limited (including 1,188,918 shares owned by Hills Associates Limited and Poplar Pty Ltd (jointly held) and 16,668,441 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 59*	***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*** 4,000 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 62*	***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, CSG Limited, and formerly of Healthscope Limited. He has also provided advice to the Federal Government, through a number of organisations, most notably as Chair of Skills Australia. ***Other current listed company directorships*** Non-executive director of Perpetual Limited (since June 2010) Non-executive Director of CSG Limited (since August 2009) ***Former listed company directorships in last 3 years*** None. ***Special responsibilities*** Member of the Audit, Risk and Compliance Committee, Member of the Nomination Committee ***Interests in shares and options at the date of this report*** 10,000 ordinary shares in Hills Limited. Nil options over ordinary shares in Hills Limited.
Ian Elliot FAICD *Independent* *Non-Executive Director* *Age 61*	***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. He is a current Director of the Australian Rugby League Commission. ***Other current listed company directorships*** Director of Salmat Limited (since 2005) Director of McMillan Shakespeare Limited (since May 2014) ***Former listed company directorships in 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 **B Com** *Independent* *Non-Executive Director* *Age 63*	***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*** Chairman of the Remuneration Committee, Member of the Audit, Risk and Compliance Committee. ***Interests in shares and options at the date of this report*** 250,000 ordinary shares in Hills Limited. Nil options over ordinary shares in Hills Limited.
Edward (Ted) Noel Pretty **BA LLB (Hons)** *Former Group Managing Director & Chief Executive Officer* *Age 58*	***Experience and expertise*** Appointed Group Managing Director and Chief Executive Officer 3 September 2012. Ceased to be Group Managing Director and Chief Executive Officer on 27 May 2015. ***Other current listed company directorships*** None. ***Former listed company directorships in last 3 years*** Non-Executive Director of Next DC Limited (retired March 2015) ***Special responsibilities*** None.

Information on Directors (continued)

Name	Details
Peter William Stancliffe **BE (Civil) FAICD** *Former Independent Non-Executive Director* *Age 67*	***Experience and expertise*** Appointed non-executive Director in August 2003. Ceased to be a non-executive Director on 31 October 2014. ***Other current listed company directorships*** Chairman of Korvest Ltd (since 2009, retired 18 September 2014) Director of Automotive Holdings Group Limited (since 2005) ***Former listed company directorships in last 3 years*** None. ***Special responsibilities*** None.

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 issues associated with Hills. Previously she held the position of Company Secretary and General Counsel at Luxottica (formerly OPSM Group) for 20 years from 1992 until 2012.

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

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2015, and the numbers of meetings attended by each Director were:

DIRECTOR ATTENDANCE	Full Meetings of Directors		Audit, Risk and Compliance		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Jennifer Helen Hill-Ling	16	16	-	-	2	2	3	3
Fiona Rosalyn Vivienne Bennett	15	16	5	6	-	-	-	-
Ian Elliot	16	16	-	-	2	2	3	3
David Moray Spence	15	16	6	6	-	-	3	3
Philip Bullock	16	16	3	3	2	2	-	-
Edward Noel Pretty*	14	15	-	-	-	-	-	-
Peter William Stancliffe**	6	6	2	3	-	-	-	-

A = Number of meetings attended

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

* = Ceased to be a Director on 27 May 2015

** = Ceased to be a non-executive Director on 31 October 2014

Remuneration Report (audited)

Dear Shareholders,

As your Chairman and Chief Executive Officer have outlined the year in review in the Report of Directors, FY2015 was a challenging year.

As the Company starts to move out of the restructuring phase we have seen a realignment to a management team focussed on consolidating and growing our existing businesses in Australia and New Zealand. There has been a departure of executives who oversaw the restructure and divestment process and Grant Logan was appointed CEO on 27 May 2015.

Our strategy is to build our solid continuing businesses by improving performance and by growing organically and by acquisition. In line with this strategy your Board has ratified a strategic blueprint. The strategic blueprint outlines the focus for management in the coming year and beyond. The blueprint has 5 pillars of focus – customer, vendor, people, profit and capital. Each of these pillars are tied to STIs of all employees, including the senior executives.

2015 Remuneration Outcomes

During FY2015 the Board continued with the implementation of the remuneration strategy which was outlined in the remuneration report for FY2014. This included ensuring that there was a strong alignment between the short term incentive and business results.

Our short term incentive programme for FY2015 was geared 80% towards delivering financial outcomes and 20% towards non - financial strategic goals. None of the financial targets have been met for FY2015. Accordingly, 80% of the short term incentives were not paid. The remaining 20% incentive was determined on performance of individual KPIs and only 4% of a total potential payment has been paid to executives for FY2015.

At last year's AGM the grant of performance rights linked to Earnings Per Share growth and relative TSR over a three year period were issued to the former Group Managing Director and CEO and other senior executives. No performance rights vested under this plan or earlier plans and all performance rights relating to terminating executives lapsed on their departure from the Company.

With lower than expected profits your Board took the action of reducing directors fees by 20% until the profits of the Company return to increased levels.

Future Remuneration Strategies

Short Term Incentives

The Board reviews the Hills remuneration policy and practices annually. As in previous years we have ensured that management have a strong alignment with the Company's strategy. As stated above we have introduced a strategic blueprint which outlines management's focus for the medium term. The strategic blueprint links strategic outcomes to defined measures, focusing on the following key areas:

Customer

- 'Perfect Orders' (in by 2pm, dispatched same day)
- Average Return Per Unit per Hospital Bed

Vendor

- Fully developed vendor engagement plans to be developed for all material vendors
- Two new key vendors to partner with Hills

People

- Hills FY2016 Employee Engagement Survey

Profit

- FY2016 underlying EBITDA and NPAT budgets are achieved

Remuneration Report – audited (continued)

Capital

- FY2016 Days Sales and outstanding budget met
- FY2016 Stock turns budget met
- FY2016 Capex budget met

Long Term Incentives

Due to the current difficult trading environment, your Board has decided to defer the existing Long Term Incentive Plan for FY2016. The Board is currently reviewing the design of the plan and appropriate hurdles to ensure executives are motivated and shareholder value maximised.

2016 Focus on Delivering Outcomes

Following the divestments of businesses and the restructure, your Company is much simpler. Hills balance sheet is strong and the Company is in a good position to grow the continuing businesses. We remain committed to delivering sustainable earnings growth and optimising shareholder value as Hills continues to evolve and grow.

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

David Spence
Chairman
Remuneration Committee

Remuneration Report – audited (continued)

This Remuneration Report explains Hills approach to executive remuneration, performance and remuneration outcomes for Hills and its Key Management Personnel (KMP) for the year ended 30 June 2015 (FY2015). 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

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 FY2015.

List of KMP

Directors	
J Hill-Ling	Chairman, Non-Independent and Non-Executive Director
FRV Bennett	Independent, Non-Executive Director
P Bullock	Independent, Non-Executive Director
I Elliot	Independent, Non-Executive Director
DM Spence	Independent, Non-Executive Director
EN Pretty (1)	Former Group Managing Director & Chief Executive Officer
PW Stancliffe (2)	Former Independent, Non-Executive Director
Senior Executives	
G Logan (3) (4)	Chief Executive Officer
G Turner (5)	Chief Financial Officer
B Newton (6)	Chief Operating Officer
L Ison (7)	Chief of Health, Innovation & Growth

(1) EN Pretty ceased as Managing Director and Chief Executive Officer on 27 May 2015
(2) PW Stancliffe ceased as a Non-Executive director on 31 October 2014
(3) G Logan ceased as Chief Financial Officer on 2 February 2015, and was promoted to Chief Operating Officer
(4) G Logan was promoted to Chief Executive Officer on 27 May 2015
(5) G Turner was promoted to Chief Financial Officer on 2 February 2015
(6) B Newton ceased as Chief Operating Officer on 5 February 2015
(7) L Ison ceased as Chief of Health, Innovation & Growth on 10 June 2015

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: David Spence (Chairman), Jennifer Hill-Ling and Ian Elliot, has been delegated responsibility for reviewing the remuneration strategy annually and advises the Board on remuneration policies and practices generally.

The Remuneration Committee is responsible for:

- the ongoing appropriateness and relevance of the remuneration framework for the Chairman, the Board Committees and the non-executive Directors;
- Hills remuneration policy for the 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 Hills remuneration strategy is 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, receive similar rewards • Motivates employees to deliver business results • Differentiates, but is fair and equitable in its application
Linked to Performance	• Directly links individual and company performance to remuneration outcomes • Employees understand what results need to be achieved • Provides an integrated remuneration and performance system framework
Aligned	• Aligns remuneration and incentive outcomes with business goals and results • Supports the completion of the transformation and delivery of the growth strategy • Withstands external scrutiny
Straightforward	• Understood by all stakeholders & employees

The diagram below shows how the remuneration strategy and framework aligned with the FY2015 Hills Business Strategy:

Hills Business Strategy

Integrated solutions into trusted environments

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

(Continued on page 25)

Remuneration Report – audited (continued)

3. Executive Remuneration (continued)

3.1 Alignment of Remuneration Strategy with Business Strategy (continued)

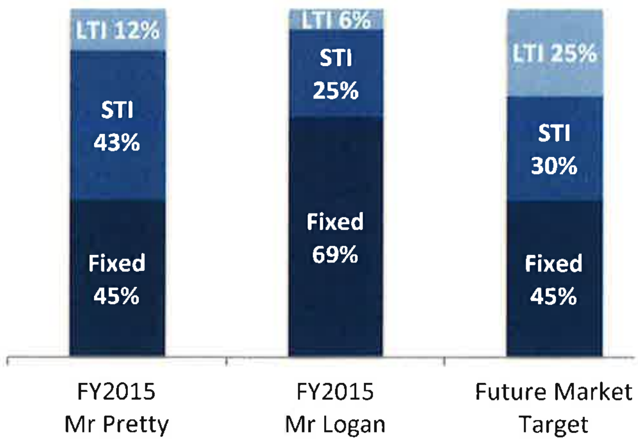
Remuneration Strategy		
Aligning executive reward with achievement of business strategy objectives	**Motivate and reward outstanding performance**	**Attract and retain key executive talent**
Challenging KPIs focused on financial and non-financial measures.	Short term and long term components of remuneration 'at risk' are based on performance and outcomes.	Provide competitive remuneration in order to attract and retain senior executives with the skills and experience to complete the transformation and 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). The KPIs are based on: ▪ Financial performance (80%) ▪ Individual non-financial performance measures (20%) Both financial and non-financial measures directly support achievement of the company's strategic settings.	Aligned to the achievement of increased shareholder wealth over the long term. For FY2015, the performance measures will be: ▪ EPS 3 year compound annual growth rate (CAGR); and ▪ Relative total shareholder return (TSR) Retention: 3 year performance period, with a further 1 year restriction on trading.

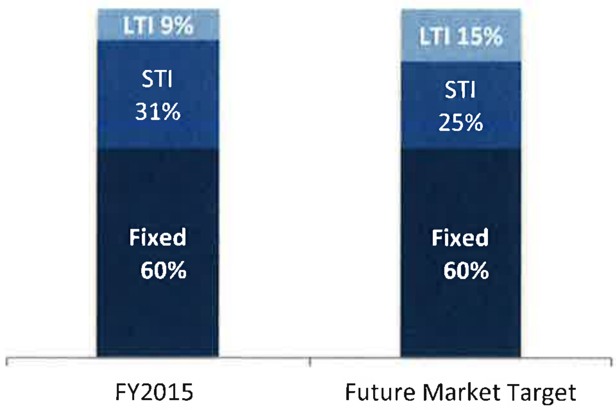
3.2 Remuneration Mix

Senior executive remuneration is comprised of Fixed Remuneration (made up of base salary and superannuation), short term incentive (STI) and long term incentive (LTI). The following diagrams show the remuneration mix at target performance.

Group Managing Director and CEO [1]



Senior Executives (Average)



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

Remuneration Report – audited (continued)

3. Executive Remuneration (continued)

3.2 Remuneration Mix (continued)

The move to the above remuneration mix is being achieved by incremental adjustments through the annual review process. Outstanding anomalies will be addressed through future annual reviews. A LTI was introduced for senior executives in FY2015, however, due to the current difficult trading environment the Board has decided to defer the existing LTI plan for FY2016. The Board is currently reviewing the design of the plan and appropriate hurdles to ensure senior executives are motivated and shareholder value maximised for FY2017.

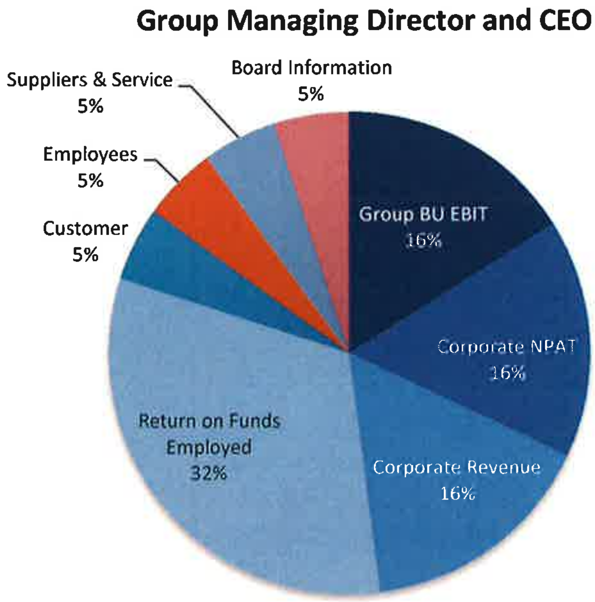
3.3 Former Group Managing Director and CEO Remuneration (Mr Pretty)

Fixed Remuneration FY2015

The former Group Managing Director and CEO had a fixed remuneration of $974,000 per annum, which is inclusive of superannuation. Fixed remuneration is reviewed annually by the Board with reference to performance of the Company, performance of the Group Managing Director and CEO and market information.

Short Term Incentive FY2015

The former Group Managing Director and CEO had a STI opportunity of up to $945,000, which was subject to both financial (80%) and non-financial (20%) KPIs determined by the Board at the commencement of the financial year. KPIs were directly related to the Hills Business Strategy (see section 3.1), with the individual KPIs being a balance between operational activities and initiatives important to completing the Company's transformation and delivery of the growth strategy. The following diagram shows the weighting of each component of the STI for the former Group Managing Director and CEO:



The FY2015 STI opportunity, which was reviewed annually by the Board, was 97% of Fixed Remuneration.

No payment was received by Mr Pretty for the FY2015 STI.

Long Term Incentive FY2015

The former Group Managing Director and CEO was awarded an LTI of 160,555 performance rights for FY2015. None of these performance rights vested during FY2015.

Amounts for long term performance rights shown in the statutory remuneration table at section 6.1 reflect reversal of the accounting expense for the FY2014 and FY2015 LTI awards as all unvested performance rights (being 1,293,887 performance rights) lapsed on cessation of employment on 27 May 2015.

Remuneration Report – audited (continued)

3. Executive Remuneration (continued)

3.4 Chief Executive Officer Remuneration (Mr Logan)

Mr Logan was promoted to Chief Executive Officer on 27 May 2015 with a Fixed Remuneration of $825,000 (inclusive of superannuation), a STI target value of $300,000, and a retention plan of $75,000. The retention plan is in lieu of participation in the LTI plan for FY2016 and is consistent with Mr Logan's prior retention plan arrangements. Whilst this salary package is at the higher end of comparable market benchmark to entities of our size, it is lower than the package of the former Group Managing Director and CEO. Refer to section 3.9 for a description of the FY2016 STI plan which will apply to the CEO.

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. Mr Logan performed the role of Chief Financial Officer in addition to his broader responsibilities. In February 2015 he ceased his CFO responsibilities, and took on expanded operational responsibilities across the company as the Chief Operating Officer. This retention plan was for the period from 1 July 2012 to 30 June 2015.

The plan had two components:

- Performance Component: A potential payment of $75,000 per annum up to and including FY2016. Actual entitlement will be assessed against the same KPIs as those set by the Board for the Group Managing Director and CEO.
- Retention Component: An amount of $75,000 per annum for each year up to and including FY2017 and is based only on service.

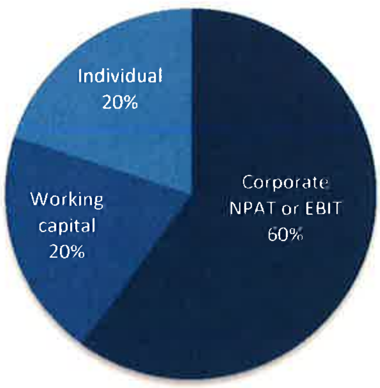
Following Mr Logan's appointment to CEO, the retention plan was finalised and he was paid $371,250, which represented the full retention component and 66.7% of the performance component of the plan. The proportions of this payment for FY2013 and FY2014 have been disclosed in the respective remuneration reports. For FY2015, he received only the retention component of the plan and the current year expense amount was $75,000.

3.5 Senior Executive Short Term Incentive FY2015

STI – How It Works

The STI is an at risk component of remuneration and is designed to reward performance against the achievement of KPIs, which are set annually. The Hills FY2015 STI plan was designed to reward senior executives for the achievement of objectives closely aligned to the Hills Business Strategy focusing on transformation and growth, and shareholder outcomes.

Senior Executives Plan



Remuneration Report – audited (continued)

3. Executive Remuneration (continued)

3.5 Senior Executive Short Term Incentive FY2015 (continued)

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

The STI performance period was from 1 July 2014 to 30 June 2015.

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 FY2015 STI payments where a senior executive ceased employment with Hills:

Resignation & Retirement	Any entitlement to a payment was 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. The calculation of an entitlement was 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 FY2015 STI which had not already been made.

How Individual Performance is Translated into STI awards

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

- what needs to be achieved over the 12 month period;
- what needs to be done to realise the business strategy over the longer term; and
- where achievement will contribute to the creation of increased value for shareholders.

Senior Executive KPIs for FY2015 were aligned to the KPIs for the former Group Managing Director and CEO and were based on a mix of day to day operational KPIs and strategic KPIs which support the long term business strategy, adjusted to reflect individual roles.

Assessment of Performance & Approval of Payment

The Remuneration Committee assessed the 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. STI payments for FY2015 were delivered as cash payments following approval by the Board. Details of STI payments are provided in section 3.6.

Remuneration Report – audited (continued)

3. Executive Remuneration (continued)

3.6 FY2015 STI Performance and Outcomes

FY2015 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.

Group Managing Director and CEO STI Plan

The specific KPIs for FY2015 for the former Group Managing Director and CEO are set out in the following table.

No payment resulted from this plan for FY2015.

Objective	Rational link to strategy	Measurement	Weighting
Group EBIT	Financial Measures which are drivers to achieving the Company's Strategic Settings	Measured by reference to FY2015 budget	16%
Group NPAT			16%
Group Revenue			16%
Return on Funds Employed (with an EBIT gateway)			32%
Individual KPIs	Individual KPIs include operational activities, and key transformation initiatives which will support achievement of strategic settings in future years	Measured by achievement to specified pre-determined targets and objectives	20%
Total			**100%**

FY2015 Former Group Managing Director and CEO, and Senior Executives' STI outcomes

The KPIs for the senior executives were aligned to the former Group Managing Director and CEO's KPIs. The STIs received by the Group Managing Director and CEO, and senior executives for FY2015 (if any) are set out in the following table:

Executive	Target STI opportunity $	As a % of fixed remuner-ation	Financial outcome (Max 80%)	Non-Financial outcome (Max 20%)	Actual STI outcome $	% Achieved	% Forfeited
G Logan	$281,667	48%	-	16%	$45,000	16%	84%
G Turner	$124,667	41%	-	16%	$19,947	16%	84%
EN Pretty (1)	$787,500	81%	-	-	-	-	100%
B Newton (2)	$168,233	58%	-	-	-	-	100%
L Ison (2)	$245,667	66%	-	-	-	-	100%
Total	**$1,607,734**	-	-	-	**$64,947**	4%	96%

(1) Pro-rata value as EN Pretty ceased as Group Managing Director and Chief Executive Officer on 27 May 2015
(2) Pro-rata values as B Newton ceased as Chief Operating Officer on 5 February 2015 and L Ison ceased as Chief of Health, Innovation & Growth on 10 June 2015

Remuneration Report – audited (continued)

3. Executive Remuneration (continued)

3.7 Long Term Incentive for the former Group Managing Director and CEO

FY2015 Long Term Incentive

The FY2015 LTI was designed to directly link the former Group Managing Director and CEO to growth in long term shareholder wealth. In February 2015, and following approval by shareholders at the Annual General Meeting on 31 October 2014, the former Group Managing Director and CEO was granted 160,555 performance rights to acquire ordinary Hills shares, subject to achievement of pre-determined performance hurdles.

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

- 50% vesting when 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); and
- 33.33% vesting when the EPS of is equal to a CAGR of 15%;
- an additional 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 would have been able to vest after 3 years, subject to achievement of the above performance hurdles, but shares received from vested rights would have been required to be held for an additional year.

FY2014 Long Term Incentive

In February 2014, and following approval by shareholders at the Annual General Meeting on 8 November 2013, the Group Managing Director was granted 1,133,332 performance rights to acquire ordinary Hills shares, subject to achievement of pre-determined performance hurdles.

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

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

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

FY2014 & FY2015 Long Term Incentive Outcomes

No performance rights granted through the above plans vested during FY2015, and all performance rights under both plans lapsed when Mr Pretty ceased employment.

3.8 FY2015 Long Term Incentive for Senior Executive

In FY2015, senior executives were invited to participate in a LTI plan on the same terms as the grant to the former Group Managing Director and CEO, as described in section 3.7. Further details are provided in section 6.3

Remuneration Report – audited (continued)

3. Executive Remuneration (continued)

3.9 FY2016 Incentive Design

Short Term Incentive Plan – FY2016

Looking ahead to FY2016, the Board has conducted a review of the Short Term Incentive (STI) to align it with the 2016 Strategic Plan. A balanced scorecard approach has been adopted for the year ahead focusing on the following key areas:

- **Customer**
  - 'Perfect Orders' (in by 2pm, dispatched same day)
  - Average Return Per Unit per Hospital Bed
- **Vendors**
  - Fully developed vendor engagement plans
  - Two new key vendors to partner with Hills
- **People**
  - Hills FY2016 Employment Engagement Survey
- **Profit**
  - FY2016 underlying EBITDA and NPAT budgets
- **Capital**
  - FY2016 Days Sales Outstanding budget
  - FY2016 Stock turns budget
  - FY2016 Capex budget

Weighting will be distributed across these measures.

Long Term Incentive Plan – FY2016

Due to the current difficult trading environment for the Company, the Board has decided to defer the Long Term Incentive plan for FY2016. The Board will review the plan for FY2017.

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	FY2015	FY2014	FY2013	FY2012	FY2011
Earnings before interest and tax (EBIT) ($000)	17,887	41,689	33,138	44,702	40,376
Shareholders' funds ($000)	136,600	245,228	271,018	400,963	402,307
Underlying Net profit ('$000) [(1)]	11,045	27,277	19,201	28,822	27,126
Statutory Net profit ('$000)	(85,780)	26,387	(91,387)	28,822	(73,116)
Basic Earnings per Share (cents)	4.8	11.4	7.8	10.5	10.2
Dividends (cents)	2.1	7.0	5.0	10.0	10.0
Share Price ($) – as at 30 June	0.455	1.74	1.01	1.06	1.20
Short Term Incentive Payments (%) - % of Target Opportunity	4%	85%	87%	36%	28%

(1) Underlying net profit after tax attributable to owners has been calculated after adjusting profit / (loss) attributable to the ordinary equity holders of the Company for the after tax impact of any adjustments including asset impairments, de-recognition of deferred tax assets relating to tax losses, costs of acquisitions and other associated gains or losses on the disposal of businesses and CGU impairment, restructure and closure costs and other associated impairments in the previous year. This is as disclosed in note 22 (c) to the Annual Report. Underlying profit is a non IFRS measure used by the Company which is relevant because it is consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business in light of its change program. The non IFRS measure has not been subject to audit or review.

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.

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 $ [7]	Shares $	Total $
Executive Director									
E Pretty [1]	848,435	-	5,418	35,121	-	900,000	(64,222)	-	1,724,752
Other Senior Executives									
G Logan [2][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) 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.
(2) G Logan ceased as Chief Financial Officer on 2 February 2015, and was promoted to Chief Operating Officer
(3) G Logan was promoted to Chief Executive Officer on 27 May 2015
(4) G Turner became a KMP when he was prompted 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.
(7) The expense relating to unvested performance rights granted to key management personnel was reversed in the current year as service conditions were not met.

Remuneration Report – audited (continued)

6. Statutory Remuneration Tables (continued)

6.1 Senior Executive Remuneration (continued)

2014	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 $	Shares $	Total $
Executive Directors									
E Pretty[1]	879,430	905,500[2]	13,543	25,193	4,333	-	64,222	-	1,892,221
Other Senior Executives									
G Logan	528,033	266,666	-	23,364	151,669	-	-	-	969,732
B Newton	395,973	273,980	19,799	36,672	72,404[3]	-	-	-	798,828
L Ison[4]	260,317	157,168	10,048	24,079	288	-	-	-	451,900
M Campbell[5]	476,630	45,000	-	44,088	-	296,208	-	-	861,926
L Francis[6]	145,410	144,305	-	13,479	635	-	-	-	303,829
Former Senior Executives									
M McKinstry[7]	72,464	-	5,589	8,250	-	-	-	-	86,303
Total Senior Executive Compensation	2,758,257	1,792,619	48,979	175,125	229,329	296,208	64,222	-	5,364,739

(1) Accounting Value for performance rights for Mr E Pretty represents 3% of Total Remuneration for 2014
(2) Includes Bonus payments for the sale of Steel assets for G Logan ($100,000) and E Pretty ($150,000), and STI Payments for G Logan ($166,666) and E Pretty ($755,500)
(3) B Newton received a cash based LTI of $71,250 with payment deferred to after FY2016 in accordance with his employment arrangements
(4) L Ison commenced with Hills 9 September 2013
(5) M Campbell ceased employment with Hills effective 1 July 2014
(6) L Francis changed roles on 23 January 2014 and ceased to be a KMP
(7) M McKinstry ceased employment with Hills effective 30 August 2013

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 FY2015 calculated in accordance with the accounting standards as a proportion of the total.

Name	Full Year Potential STI	Pro rata Potential STI	Actual STI paid/payable $	Actual STI paid/payable as % of Full Year potential STI	Actual STI paid/payable as % of Pro rata potential STI	STI paid/payable as % of fixed remuneration
E Pretty	$945,000	$787,500	-	-	-	-
G Logan	$280,000	$281,667	$45,000	16%	16%	8%
G Turner	$124,666	$124,667	$19,947	16%	16%	16%
L Ison	$268,000	$245,667	-	-	-	-
B Newton	$288,400	$168,233	-	-	-	-

The following table reflects the fixed remuneration, STI and LTI and total performance based remuneration for FY2015 calculated in accordance with the accounting standards as a proportion of the total remuneration.

Name	Fixed Remuneration %	At Risk/STI Paid or Payable %	Value of performance rights/cash LTI %	Total performance based %
E Pretty	100%	-	-	-
G Logan	83%	6%	11%	17%
G Turner	94%	6%	0%	6%
L Ison	100%	-	-	-
B Newton	100%	-	-	-

The following table shows the proportion weighting of each element of remuneration for each of the senior executives employed during FY2015 based on maximum potential outcome.

	Fixed remuneration %		Maximum short-term incentive %		Maximum long term Incentive (%)	
	FY2015	FY2014	FY2015	FY2014	FY2015	FY2014
E Pretty	53%	48%	47%	49%	0%	3%
G Logan	58%	64%	27%	28%	15%	8%
G Turner	66%	-	27%	-	7%	-
L Ison	60%	64%	40%	36%	0%	0%
B Newton	63%	56%	37%	35%	0%	9%

Remuneration Report – audited (continued)

6. Statutory Remuneration Tables (continued)

6.3 Details of share based compensation and bonuses

Former Group Managing Director and CEO

FY2014 LTI Plan

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

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

FY2015 LTI Plan

At the Annual General Meeting in 2014 shareholders approved a grant of performance rights to the former Group Managing Director and CEO. A grant of 160,555 performance rights was issued on 27 February 2015 under the following conditions:

- A 3 year performance period from 1 July 2014 to 30 June 2017 with the following hurdles:
  - 50% vesting if the TSR was 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); and
  - 33.33% vesting if the EPS was equal to 15% CAGR;
  - An additional 16.67% vesting if the EPS reached 19.2% CAGR, with a linear vesting scale between 15% and 19.2%.

No performance rights vested during FY2015, and all performance rights in both the FY2013 and FY2014 plans lapsed when the former Managing Director and Chief Executive Officer ceased employment with the Company.

Senior Executives

The terms of the senior executive FY2015 LTI Plan granted on 27 February 2015 are the same as those for the former Managing Director and Chief Executive Officer. Details of the performance rights granted to senior executives is provided in section 6.3

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

The numbers of performance rights granted, vested and expired / forfeited in FY2015

Name	Performance Rights	Performance Rights Granted	Performance Rights Vested	Performance Rights Expired/ Forfeited	Balance
	1st July 2014				30 June 2015
E Pretty	1,133,332	160,555	-	(1,293,887)	-
G Logan[1]	-	-	-	-	-
G Turner	-	19,588	-	-	19,588
L Ison	-	42,822	-	(42,822)	-
B Newton	-	-	-	-	-

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 of $0.77 and
- Market Hurdle Relative Total Shareholder Return $0.52

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

No terms of equity settled share based payment transactions, granted as compensation to a senior executive, have been altered or modified by the issuing entity during the reporting period or the prior period.

Details of performance rights over ordinary shares in Hills provided as remuneration to the former Group Managing Director and CEO and 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 23 to the financial statements.

The numbers and value of performance rights granted, vested and expired/forfeited in FY2015

Name	Financial Year	Measure	Number of Perf. Rights	Fair Value @ grant date		Accounting Value	
				$ per right	Total Value - $	Exercised during period- $	Expired / forfeited – $
E Pretty	2014	Share Price	566,666	$0.34	$192,666	-	$192,666
	2014	EPS	566,666	$1.27	$719,666	-	$719,666
	2015	RTSR	80,278	$0.52	$41,744	-	$41,744
	2015	EPS	80,277	$0.77	$61,814	-	$61,814
G Turner	2015	RTSR	9,794	$0.52	$5,093	-	-
	2015	EPS	9,794	$0.77	$7,541	-	-
L Ison	2015	RTSR	21,411	$0.52	$11,134	-	$11,134
	2015	EPS	21,411	$0.77	$16,487	-	$16,487

Shares issued on the exercise of options

No performance rights vested during FY2015. 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 FY2015.

Remuneration Report – audited (continued)

7. Non-executive Directors' Remuneration (continued)

7.2 Directors' FY2015 Fee Structure

In recognition of the reduced size of the Company and the need to focus on costs, fees paid to non-executive directors were reduced by 20% from 1 May 2015. The following table outlines the main Board and Committee fees as at 30 June 2015.

	Chair Fee $		Member Fee $	
	Pre 1 May 2015	From 1 May 2015	Pre 1 May 2015	From 1 May 2015
Board	200,000	160,000	100,000	80,000
Audit and Risk Committee	20,000	20,000	10,000	10,000
Remuneration Committee	10,000	10,000	Nil	Nil
Nomination Committee	10,000	10,000	Nil	Nil

7.3 Non-executive Directors' remuneration details

Non-Executive Directors	Year	Board and Committee Fees $	Superannuation $	Total $
J Hill-Ling	2015	177,512	16,800	194,312
	2014	183,486	16,972	200,458
FRV Bennett	2015	106,507	10,080	116,587
	2014	110,092	10,183	120,275
P Bullock (1)	2015	94,293	9,022	103,315
	2014	2,174	207	2,381
I Elliot	2015	97,632	9,240	106,872
	2014	100,917	9,335	110,252
D Spence	2015	106,507	10,080	116,587
	2014	110,092	10,183	120,275
P Stancliffe (2)	2015	33,639	3,196	36,835
	2014	100,917	9,335	110,252
TOTAL	2015	616,090	58,418	674,508
	2014	607,678	56,215	663,893

(1) P Bullock commenced as a non-executive director on 23 June 2014
(2) P Stancliffe ceased as a non-executive director on 31 October 2014

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.

Remuneration Report – audited (continued)

8. Equity instrument disclosures relating to key management personnel

8.1 Rights and options provided as remuneration

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

2015 Directors

Name	Balance at start of the year	Granted as compen-sation	Exercised	Rights / options lapsed / forfeited / cancelled	Balance at the end of the year	Vested and exercise-able	Unvested
E Pretty	1,133,332	160,555	-	(1,293,887)	-	-	-

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.

Share disclosures for JH Hill-Ling includes 1,188,918 (2014: 1,188,918) shares owned by Hills Associates Limited & Poplar Pty Ltd (jointly held) and 17,857,359 (2014: 16,239,441) shares owned by Hills Associates Limited, of which J H Hill-Ling is a Director.

Other changes during the year for JH Hill-Ling comprises the acquisition of 429,000 (2014: 350,000) shares in Hills Limited by Hills Associates Limited.

2015 Directors of Hills Limited

	Ordinary shares			
	Balance at the start of the year	Received during the year on the exercise of options / rights	Other changes during the year	Balance at the end of the year
JH Hill-Ling	17,601,423	-	439,000	18,040,423
E Pretty (1)	250,000	-	450,000	700,000
F Bennett	4,000	-	-	4,000
P Bullock (2)	5000	-	5,000	10,000
I Elliot	51,735	-	-	51,735
D Spence	190,000	-	60,000	250,000
P Stancliffe (3)	50,000	-	-	50,000

(1) E Pretty ceased to be a director on 27 May 2015. Changes during the year include changes after the period in which disclosure is required
(2) P Bullock commenced as a non-executive director on 23 June 2014
(3) P Stancliffe ceased as a non-executive director on 31 October 2014

8.2 Loans to Key Management Personnel (KMP)

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

Remuneration Report – audited (continued)

8. Equity instrument disclosures relating to key management personnel (continued)

8.3 Other transactions with KMP

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

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.

Environmental regulation

Manufacturing

Hills holds all required environmental licences, registrations and permits for its manufacturing sites around Australia. No significant environmental incidents were reported over the 2014-15 financial year and Hills continued to meet or exceed the requirements specified in relevant licenses and authorisations.

Greenhouse gas and energy data reporting requirements

Due to the divestment of Building & Industrial divisions, Hills no longer triggers the NGER reporting threshold and is no longer required to report to the Clean Energy Regulator. Hills continued to capture and report on energy consumption and GHG emissions as a key environmental sustainability metric in its Environmental Management System during 2014-15.

Australian Packaging Covenant

The Australian Packaging Covenant (APC) is a voluntary initiative by Government and industry to reduce the environmental impact of packaging. Hills became a signatory to the APC in 2010 and has established a five year action plan aimed at optimising packaging design, material recovery, recycling and product stewardship. Hills remain supportive of the goals and initiatives of the APC and remain compliant following the submission of its fourth annual report during March 2015.

Insurance of officers

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

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

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

Indemnification of officers

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

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

Non-audit services

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

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

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

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

Non-audit fees remained high during the year due to significant work performed in relation to the Company's restructure and divestment program, in particular the sale of non-core businesses. These sale transactions were expected to complete early in the financial year, but sales were not complete until June 2015. Non-audit fees will return to normal levels in 2016.

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

	2015 **$**	2014 $
Audit services		
Audit and other assurance services		
KPMG Australia - audit and review of the financial statements	**485,909**	628,000
Overseas KPMG firms - audit and review of the financial statements	**38,957**	22,140
Total remuneration for audit and other assurance services	**524,866**	650,140
Taxation services		
KPMG Australia - taxation and other services	**203,867**	102,520
Overseas KPMG firms - taxation services	**40,253**	24,367
Total remuneration for taxation services	**244,120**	126,887
Other services		
Financial advisory services	**397,534**	833,235
Other consulting services	-	40,268
Total remuneration for other services	**397,534**	873,503
Total remuneration for audit and non-audit services	**1,166,520**	1,650,530

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 44.

Rounding of amounts

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

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

Jennifer Helen Hill-Ling
Director

David Moray Spence
Director

Sydney
24 August 2014

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 2015 there have been:

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

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

KPMG

KPMG

Paul Cenko
Partner

Adelaide

24 August 2015

Hills Limited ABN 35 007 573 417

Financial statements - 30 June 2015

Contents

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

The consolidated financial statements are presented in the Australian currency.

Hills Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office is:

Hills Limited
Level 7, 130 Pitt Street
Sydney NSW 2000

The consolidated financial statements were authorised for issue by the Directors on 24 August 2015. The Directors have the power to amend and reissue the consolidated financial statements.

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

For queries in relation to corporate reporting please call +61 2 9216 5510 or email info@hills.com.au.

Hills Limited
Consolidated income statement
For the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Continuing operations			
Revenue	3	**427,822**	448,257
Other income	4	**5,323**	15,862
		433,145	464,119
Expenses excluding net finance expenses	5	**(488,101)**	(439,922)
(Loss) / profit before net finance expense and income tax		**(54,956)**	24,197
Finance income		**200**	1,432
Finance expenses		**(3,236)**	(4,786)
Net finance expenses	5	**(3,036)**	(3,354)
(Loss) / profit before income tax		**(57,992)**	20,843
Income tax expense from continuing operations	6	**(27,788)**	(2,474)
(Loss) / profit from continuing operations		**(85,780)**	18,369
Profit from discontinued operations (net of tax)	7	-	8,018
(Loss) / profit for the year		**(85,780)**	26,387
(Loss) / profit is attributable to:			
Owners of Hills Limited		**(85,947)**	24,798
Non-controlling interests		**167**	1,589
		(85,780)	26,387

		Cents	Cents
Earnings per share for (loss) / profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	22	**(37.0)**	7.0
Diluted earnings per share	22	**(37.0)**	7.0
Earnings per share for (loss) / profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	22	**(37.0)**	10.4
Diluted earnings per share	22	**(37.0)**	10.4

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 2015

	Notes	2015 $'000	2014 $'000
(Loss) / profit for the year		**(85,780)**	26,387
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	20	**1,127**	1,084
Exchange differences on translation of foreign operations	20	**(710)**	1,182
Income tax relating to components of other comprehensive income	6	**(338)**	(325)
Other comprehensive income for the year that may be reclassified to profit or loss, net of tax		**79**	1,941
Items that will not be reclassified to profit or loss			
Reversal of previous revaluation of land and buildings	20	**(7,534)**	(14,227)
Income tax relating to components of other comprehensive income	6	**2,261**	4,268
Other comprehensive loss for the year that will not be reclassified to profit or loss, net of tax		**(5,273)**	(9,959)
Other comprehensive (loss) for the year, net of tax		**(5,194)**	(8,018)
Total comprehensive (loss) / income for the year		**(90,974)**	18,369
Total comprehensive (loss) / income for the year is attributable to:			
Owners of Hills Limited		**(91,141)**	16,780
Non-controlling interests		**167**	1,589
		(90,974)	18,369
Total comprehensive (loss) / income for the year attributable to owners of Hills Limited arises from:			
Continuing operations		**(91,141)**	8,762
Discontinued operations		**-**	8,018
		(91,141)	16,780

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 2015

	Notes	2015 $'000	2014 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**18,801**	45,482
Trade and other receivables	9	**92,136**	104,479
Inventories	10	**72,446**	59,351
Derivative financial instruments	15	**606**	-
		183,989	209,312
Assets classified as held for sale	7	**-**	7,800
Total current assets		**183,989**	217,112
Non-current assets			
Trade and other receivables	9	**653**	-
Investments	11	**3**	2
Property, plant and equipment	12	**32,822**	47,605
Intangible assets	13	**39,237**	83,183
Deferred tax assets	14	**30,833**	56,043
Total non-current assets		**103,548**	186,833
Total assets		**287,537**	403,945
LIABILITIES			
Current liabilities			
Trade and other payables	16	**67,690**	75,759
Borrowings	17	**5,831**	1,983
Current tax liabilities	6	**407**	1,812
Provisions	18	**27,133**	36,389
Derivative financial instruments	15	**310**	472
Total current liabilities		**101,371**	116,415
Non-current liabilities			
Borrowings	17	**45,000**	35,000
Provisions	18	**4,566**	6,774
Derivative financial instruments	15	**-**	528
Total non-current liabilities		**49,566**	42,302
Total liabilities		**150,937**	158,717
Net assets		**136,600**	245,228
EQUITY			
Contributed equity	19	**278,439**	281,624
Reserves	20	**10,467**	28,900
(Accumulated losses)		**(152,306)**	(66,359)
Capital and reserves attributable to owners of Hills Limited		**136,600**	244,165
Non-controlling interests	30	**-**	1,063
Total equity		**136,600**	245,228

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

Consolidated statement of changes in equity
For the year ended 30 June 2015

		Attributable to owners of Hills Limited					
	Notes	Contributed equity $'000	Reserves $'000	(Accumulated losses) $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2013		**303,890**	**32,589**	**(66,359)**	**270,120**	**898**	**271,018**
Total comprehensive income for the year		**-**	**(8,018)**	**24,798**	**16,780**	**1,589**	**18,369**
Transactions with owners in their capacity as owners:							
Share buyback, net of transaction costs	19	(22,266)	-	-	(22,266)	-	(22,266)
Dividends provided for or paid	21	-	(16,037)	-	(16,037)	-	(16,037)
Dividends paid to non-controlling interests in subsidiaries		-	-	-	-	(90)	(90)
Share buyback paid to non-controlling interests in subsidiaries		-	-	-	-	(200)	(200)
Acquisition of non-controlling interest	30	-	(4,495)	-	(4,495)	(505)	(5,000)
Disposal of non-controlling interests in subsidiaries		-	-	-	-	(629)	(629)
Employee share schemes – value of employee services	23	-	63	-	63	-	63
Transfer current period profit to profits reserve	20	-	24,798	(24,798)	-	-	-
Balance at 30 June 2014		**281,624**	**28,900**	**(66,359)**	**244,165**	**1,063**	**245,228**
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	19	**(3,185)**	**-**	**-**	**(3,185)**	**-**	**(3,185)**
Dividends provided for or paid	21	**-**	**(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 – value of employee services	23	**-**	**33**	**-**	**33**	**-**	**33**
Balance at 30 June 2015		**278,439**	**10,467**	**(152,306)**	**136,600**	**-**	**136,600**

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 2015

	Notes	2015 $'000	2014 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**486,657**	795,108
Payments to suppliers and employees (inclusive of goods and services tax)		**(494,547)**	(805,909)
		(7,890)	(10,801)
Net finance costs paid		**(3,036)**	(3,310)
Net income taxes received / (paid)		**(2,117)**	(1,216)
Net cash flows from operating activities	33	**(13,043)**	(15,327)
Cash flows from investing activities			
Payments for acquisitions of subsidiaries / business operations, net of cash acquired		**(26,676)**	(56,560)
Payments for property, plant and equipment	12	**(10,928)**	(14,041)
Payments for intangible assets	13	**(3,468)**	(4,681)
Proceeds from sale of business operations and subsidiaries		**5,970**	116,421
Proceeds from sale of property, plant and equipment and intangible assets		**14,029**	16,199
Proceeds from sale of assets held for sale		**7,570**	11,433
Rent received		**3,149**	1,777
Net cash flows from investing activities		**(10,354)**	70,548
Cash flows from financing activities			
Proceeds from borrowings		**15,831**	460
Payments for shares bought back, inclusive of transaction costs	19	**(3,185)**	(22,266)
Repayment of borrowings		**(172)**	(30,299)
Dividends paid to the Company's shareholders	21	**(13,272)**	(16,037)
Payments to non-controlling interests in subsidiaries		**(732)**	(290)
Acquisition of non-controlling interest	30	**-**	(5,000)
Net cash flows from financing activities		**(1,530)**	(73,432)
Net (decrease) in cash and cash equivalents		**(24,927)**	(18,211)
Cash and cash equivalents at the beginning of the year		**43,672**	61,480
Effects of exchange rate changes on cash and cash equivalents		**56**	403
Cash and cash equivalents at end of the year	8	**18,801**	43,672

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

1 Summary of Significant Accounting Policies

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

(a) Basis of Preparation

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

(i) Compliance with IFRS

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

(ii) New and Amended Standards Adopted by the Group

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

(iii) Early Adoption of Standards

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

(iv) Historical Cost Convention

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

- Financial instruments (derivatives) at fair value through profit or loss are measured at fair value;
- Assets held for sale are measured at fair value less costs of disposal;
- Land and buildings are measured at fair value; and
- Contingent consideration assumed in a business combination is measured at fair value.

The methods used to measure fair values are discussed further in notes 1(o), 1(p), 1(q)(v), 12 and 28.

(v) Critical Accounting Estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in the following notes:

- Note 6 – tax losses for which no deferred tax asset has been recognised
- Note 7 - assets and disposal groups held for sale and discontinued operations
- Notes 12 and 13 - valuation of land and buildings and measurement of the useful lives of property, plant and equipment and intangible assets
- Note 13 - measurement of the recoverable amounts of cash generating units containing goodwill
- Notes 18 and 25 - provisions and contingencies
- Note 23 - measurement of share based payments
- Note 28 – measurement of fair value
- Note 29 - business combinations and contingent consideration payable

1 Summary of Significant Accounting Policies (continued)

(b) Parent Entity Financial Information

The financial information for the parent entity, Hills, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements.

(c) Principles of Consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2015 and the results of all subsidiaries for the year then ended.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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

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

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

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

(ii) Changes in Ownership Interests

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

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

(d) Segment Reporting

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

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

(e) Foreign Currency Translation

(i) Functional and Presentation Currency

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

1 Summary of Significant Accounting Policies (continued)

(e) Foreign Currency Translation (continued)

(ii) Transactions and Balances

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

(iii) Group Companies

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

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

(f) Revenue Recognition

Revenue is recognised for the major business activities as follows:

(i) Sale of Goods

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

(ii) Services

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

(iii) Rental Income

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

(iv) Dividends

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

(g) Income Tax

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

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

1 Summary of Significant Accounting Policies (continued)

(g) Income Tax (continued)

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

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

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

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

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

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

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

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

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

(h) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 26). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(i) Business Combinations

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

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

1 Summary of Significant Accounting Policies (continued)

(i) Business Combinations (continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

(j) Impairment of Assets

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

(k) Cash and Cash Equivalents

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

(l) Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 to 90 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

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

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

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

(m) Inventories

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

1 Summary of Significant Accounting Policies (continued)

(n) Investments and Other Financial Assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Financial Assets at Fair Value through Profit or Loss

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

(ii) Loans and Receivables

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

Recognition and Derecognition

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

Measurement

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

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

Impairment

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

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

(o) Derivatives and Hedging Activities

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

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

1 Summary of Significant Accounting Policies (continued)

(o) Derivatives and Hedging Activities (continued)

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 15. Movements in the hedging reserve in shareholder's equity are shown in note 20. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

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

(i) Cash Flow Hedge

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

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

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

(ii) Derivatives that do not qualify for Hedge Accounting

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

(p) Property, Plant and Equipment

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

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

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

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

1 Summary of Significant Accounting Policies (continued)

(p) Property, Plant and Equipment (continued)

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

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

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

- Buildings	0.75%
- Plant and equipment, including leasehold improvements	5.0% to 66.7%

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

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

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

(q) Intangible Assets

(i) Goodwill

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

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

(ii) Patents and Trademarks, Customer Relationships, 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. Amortisation is calculated using the straight line method to allocate the cost over their estimated useful lives, which vary from:

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

(iii) IT Development and Software

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

1 Summary of Significant Accounting Policies (continued)

(q) Intangible Assets (continued)

(iv) Research and Development

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

(v) Fair Value

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

(r) Non-current Assets (or Disposal Groups) Held for Sale and Discontinued Operations

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

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

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

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

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

(s) Trade and Other Payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are paid in accordance with the Group's terms of trade. Trade and other payables are presented as current liabilities unless payment is not due within twelve months after the reporting period.

(t) Borrowings

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

1 Summary of Significant Accounting Policies (continued)

(t) Borrowings (continued)

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

(u) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Warranty provisions are recognised when the underlying products or services are sold. Restructuring provisions are recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or been announced publicly. Provisions are not recognised for future operating losses.

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

(v) Employee Benefits

(i) Short-term Obligations

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

(ii) Other Long Term Employee Benefit Obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on 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.

(iii) Retirement Benefit Obligations

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

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

(iv) Share-based Payments

Share based compensation benefits are provided to employees via the Long Term Incentive Share Plan. Information relating to this scheme is set out in note 23.

Long Term Incentive 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.

1 Summary of Significant Accounting Policies (continued)

(v) Employee Benefits (continued)

(iv) Share-based PAYMENTs (continued)

Long Term Incentive Plan (continued)

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.

(v) Profit-sharing and Bonus Plans

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

(w) Contributed Equity

Ordinary shares are classified as equity.

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

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

(x) Dividends

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

(y) Earnings Per Share

(i) Basic Earnings Per Share

Basic earnings per share is calculated by dividing:

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

(ii) Diluted Earnings Per Share

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

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

(z) Finance income and Expense

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

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

1 Summary of Significant Accounting Policies (continued)

(aa) Borrowing Costs

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

(ab) Goods and Services Tax (GST)

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

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

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

(ac) Rounding of Amounts

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

(ad) New Accounting Standards and Interpretations Not Yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities and sets out new rules for hedge accounting. It is likely to affect the Group's accounting for its financial assets and financial liabilities. The standard is applicable for financial years beginning on or after 1 January 2018 but is available for early adoption. The Group has not yet decided when to adopt AASB 9 and has not yet determined the potential effect of the standard.

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

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 is applicable for financial years beginning on or after 1 January 2016. The amendments do not require any significant changes to current practice but facilitate improved reporting.

2 Segment Information

(a) Change of 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.

Hills has a number of operating segments. The Company's restructure and transformation program has resulted in a number of changes to the relative characteristics of Hills' segments. In the prior year, all of its remaining operating segments had characteristics that were materially so similar in nature that they could reasonably be expected to have had the same prospects. These operating segments had similar economic characteristics, provided similar products and services, had a similar production process, similar types of customers, similar methods for distribution and were subject to a materially similar regulatory environment. Hills operating segments were therefore aggregated into one reportable segment under AASB 8 called the Hills Technologies Segment. This was also borne out by the fact that after its restructure and transformation program, Hills had 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.

2 Segment information (continued)

(a) Change of segments (continued)

In the current year, the materiality of the Health and Home Segments were now such that these have been disaggregated from the single reportable segment and the comparative results have been adjusted accordingly.

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 businesses (Building Technologies Segment, Health Segment, Home Segment, Corporate Segment) and discontinuing business results in one category: the Discontinued businesses Segment (which contains the results of businesses that have been closed or sold and regardless of whether these are classified as discontinued 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 the following reportable segments with the following summaries describing the operations of the Group's reportable segments:

Building Technologies Segment

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 and amplifiers.

Health Segment

Includes the supply and installation of health technology solutions, nursecall and patient entertainment systems to hospitals, aged care facilities and similar institutions. Hills earns ongoing revenue from patients utilising its patient entertainment systems on a daily rate basis.

Home Segment

Includes the results of the Hills Home Living business which has now 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 Segment

This includes the costs of running Hills' Corporate, Compliance and Shared Services functions. In prior periods, this cost pool was directly recharged or allocated to Hills' other segments in whole or in part. As discontinued businesses have ceased operations, not all of the Corporate Segment could be recharged and while the gross costs have reduced substantially over the past few years, the net cost remaining in this Segment has increased.

Discontinued Businesses

Businesses that have been closed or sold under Hills' restructure and transformation program (whether or not these were classified as discontinued under IFRS), are shown separately to enable the CODM to assess the true continuing operations of the Group.

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

	Building Technologies Segment		Health Segment		Home Segment		Corporate Segment		Discontinued businesses		Total	
	2015	2014 (restated)*	**2015**	2014 (restated)*	**2015**	2014 (restated)*	**2015**	2014 (restated)*	**2015**	2014	**2015**	2014 (restated)*
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Total segment revenue	**348,380**	327,329	**33,530**	22,600	**42,763**	65,600	**3,149**	1,777	**-**	319,859	**427,822**	737,165
Revenue from external customers	**348,380**	327,329	**33,530**	22,600	**42,763**	65,600	**3,149**	1,777	**-**	319,859	**427,822**	737,165
Segment EBITDA	**26,789**	36,471	**4,083**	5,300	**6,365**	5,400	**(8,275)**	(4,300)	**-**	8,020	**28,962**	50,891
Segment Assets	**187,716**	172,735	**33,784**	74,126	**2,981**	11,014	**12,813**	44,543	**-**	-	**237,294**	302,418
Additions to non-current assets (other than financial assets and deferred tax)	**10,817**	11,340	**2,862**	2,469	**175**	1,644	**542**	3,268	**-**	-	**14,396**	18,722
Segment Liabilities	**65,844**	62,313	**6,199**	10,800	**3,439**	13,910	**19,715**	29,272	**-**	-	**95,197**	116,295

* During the year the Group has changed its internal organisation and composition of its reportable segments. Accordingly, the Group has restated the operating segment information for the year ended 30 June 2014.

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 total revenue per note 3.

The Group is domiciled in Australia. The amount of its revenue (including revenue from discontinued operations) from external customers in Australia is $392.085 million (2014: $702.855million), and the total of revenue from external customers in other countries is $35.737 million (2014: $34.310 million). Segment revenues are allocated based on the country in which the customer is located.

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

(ii) Segment EBITDA

The CODM assesses performance based on a measure of Underlying EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs and goodwill impairments when the impairment is the result of an isolated, non-recurring event and business combination acquisition transaction costs which, although expensed under IFRS, are considered to otherwise distort the operational view of the business. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

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

	Notes	2015 $'000	2014 $'000
Segment EBITDA		**28,962**	50,891
Depreciation and amortisation	5	**(11,075)**	(9,197)
Finance income	5	**200**	1,432
Finance expenses	5	**(3,236)**	(4,786)
Net costs not considered part of underlying profit		**(72,843)**	(5,869)
Less discontinued operations profit before tax and restructuring costs		-	(11,628)
(Loss) / profit before income tax from continuing operations		**(57,992)**	20,843

Net costs not considered part of underlying profit comprise:

Current Year

	$'000
Impairment of goodwill	**55,353**
Impairment of intangible assets	**5,661**
Impairment of land and buildings, net of plant and equipment release of impairment	**1,053**
Impairment of inventories and inventory write offs	**3,222**
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	**1,063**
	72,843

Prior Year

Net costs totalling $5.869 million comprised acquisition costs relating to the acquisitions of businesses and due diligence costs, totalling $4.978 million and net losses on disposal of businesses (net of impairments, provisions and restructuring costs related to those disposals) totalling $0.891 million and were included within Other Income and Other Expenses at 30 June 2014.

2 Segment Information (continued)

(c) Other Segment Information (continued)

(iii) Segment Assets

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

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

	2015 $'000	2014 $'000
Segment assets	**237,294**	302,418
Unallocated assets:		
Cash assets	**18,801**	45,482
Deferred tax assets	**30,833**	56,043
Derivative financial instruments	**606**	-
Investments	**3**	2
Total Assets as per the Consolidated Statement of Financial Position	**287,537**	403,945

The total of non-current assets other than deferred tax assets located in Australia is $67.972 million (2014: $126.999 million), and the total of these non-current assets located in other countries is $4.743 million (2014: $3.791 million). Segment assets are allocated to countries based on where the assets are located.

Depreciation and amortisation expense for the Group totalled $11.075 million (2014: $9.197 million) which was fully allocated to segments.

(iv) Segment Liabilities

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

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

	2015 $'000	2014 $'000
Segment Liabilities	**95,197**	116,295
Unallocated liabilities:		
Tax liabilities (including GST payable)	**4,599**	4,439
Borrowings	**50,831**	36,983
Derivative financial instruments	**310**	1,000
Total Liabilities as per the Consolidated Statement of Financial Position	**150,937**	158,717

3 Revenue

	2015 $'000	2014 $'000
Revenue from Continuing Operations		
Sales revenue		
Sale of goods	354,969	409,713
Services	69,704	36,767
	424,673	446,480
Other revenue		
Rents and sub-lease rentals	3,149	1,777
Total Revenue from Continuing Operations	427,822	448,257
Revenue from Discontinued Operations		
Sales revenue – sale of goods	-	288,908
Total Revenue	427,822	737,165

4 Other income

	2015 $'000	2014 $'000
Net gain on disposal of plant and equipment	522	239
Net gain on disposal of businesses	1,074	14,596
Other income	3,727	1,027
	5,323	15,862

5 Expenses

	2015 $'000	2014 $'000
Classification of Expenses by Function		
Cost of goods sold	225,682	261,509
Cost of services provided	52,576	17,607
Other expenses from ordinary activities:		
Sales and marketing expenses	77,959	72,950
Distribution expenses	20,718	23,169
Administration expenses	38,323	44,222
Other expenses	72,843	20,465
	488,101	439,922

5 Expenses (continued)

Profit / (Loss) Before Income Tax Includes the Following Specific Expenses:

	2015 $'000	2014 $'000
Depreciation		
Buildings	**66**	173
Plant and equipment	**5,654**	5,529
Total depreciation	**5,720**	5,702
Amortisation		
Patents and trademarks	**72**	61
Research and development	**86**	61
Customer contracts, relationships and brands	**3,021**	1,436
Software	**2,176**	1,937
Total amortisation	**5,355**	3,495
Total depreciation and amortisation	**11,075**	9,197
Employee benefit expenses		
Wages and salaries	**70,148**	78,341
Defined contribution superannuation expense	**6,150**	6,285
Other employee benefit expenses	**4,956**	5,737
Equity-settled share-based payment transactions	**33**	64
Total employee benefits expenses	**81,287**	90,427
Finance expenses		
Interest and finance charges paid/payable	**(3,236)**	(4,440)
Wind-back of discount on provisions	**-**	(346)
	(3,236)	(4,786)
Finance income		
Interest income	**200**	1,130
Fair value gains on derivatives	**-**	302
	200	1,432
Finance costs expensed	**(3,036)**	(3,354)

6 Income Tax Expense

	2015 $'000	2014 $'000
(a) Income Tax Expense		
Current tax	**789**	2,044
Deferred tax	**26,999**	4,040
	27,788	6,084
Income tax expense is attributable to:		
Profit from continuing operations	**27,788**	2,474
Profit from discontinued operations	-	3,610
Aggregate income tax expense	**27,788**	6,084
(b) Numerical Reconciliation of Income Tax Expense to Prima Facie Tax Payable		
(Loss) / profit from continuing operations before income tax expense	**(57,992)**	20,843
Profit from discontinuing operations before income tax expense	-	11,628
	(57,992)	32,471
Tax at the Australian tax rate of 30.0% (2014: 30.0%)	**(17,398)**	9,741
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Goodwill and other intangible assets impairment	**18,090**	-
Non-deductible expenses	**212**	484
Research and development allowances	**(60)**	(80)
Acquisition costs	**497**	1,071
Gains on sale of assets	**(282)**	(5,090)
Impairment of land and buildings	**662**	-
De-recognition of deferred tax assets	**26,123**	-
	27,844	6,126
Difference in overseas tax rates	**(56)**	(42)
Total income tax expense	**27,788**	6,084

(c) Tax (benefit) Relating to Items of Other Comprehensive Income

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

	2015 $'000	2014 $'000
(Losses) on revaluation of land and buildings	**(2,262)**	(4,268)
Gains on cash flow hedges	**338**	325
Aggregate income tax (benefit)	**(1,924)**	(3,943)

6 Income Tax Expense (continued)

	2015 $'000	2014 $'000
(d) Tax Losses		
Capital items		
Unused capital tax losses for which no deferred tax asset has been recognised	**29,212**	**34,206**
Potential tax benefit	**8,764**	**10,262**

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

	2015 $'000	2014 $'000
Revenue items		
Revenue tax losses for which no deferred tax asset has been recognised	**104,733**	**925**
Potential tax benefit	**31,420**	**278**

The revenue tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because the period over which the Group can utilise the benefits from these items extends beyond 7 years (the time horizon during which their recovery is considered probable).

Revenue losses for which a deferred tax asset has been recognised total $16.0 million (2014: $31.067 million).

(e) Current Tax Assets and Liabilities

The current tax liability for the Group of $0.407 million (2014: $1.812 million) represents the amount of income taxes payable in respect of current and prior financial periods.

(f) Tax Consolidation Legislation

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

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

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

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

7 Assets and Liabilities Classified as Held for Sale and Discontinued Operations

(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 year ended 30 June 2015.

	2015 $'000	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

(i) Description

Fielders and Orrcon

In the previous financial year the significant operations of Fielders Australia Pty Ltd (Fielders) and Orrcon Operations Pty Ltd (Orrcon) were presented as discontinued operations. Fielders and Orrcon were sold effective 28 February 2014. Financial information relating to the discontinued operations for the previous financial year is set out below.

(ii) Financial Performance and Cash Flow Information

The financial performance and cash flow information presented are for the period to 28 February 2014.

	2014 $'000
Revenue (note 3)	288,908
Expenses	(277,522)
Other income	235
Finance income	7
Profit before income tax	11,628
Income tax expense	(3,610)
Profit after income tax of discontinued operation	8,018
Net cash flows from operating activities	(25,529)
Net cash flows from investing activities	85,289
Net cash flows from financing activities	(82,450)
Net decrease in cash generated by the discontinued operations	(22,690)

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

(iii) Details of the sales

The effect of the disposals of Fielders and Orrcon on the financial position of the Group was:

	2014 $'000
Consideration received or receivable – cash	84,923
Carrying amount of net assets sold	(84,785)
Gain on sale before income tax	138
Income tax expense	(41)
Gain on sale after income tax	97

7 Assets and Liabilities Classified as Held for Sale and Discontinued Operations (continued)

(b) Discontinued Operations (continued)

(iii) Details of the Sales (continued)

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

The carrying amounts of assets and liabilities as at the date of sale were:

	$'000
Trade and other receivables	65,707
Inventories	56,643
Property, plant and equipment	1,008
Total assets	123,358
Trade and other payables	(29,101)
Provisions	(9,472)
Total liabilities	(38,573)
Net assets	84,785

(c) Disposal of Businesses

During the current financial year the Group sold its Smartbar business (1 September 2014), Hills Polymers operations (30 April 2015) and its interest in its partly owned subsidiary Cygnus Satellite Pty Ltd (25 June 2015) as a continuation of its strategy to dispose of non-core businesses. During the previous financial year the Group sold its interests in two of its partially owned subsidiaries, UHS Systems Pty Ltd (partially owned until January 2014) (31 March 2014) and OptiComm Co Pty Ltd (30 April 2014) and its LW Gemmell operations (31 August 2013). None of these businesses were reclassified as discontinued operations as they were not significant separate major lines of business. Gains on sale are disclosed in note 4.

8 Current Assets – Cash and Cash Equivalents

	2015 $'000	2014 $'000
Cash at bank and in hand	**13,800**	42,482
Deposits at call	**5,001**	3,000
	18,801	45,482

(a) Reconciliation to Cash at the End of the Year

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

	2015 $'000	2014 $'000
Balances as above	**18,801**	45,482
Bank overdrafts	**-**	(1,810)
Balances per consolidated statement of cash flows	**18,801**	43,672

(b) Risk Exposure

The Group's exposure to interest rate risk is discussed in note 27. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

(c) Fair Value

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

9 Trade and Other Receivables

	2015			2014		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Trade receivables	**81,096**	-	**81,096**	90,059	-	90,059
Provision for impairment of receivables (a)	**(1,481)**	-	**(1,481)**	(2,750)	-	(2,750)
	79,615	-	**79,615**	87,309	-	87,309
Other receivables	**7,930**	-	**7,930**	13,912	-	13,912
Prepayments	**4,591**	**653**	**5,244**	3,258	-	3,258
	92,136	**653**	**92,789**	104,479	-	104,479

	2015 $'000	2014 $'000

(a) Impaired trade receivables

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

	2015 $'000	2014 $'000
Not past due	**42,930**	58,892
Past due 0 – 30 days	**20,883**	19,726
Past due 31 – 90 days	**12,466**	9,166
Past due more than 90 days	**4,817**	2,275
	81,096	90,059

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

	2015 $'000	2014 $'000
At 1 July	**2,750**	3,332
Provision for impairment recognised during the year	**314**	835
Receivables written off during the year as uncollectable	**(1,583)**	(1,286)
Decrease on business disposal	-	(131)
At 30 June	**1,481**	2,750

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 $1.481 million (2014: $2.750 million) relates to receivables past due more than 30 days, based upon a case by case assessment. Receivables past due between 0 and 30 days are not considered impaired.

(b) Foreign Exchange and Interest Rate Risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 27.

(c) Fair Value and Credit Risk

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

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The fair value of securities held for certain trade receivables is insignificant as is the fair value of any collateral sold or re-pledged. Refer to note 27 for more information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

10 Current Assets – Inventories

	2015 $'000	2014 $'000
Raw materials and stores	**2,046**	4,071
Work in progress	**136**	631
Finished goods	**70,264**	54,649
	72,446	59,351

(a) Inventory Expense

Write downs of inventories to net realisable value recognised as an expense during the year amounted to $3.722 million (2014: $2.117 million). The expense has been included in cost of sales $0.501 million (2014: $2.117 million) and other expenses $3.222 million (2014: $nil million).

11 Non-current Assets – Investments

	2015 $'000	2014 $'000
Equity securities	**3**	2

12 Non-current assets – Property, Plant and Equipment

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

12 Non-current Assets – Property, Plant and Equipment (continued)

	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

(a) Assets in the Course of Construction

The carrying amounts of the assets disclosed above and in note 13 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:

	2015 $'000	2014 $'000
Plant and equipment, leasehold improvements and software development	3,102	184

(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 2014, independent valuers provided informal advice as to 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 that a revaluation decrement of $14.227 million was appropriate. This amount was debited to the asset revaluation reserve in shareholders' equity.

As at 31 December 2014 and again as at 30 June 2015, independent valuers provided updated informal advice as to 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 that revaluation decrements totalling $9.740 million was appropriate. Of this total decrement, $7.534 million was debited to the asset revaluation reserve in shareholders' equity with the balance of $2.206 million recognised in profit and loss.

13 Non-current Assets - Intangible Assets

	Goodwill	Patents, trademarks & other rights	Distribution agreements, customer contracts & brands	Software *	Development costs	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2014						
Opening net book amount	32,649	1,039	-	10,463	633	44,784
Additions	-	-	-	3,258	1,423	4,681
Acquisition through business combinations	32,190	2	13,346	1,200	-	46,738
Amortisation charge	-	(61)	(1,436)	(1,937)	(61)	(3,495)
Impairment charge	-	-	-	(10,475)	-	(10,475)
Derecognised on disposal	(754)	(760)	-	-	(1,025)	(2,539)
Reclassification	-	-	-	3,489	-	3,489
Closing net book amount	64,085	220	11,910	5,998	970	83,183
At 30 June 2014						
Cost	132,243	343	13,346	41,728	1,023	188,683
Accumulated depreciation and impairment	(68,158)	(123)	(1,436)	(35,730)	(53)	(105,500)
Net book amount	64,085	220	11,910	5,998	970	83,183
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 depreciation and impairment	**(119,616)**	**(195)**	**(9,167)**	**(15,983)**	-	**(144,961)**
Net book amount	**26,280**	**254**	**5,958**	**5,778**	**967**	**39,237**

* Software includes capitalised development costs being an internally generated intangible asset.

13 Non-current Assets - Intangible Assets (continued)

(a) Impairment Tests for Goodwill

As part of the financial year end process, the Group carried out a comprehensive review of the carrying value of its assets having due consideration to the Group's market capitalisation, market growth assumptions and cash flows from ongoing operations. Cash Generating Unit (CGU) impairment tests were based on value in use calculations which were determined by discounting the future cash flows generated from the continuing use of the unit and based on the following 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% (2014: 3.0%), which is no greater than the long term average growth rate for the market to which the asset is dedicated.

Pre-tax discount rates of 18.7% (2014: 15.3%) for the Health Segment and 16.3% (2014:15.3%) for the Building Technologies Segment were used in the value in use calculations. 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:

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

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 Health and Building Technologies segments on a rational basis (directly where a direct utilisation is apparent, or otherwise on a relative revenue mix basis).

Hills' Home Segment has zero 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, Hills receives a minimum $2m per annum license fee contribution 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.

(b) Impairment Charges

Impairment of Goodwill

During the current year, it was determined that the carrying values of the Health 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.

13 Non-current Assets - Intangible Assets (continued)

(b) Impairment Charges (continued)

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

	Building Technologies		**Health**		**Total**	
	2015	2014	**2015**	2014	**2015**	2014
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Goodwill before impairment charge	**50,061**	38,837	**31,572**	25,248	**81,633**	64,085
Impairment charge	**(25,929)**	-	**(29,424)**	-	**(55,353)**	-
Carrying value of Goodwill after impairment charge	**24,132**	38,837	**2,148**	25,248	**26,280**	64,085

Impairment of Other Intangible Assets

At the same time as performing the CGU value in use calculation, the carrying values of separately identified other 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 year, it was determined that the carrying values of $4.359 million of Health and $0.589 million of Building Technologies separately identified other intangible assets were impaired with reference to specific asset-by-asset considerations and an impairment charge was recognised in the profit and loss statement. In addition, during the current year $0.400 million of Home segment and $0.313 million of Corporate segment intangible assets, being internally generated software, were impaired. These are expensed within other expenses in note 5.

In the prior year, $10.475 million of internally generated software was impaired.

(c) Impact of Possible Changes in Key Assumptions

During the process of performing the value in use calculations, the assumptions that the models were the most sensitive to were established as the discount rate and the growth rate used at the start of the 5-year explicit review period.

A reasonably possible change in these key assumptions would cause the carrying amount of the CGU's to exceed their recoverable amount and would therefore generate the following additional impairment charges:

Discount Rate (holding the growth rate and other inputs the same)

- An increase in the discount rate (post-tax) from 11.4% to 12.2% would increase impairment in the Building Technologies Segment by $9.6 million.
- An increase in the discount rate (post-tax) from 13.1% to 14.5% would increase impairment in the Health Segment by $3.8 million.

Growth Rate at the Start of the 5-Year Explicit Review Period (holding the discount rate and other inputs the same)

- A decrease in the growth rate from 4% to 2% would increase impairment in the Building Technologies Segment by $15.4 million.
- A decrease in the growth rate from 6% to 4% would increase impairment in the Health Segment by $12.6 million.

14 Non-current Assets - Deferred Tax Assets

	2015 $'000	2014 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**3,559**	2,510
Inventories	**2,503**	1,864
Employee benefits	**2,865**	3,399
Receivables	**846**	1,096
Loans and borrowings	**1,218**	1,218
Provisions	**5,471**	8,163
Other accruals	**66**	1,044
Derivative financial instruments	**(65)**	274
Tax losses	**16,014**	31,067
Software & other intangible assets	**(2,327)**	5,218
Other	**683**	190
	30,833	56,043

	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 2014					
Property, plant and equipment	18,022	(19,749)	4,268	(31)	2,510
Inventories	7,389	(5,396)	-	(129)	1,864
Employee benefits	5,430	(2,181)	-	150	3,399
Receivables	2,313	(1,214)	-	(3)	1,096
Loans and borrowings	1,228	(10)	-	-	1,218
Provisions	10,754	(2,611)	-	20	8,163
Other accruals	4,029	(3,102)	-	117	1,044
Derivative financial instruments	599	-	(325)	-	274
Tax losses	5,551	25,516	-	-	31,067
Software & other intangible assets	4,980	4,617	-	(4,379)	5,218
Other	100	90	-	-	190
	60,395	(4,040)	3,943	(4,255)	56,043
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**

15 Derivative Financial Instruments

	2015 $'000	2014 $'000
Current assets		
Forward foreign exchange contracts - cash flow hedges	526	-
Forward foreign exchange contracts - held for trading	80	-
Total current derivative financial instrument assets	606	-
Current liabilities		
Interest rate swap contracts - cash flow hedges	(310)	(44)
Forward foreign exchange contracts - cash flow hedges	-	(340)
Forward foreign exchange contracts - held for trading	-	(88)
Total current derivative financial instrument liabilities	(310)	(472)
Non-current liabilities		
Interest rate swap contracts - cash flow hedges	-	(528)
Total non-current derivative financial instrument liabilities	-	(528)
Total derivative financial instrument liabilities	(310)	(1,000)
Net derivative financial instrument assets / (liabilities)	296	(1,000)

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 27).

(a) Instruments Used by the Group

(i) Interest Rate Swap Contracts – Cash Flow Hedges

Bank loans to the Group at 30 June 2015 bear an average variable interest rate of 2.1% (2014: 2.8%). It is the Group's policy to manage exposure to increasing interest rates by hedging a proportion of the Group's exposure to variable rate bank loans. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Interest rate swaps in place at 30 June 2015 cover 22% (2014: 57%) of the loan principal outstanding and are taken out with terms of between three and seven years. The fixed interest rates average 5.6% (2014: 4.4%).

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

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit or loss when the hedged item is derecognised. In the year ended 30 June 2015 a profit of $nil was reclassified into profit or loss (2014: $70,000) and included in finance cost due to hedge ineffectiveness in the current or prior year and a gain of $nil was reclassified into profit or loss (2014: $232,000) to offset net interest expense paid.

(ii) Forward exchange contracts – cash flow hedges

The Group purchases goods and materials from overseas, principally in US dollars. In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase US dollars. These contracts are hedging highly probable forecasted purchases for approximately the next two to three months.

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

During the year ended 30 June 2015 a gain of $1,000 was recognised in profit or loss for the ineffective portion of these hedging contracts (2014: $2,000).

15 Derivative Financial Instruments (continued)

(a) Instruments Used by the Group (continued)

(iii) Forward Exchange Contracts – Held-For-Trading

Group subsidiaries have entered into forward foreign exchange contracts which are economic hedges but do not satisfy the requirements for hedge accounting. These contracts are subject to the same risk management policies as all other derivative contracts, see note 27 for details. However, they are accounted for as held for trading.

(b) Risk Exposures and Fair Value Measurements

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk and about the methods and assumptions used in determining fair values is provided in note 27. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial assets mentioned above.

16 Current liabilities – Trade and Other Payables

	2015 $'000	2014 $'000
Trade payables	**41,441**	35,363
Other trade payables and accrued expenses	**26,249**	40,396
	67,690	75,759

(a) Risk Exposure

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

(b) Fair Value

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

17 Borrowings

	2015			2014		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Unsecured						
Bank overdrafts	**-**	**-**	**-**	1,810	-	1,810
Other loans	**5,831**	**-**	**5,831**	173	-	173
Bills payable	**-**	**45,000**	**45,000**	-	35,000	35,000
Total unsecured borrowings	**5,831**	**45,000**	**50,831**	1,983	35,000	36,983
Total borrowings	**5,831**	**45,000**	**50,831**	1,983	35,000	36,983

(a) Bank Loans and Bank Overdraft

Bank Overdrafts

Bank overdrafts are denominated in both AUD and NZD. The bank overdraft of a controlled entity is secured by a guarantee from the Company. Interest on bank overdrafts is charged at prevailing market rates. The bank overdrafts are payable on demand and are subject to annual review. The Company and a number of its subsidiaries have a net bank overdraft facility of $1.000 million (2014: $1.000 million), the Company's New Zealand subsidiary has a separate bank overdraft facility of $1.992 million (2014: $2.091 million).

17 Borrowings (continued)

(a) Bank Loans and Bank Overdraft (continued)

Unsecured Bank Loans

The Group has its banking facilities jointly with Commonwealth Bank, National Australia Bank and Westpac Banking Corporation through a Common Deed. The facility totals $110 million, and consists of a $90 million cash revolver tranche and a $20 million multi-option facility tranche, expiring on 27 February 2018. The cash revolver tranche comprises bank loans and the multi-option facility tranche comprises bank guarantees, letters of credit and cash advances. Bank loans are denominated in AUD. The bank loans are Commercial Bills and Fully Drawn Advances with interest charged at prevailing market rates. The Company and its wholly owned subsidiaries have provided an interlocking guarantee and indemnity to its financiers for these facilities. An assessment of the contractual maturities of financial liabilities is provided in note 27.

Standby Letter of Credit

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

Short Term Money Market

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

(b) Fair Value

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

	Carrying amount 2015 $'000	**Fair value 2015 $'000**	Carrying amount 2014 $'000	Fair value 2014 $'000
On-balance sheet				
Non-traded financial liabilities				
Bank overdrafts	-	-	1,810	1,810
Bills payable	**45,000**	**45,000**	35,000	35,000
Other loans	**5,831**	**5,831**	173	173
	50,831	**50,831**	36,983	36,983

(c) Risk Exposures

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

18 Provisions

	2015			**2014**		
	Current $'000	**Non-current $'000**	**Total $'000**	**Current $'000**	**Non-current $'000**	**Total $'000**
Employee benefits	**8,882**	**1,418**	**10,300**	9,440	1,605	11,045
Outstanding claims	**3,846**	**-**	**3,846**	5,885	1,078	6,963
Restructuring costs	**11,273**	**2,484**	**13,757**	16,090	3,466	19,556
Contingent consideration	**3,048**	**-**	**3,048**	4,450	-	4,450
Other provisions	**84**	**664**	**748**	524	625	1,149
	27,133	**4,566**	**31,699**	36,389	6,774	43,163

18 Provisions (continued)

(a) Description of Provisions (continued)

Outstanding Claims

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

Restructuring Costs

The restructuring costs provision comprises onerous lease costs, redundancy costs and other costs of closing and restructuring businesses.

Contingent Consideration

The contingent consideration provision relates to the acquisition of subsidiaries and businesses. For further detail, see note 29.

Other Provisions

Other provisions comprise mainly provisions for site restoration.

(b) Movements in Provisions

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

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

19 Contributed Equity

(a) Share Capital

	2015 Shares '000	2014 Shares '000	2015 $'000	2014 $'000
Ordinary shares - fully paid	**231,986**	233,913	**278,439**	281,624

(b) Movements in Ordinary Share Capital

Date	Details	Number of shares '000	$'000
1 July 2013	Opening balance	246,220	303,890
	Share buyback	(12,307)	(22,266)
30 June 2014	Closing balance	233,913	281,624
1 July 2014	Opening balance	**233,913**	**281,624**
	Share buyback	**(2,207)**	**(3,185)**
	Executive share options forfeited	**280**	**-**
30 June 2015	Closing balance	**231,986**	**278,439**

(c) Ordinary Shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets. Ordinary shares have no par value. The Company does not have a limited amount of authorised capital.

(d) Dividend Reinvestment Plan

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

(e) Employee Share Scheme

The Employee Share Plan did not operate in the current or previous financial year.

(f) Executive Shares, Performance Rights and Options

Information relating to the Long Term Incentive Share Plan and the Executive Share Plan, including details of performance rights and options issued, exercised, lapsed and forfeited during the financial year and performance rights and options outstanding at the end of the financial year, is set out in note 23.

(g) Share Buyback

During the current financial year the Company bought back 2.207 million shares at an average price of $1.44 per share, with prices ranging from $1.33 to $1.63 per share. The total cost of $3.185 million, including transaction costs of $0.013 million, was deducted from shareholders equity. The Company originally announced an on market buyback on 23 August 2011, giving the Company the option to acquire up to 10% 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. During the previous financial year, the Company bought back 12.307 million shares for a total cost of $22.266 million, including transaction costs of $0.088 million. The average price was $1.81 per share, with prices ranging from $1.56 to $1.91 per share. The average price paid over the entire period of the buyback was $1.75 per share.

19 Contributed Equity (continued)

(h) Capital Risk Management

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

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

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

During 2015, the Group's strategy, which was unchanged from 2014, 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 2015 and 30 June 2014 were as follows:

	Notes	2015 $'000	2014 $'000
Total borrowings	17	**50,831**	36,983
Less: cash and cash equivalents	8	**(18,801)**	(45,482)
Net (funds) / debt		**32,030**	(8,499)
Total equity		**136,600**	245,228
Gearing ratio		**19.0%**	0.0%

20 Reserves

	2015 $'000	2014 $'000
Asset revaluation reserve	**-**	18,385
Hedging reserve - cash flow hedges	**151**	(638)
Equity compensation reserve	**754**	721
Foreign currency translation reserve	**(571)**	139
Profits reserve	**10,133**	10,293
	10,467	28,900

Movements:

	2015 $'000	2014 $'000
Asset revaluation reserve		
Opening balance 1 July	**18,385**	**32,820**
Revaluation - gross	**(7,534)**	**(14,227)**
Deferred tax	**2,261**	**4,268**
Transfer to profits reserve	**(13,112)**	**(4,476)**
Closing balance 30 June	**-**	**18,385**

20 Reserves (continued)

	2015 $'000	2014 $'000
Hedging reserve - cash flow hedges		
Opening balance 1 July	(638)	(1,397)
Revaluation - gross	1,127	1,084
Deferred tax	(338)	(325)
Closing balance 30 June	151	(638)
Equity compensation reserve		
Opening balance 1 July	721	658
Employee share plan expense	33	63
Closing balance 30 June	754	721
Non-controlling interests acquisition reserve		
Opening balance 1 July	-	1,551
Adjustment to non-controlling interest upon change in Group shareholding	-	(4,495)
Transfer to profits reserve	-	2,944
Closing balance 30 June	-	-
Foreign currency translation reserve		
Opening balance 1 July	139	(1,043)
Currency translation differences arising during the year	(710)	1,182
Closing balance 30 June	(571)	139
Profits reserve		
Opening balance 1 July	10,293	-
Transfer of current year profit	-	24,798
Transfers from other reserves	13,112	1,532
Dividends paid	(13,272)	(16,037)
Closing balance 30 June	10,133	10,293

(b) Nature and Purpose of Reserves

(i) Asset Revaluation Reserve

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

(ii) Hedging Reserve - Cash Flow Hedges

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

(iii) Equity Compensation Reserve

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

(iv) Non-controlling Interests Acquisition Reserve

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

20 Reserves (continued)

(v) Foreign Currency Translation Reserve

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

(vi) Profits Reserve

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

21 Dividends

(a) Ordinary Shares

	2015 $'000	2014 $'000
Dividend of 3.6 cents fully franked based on tax paid @ 30% (2014: 3.25 cents) per fully paid share paid on 26 September 2014 (2014: 27 September 2013)	**8,400**	8,000
Dividend of 2.1 cents fully franked based on tax paid @ 30.0% (2014: 3.4 cents) per fully paid share paid on 30 April 2015 (2014: 31 March 2014).	**4,872**	8,037
Total dividends provided for or paid	**13,272**	16,037

(b) Dividends Not Recognised at the End of the Reporting Period

	2015 $'000	2014 $'000
A final dividend has not been declared for the year ended 30 June 2015. In the previous financial year a dividend of 3.6 cents, fully franked based on tax paid at 30% was declared. The aggregate amount of the proposed dividend which was paid on 26 September 2014, but not recognised as a liability at year end, was:	-	8,420

(c) Franked Dividends

	2015 $'000	2014 $'000
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2014: 30.0%)	**1,787**	4,839

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

(a) franking credits that will arise from the payment of the amount of the provision for income tax
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

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

22 Earnings per Share

	2015 Cents	2014 Cents
(a) Basic earnings per share		
From (loss) / profit from continuing operations attributable to the ordinary equity holders of the Company	(37.0)	7.0
From discontinued operations	-	3.4
Earnings per share for (loss) / profit attributable to the ordinary equity holders of the Company	(37.0)	10.4
From underlying profit attributable to the ordinary equity holders of the Company [1]	4.8	11.4
(b) Diluted earnings per share		
From (loss) / profit from continuing operations attributable to the ordinary equity holders of the Company	(37.0)	7.0
From discontinued operations	-	3.4
Earnings per share for (loss) / profit attributable to the ordinary equity holders of the Company	(37.0)	10.4
From underlying profit attributable to the ordinary equity holders of the Company [1]	4.8	11.4

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

	2015 $'000	2014 $'000
Basic earnings per share		
(Loss) / profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(85,947)	16,780
From discontinued operation	-	8,018
(Loss) / profit used in calculating basic earnings per share	(85,947)	24,798
Diluted earnings per share		
(Loss) / profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(85,947)	16,780
From discontinued operation	-	8,018
(Loss) / profit used in calculating diluted earnings per share	(85,947)	24,798
Underlying profit earnings per share		
(Loss) / profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(85,947)	24,798
Items not considered part of underlying profit [1]	96,992	2,479
Underlying profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share [1]	11,045	27,277

[1] Underlying profit has been calculated after adjusting profit / (loss) attributable to the ordinary equity holders of the Company for the after tax impact of asset impairments, de-recognition of deferred tax assets relating to tax losses, costs of acquisitions and other associated gains or losses on the disposal of businesses and CGU impairment, restructure and closure costs and other associated impairments. Underlying profit is a non IFRS measure used by the Company which is relevant because it is consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business in light of its change program. The non IFRS measure has not been subject to audit or review.

22 Earnings per Share (continued)

(d) Weighted Average Number of Shares Used as Denominator

	2015 '000	2014 '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	**232,215**	**238,983**
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	**232,267**	**238,983**

In the previous financial year the 280,000 share options granted between 2003 and 2007 were not included in the calculation of diluted earnings per share because they were antidilutive for the year ended 30 June 2014.

23 Share-based Payments

(a) Employee Performance Rights and Option Plans

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

The previous plan, the Executive Share Option Plan (ESOP), was still operational for employees granted options under that plan. The shares issued pursuant to these options were financed by an interest free loan from the Company repayable within twenty years from the proceeds of dividends declared by the Company. These loans were of a non-recourse nature. For accounting purposes these 20 year loans were treated as part of the options to purchase shares, until the loan was extinguished at which point the shares were recognised. The remaining options under the ESOP were forfeited during the current financial year.

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

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited / cancelled during the year Number	Balance at the end of the year Number	Vested & exercisable at the end of the year 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)	-	-
Totals			1,413,332	389,410	-	(1,680,730)	122,012	-

23 Share-based Payments (continued)

(a) Employee Option Plan (continued)

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

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

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 year ended 30 June 2015 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 shares, the expected dividend yield and the risk free interest rate for the term of the performance rights.

The model inputs for the valuation of performance rights in accordance with AASB 2 *Share Based Payment* for performance rights granted during the year ended 30 June 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 date: $0.88
- expected price volatility of the Company's shares: 40%
- expected dividend yield: 5.7%
- risk free interest rate: 1.8%

23 Share-based Payments (continued)

(b) Expenses Arising from Share-based Payment Transactions

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

	2015 $'000	2014 $'000
Performance rights issued under Long Term Incentive Plans	33	64

24 Related Party Transactions

(a) Parent Entities

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 30.

(c) Key Management Personnel

	2015 $	2014 $
Short-term employee benefits (fixed and STI remuneration)	2,966,471	5,207,533
Post-employment benefits (superannuation)	170,435	231,340
Long term benefits (cash LTI and accrued long service leave)	83,422	229,329
Termination benefits	928,100	296,208
Share-based payments (LTI expense and employee share bonus plan expense)	(63,494)	64,222
	4,084,934	6,028,632

Detailed remuneration disclosures are provided in the Remuneration Report.

(d) Transactions with Other Related Parties

The following transactions occurred with related parties:

Subsidiaries

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

Sales of goods and services within the Group, that eliminated with cost of goods sold and services provided amounted to $19.162 million (2014: $7.746 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 $0.219 million (2014: $0.366 million).

In the previous financial year, entities within the Group rented 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: $0.976 million).

Inter entity dividends paid and received during the year amounted to $0.735 million (2014: $33.906 million).

24 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:

- Hills purchased goods from Korvest Ltd and provided services to Korvest Ltd, an entity associated with P Stancliffe. Korvest was considered a related party until 18 September 2014 when P Stancliffe retired as a director of Korvest. Services provided to Korvest in this time totalled $0.060 million and goods purchased totalled $0.012 million.
- Hills purchased goods from SAI Global, an entity associated with D Spence. Goods purchased totalled $0.003 million.
- Hills purchased goods from CSG, an entity associated with P Bullock. Goods purchased totaled $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 financial year 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 2015 the Group current assets and liabilities that were eliminated were $50.066 million (2014: $167.622 million).

25 Contingencies

(a) Contingent Liabilities

The Group had contingent liabilities at 30 June 2015 in respect of:

(i) Claims

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

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

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

(ii) Guarantees

Bank guarantees in favour of customers and suppliers amounting to $9.224 million (2014: $11.273 million).

(iii) Acquisitions

For contingent liabilities relating to acquisitions refer to note 29.

26 Commitments

(a) Capital Commitments

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

	2015 $'000	2014 $'000
Plant and equipment	**2,335**	2,423

(b) Lease Commitments: Group as Lessee

(i) Non-cancellable Operating Leases

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

The leases run for a period ranging from 1 to 10 years with the majority running for a period of 3 to 5 years, with an option to renew the lease after that date. Lease payments are increased each renewal period to reflect market rentals. Some leases provide for additional rent payments that are based on changes in the consumer price index, local capital city consumer price indices or a fixed percentage.

	2015 $'000	2014 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**6,958**	8,396
Later than one year but not later than five years	**11,166**	15,364
Later than five years	**1,214**	4,813
	19,338	28,573

(c) Lease Commitments: Where a Group Company is The Lessor

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

	2015 $'000	2014 $'000
Within one year	**1,884**	895
Later than one year but not later than five years	**4,133**	2,424
	6,017	3,319

27 Financial Risk Management

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

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

The Group holds the following financial instruments:

	2015 $'000	2014 $'000
Financial assets		
Cash and cash equivalents	**18,801**	45,482
Trade and other receivables	**87,545**	101,221
Derivative financial instruments	**606**	-
Investments	**3**	2
	106,955	146,705
Financial liabilities		
Trade and other payables	**67,690**	75,759
Borrowings	**50,831**	36,983
Derivative financial instruments	**310**	1,000
Contingent consideration	**3,048**	4,450
	121,879	118,192

(a) Market Risk

(i) Foreign Exchange Risk

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

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

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

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

27 Financial Risk Management (continued)

(a) Market Risk (continued)

(i) Foreign Exchange Risk (continued)

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

	30 June 2015						30 June 2014				
	USD $'000	**Euro $'000**	**JPY $'000**	**NZD $'000**	**GBP $'000**	**Total $'000**	USD $'000	Euro $'000	JPY $'000	GBP $'000	Total $'000
Trade receivables	**257**	**-**	**-**	**-**	**-**	**257**	1,128	-	-	-	1,128
Cash at bank	**1,145**	**3**	**-**	**-**	**-**	**1,148**	1,024	12	-	-	1,036
Trade payables	**(7,201)**	**(828)**	**(55)**	**(23)**	**(156)**	**(8,263)**	(12,962)	(582)	(202)	(197)	(13,943)
Forward exchange contracts:											
-buy foreign currency (cash flow hedges)	**(21,848)**	**-**	**-**	**-**	**-**	**(21,848)**	(25,058)	-	-	-	(25,058)
-buy foreign currency (FVTPL)[1]	**(2,197)**	**-**	**-**	**-**	**-**	**(2,197)**	(330)	-	-	-	(330)

Sensitivity

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

	Impact on pre tax profit		**Impact on other components of equity**	
	2015 $'000	2014 $'000	**2015 $'000**	2014 $'000
Foreign exchange risk – decrease 10%	**162**	(1,183)	**3,680**	2,959
Foreign exchange risk – increase 10%	**(127)**	968	**(2,054)**	(2,419)

Profit is less sensitive to movements in the Australian dollar / US dollar exchange rates in 2015 than 2014 because of the reduced amount of US dollar denominated trade receivables and payables. There is no significant change in the sensitivity of other components of equity.

(ii) Price Risk

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

(iii) Cash Flow and Fair value Interest Rate Risk

The Group's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Group policy is to maintain approximately 50% to 75% of its borrowings at fixed rate using interest rate swaps to achieve this when necessary. During 2015 and 2014, the Group's borrowings at variable rate were denominated in Australian Dollars and NZ Dollars.

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

[1] Fair Value Through Profit and Loss

27 Financial Risk Management (continued)

(a) Market Risk (continued)

(iii) Cash Flow and Fair Value Interest Rate Risk (continued)

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

	2015 Weighted average interest rate %	2015 Balance $'000	2014 Weighted average interest rate %	2014 Balance $'000
Bank overdrafts and bank loans	**2.1%**	**(45,000)**	2.8%	(36,810)
Cash and cash equivalents	**1.7%**	**18,801**	2.4%	45,482
Other loans	**0.0%**	**(5,830)**	13.1%	(173)
Interest rate swaps (notional principal amount)	**5.6%**	**10,000**	4.4%	20,000

An analysis by maturities is provided in note 27(c) below.

Sensitivity

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

	Impact on pre tax profit		Impact on other components of equity	
	2015	2014	**2015**	2014
	$'000	$'000	**$'000**	$'000
Interest rates – decrease by 100 basis points	**322**	(122)	**(235)**	(250)
Interest rates – increase by 100 basis points	**(322)**	122	**286**	246

Profit is more sensitive to movements in interest rates in 2015 than 2014 mainly as a result of higher levels of borrowings. There is no significant change in the sensitivity of other components of equity.

Summarised Sensitivity Analysis

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

		Interest rate risk				Foreign exchange risk			
		-100 bps		+100 bps		-10%		+10%	
	Carrying amount $'000	Profit $'000	Other equity $'000	Profit $'000	Other equity $'000	Profit $'000	Other equity $'000	Profit $'000	Other equity $'000
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)**

27 Financial risk management (continued)

(a) Market Risk (continued)

(iii) Cash Flow and Fair Value Interest Rate Risk (continued)

		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
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)**
2014									
Financial assets									
Cash and cash equivalents	45,482	(450)	-	450	-	115	-	(94)	-
Trade and other receivables	104,479	-	-	-	-	127	-	(104)	-
Total increase / (decrease) in financial assets		(450)	-	450	-	242	-	(198)	-
Financial liabilities									
Derivatives - cash flow hedges	(912)	-	(250)	-	246	-	2,959	-	(2,419)
Derivatives - fair value through profit or loss	(88)	-	-	-	-	124	-	(102)	-
Trade payables	(75,759)	-	-	-	-	(1,549)	-	1,268	-
Borrowings	(36,983)	328	-	(328)	-	-	-	-	-
Contingent consideration	(4,450)	-	-	-	-	-	-	-	-
Total increase / (decrease) in financial liabilities		328	(250)	(328)	246	(1,425)	2,959	1,166	(2,419)
Total increase / (decrease)		(122)	(250)	122	246	(1,183)	2,959	968	(2,419)

(b) Credit Risk

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

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

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

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

27 Financial Risk Management (continued)

(b) Credit Risk (continued)

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

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

(c) Liquidity Risk

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

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

Financing Arrangements

At 30 June 2015 the Group had banking facilities totalling $110 million, through a Common Deed with Commonwealth Bank, National Australia Bank and Westpac Banking Corporation. The facility consists of a $90 million cash revolver tranche and a $20 million multi-option facility tranche and expires on 27 February 2018. The cash revolver tranche comprises bank loans and the multi-option facility tranche comprises bank guarantees, letters of credit and cash advances.

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

	2015 $'000	2014 $'000
Floating rate		
- Expiring within one year (bank overdraft and short term money market)	**1,000**	38,444
- Expiring beyond one year (bank loans and standby letters of credit)	**54,746**	115,000
	55,746	153,444

Maturities of Financial Liabilities

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

27 Financial risk management (continued)

(c) Liquidity Risk (continued)

	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount liabilities
	$'000	$'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
At 30 June 2014							
Non-derivatives							
Trade payables	75,759	-	-	-	-	75,759	75,759
Borrowings	2,516	478	35,120	-	-	38,114	36,983
Contingent consideration	2,950	-	1,500	-	-	4,450	4,450
Total non-derivatives	81,225	478	36,620	-	-	118,323	117,192
Derivatives							
Interest rate swaps and forward exchange contracts	590	180	268	-	-	1,038	1,000

28 Fair Value Measurements

(a) Fair Value Measurements for Financial Assets and Liabilities

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

- Derivative financial instruments
- Contingent consideration payable

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

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

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

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'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

28 Fair Value Measurements (continued)

(a) Fair Value Measurements for Financial Assets and Liabilities (continued)

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2014				
Liabilities				
Derivatives used for hedging	-	1,000	-	1,000
Contingent consideration payable	-	-	4,450	4,450
Total liabilities	-	1,000	4,450	5,450

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 2015.

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

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

	Contingent consideration	
	2015 $'000	2014 $'000
Balance at 1 July	**4,450**	10,607
Unwinding discount on provision	**-**	346
Reassessment of contingent consideration	**798**	(773)
Payment of contingent consideration	**(3,200)**	(10,180)
Arising from business combination	**1,000**	4,450
Balance at 30 June	**3,048**	4,450

A discussion on the unobservable inputs is included within Note 29. 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 2015		Profit or loss 2014	
	Increase $'000	**Decrease $'000**	Increase $'000	Decrease $'000
Revenue (5% movement)	-	195	-	195
EBIT (5% movement)	-	-	(300)	300

28 Fair Value Measurements (continued)

(b) Fair Value Measurements for Non Financial Assets and Liabilities

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

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

The following table presents the Group's non financial assets and non financial liabilities measured and recognised at fair value at 30 June 2015. An explanation of each level is provided in (a) above.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2015				
Land and buildings	-	-	8,898	8,898
Total non financial assets and liabilities	-	-	8,898	8,898
30 June 2014				
Land and buildings	-	-	30,785	30,785
Assets and disposal groups held for sale	-	-	7,800	7,800
Total non financial assets and liabilities	-	-	38,585	38,585

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

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

	Land and buildings 2015 $'000	Land and buildings 2014 $'000	**Assets and disposal groups held for sale 2015 $'000**	Assets and disposal groups held for sale 2014 $'000
Balance at 1 July	**30,785**	65,706	**7,800**	70,221
Disposals	**(12,111)**	(14,975)	**(7,800)**	(70,221)
Revaluation	**(7,534)**	(14,227)	-	-
Additions at cost	**30**	2,254	-	-
Depreciation and impairment charges	**(2,272)**	(173)	-	-
Transfer to assets held for sale	-	(7,800)	-	7,800
Balance at 30 June	**8,898**	30,785	-	7,800

29 Business Combination

(a) Current Year

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 contribution of revenues and net profit to the Group is not separately determinable because APG has been integrated into the Building Technologies segment during the year.

On 6 February 2015 the Group acquired 100% of the issued shares in Hospital Communications Pty Ltd ("Hostel"). 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. Hostel contributed revenues of $1.7 million and net profit of $0.330 million from the date of acquisition. If the acquisition had been on 1 July 2014, consolidated revenue and consolidated loss for the year ended 30 June 2015 would have been $430.422 million and $85.350 million respectively.

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

	APG $'000	Hostel $'000
Purchase consideration		
Cash paid	13,692	9,311
Contingent consideration / retention	1,000	-
Total purchase consideration	14,692	9,311
Fair value of net identifiable assets acquired (refer below)	5,418	4,567
Goodwill (refer below)	9,274	4,744

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

Assets and Liabilities Acquired

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

	Fair value APG $'000	Fair Value Hostel $'000
Cash / (overdraft)	247	66
Trade and other receivables	4,147	687
Inventories	3,589	157
Plant and equipment	315	2,953
Intangible assets: software	-	534
Intangible assets: customer contracts / relationships / brands	-	1,779
Trade creditors and other liabilities	(2,389)	(786)
Provision for income tax	(4)	-
Deferred tax liability (net)	613	(626)
Provision for employee benefits	(1,100)	(197)
Net identifiable assets acquired	5,418	4,567
Add: Goodwill	9,274	4,744
Net assets acquired	14,692	9,311

29 Business Combination (continued)

(a) Current year (continued)

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 $0.948 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.

(b) Previous Year

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.

	HTR & Merlon	Questek	OPS	Intek
	$'000	$'000	$'000	$'000
Purchase consideration				
Cash paid	32,137	3,312	8,444	5,700
Contingent consideration / retention	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	2,978
Goodwill (refer below)	23,364	3,466	6,321	2,722

Contingent / Deferred 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.

29 Business Combination (continued)

(b) Previous Year (continued)

Assets and Liabilities Acquired

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

	Fair value HTR & Merlon $'000	Fair value Questek $'000	Fair value OPS $'000	Fair Value Intek $'000
Cash / (overdraft)	(111)	-	-	-
Trade and other receivables	1,702	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)	(581)
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	2,978
Add: Goodwill	23,364	3,466	6,321	2,722
Net assets acquired	32,685	3,312	9,944	5,700

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 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 $2.978 million.

Goodwill

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

	HTR & Merlon Final $'000	Questek Final $'000	OPS Final $'000	Intek Final $'000
Opening balance	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	187
Total	23,364	3,466	6,321	2,722

30 Interests in Other Entities

(a) Investments in Subsidiaries

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

Name of entity	Country of incorporation	Class of shares	Equity holding 2015 %	Equity holding 2014 %
Hills Finance Pty Ltd	Australia	Ordinary	**100**	100
Hills NZ Limited (formerly Hills Holdings NZ Limited)	New Zealand	Ordinary	**100**	100
Audio Products Group Limited	New Zealand	Ordinary	**100**	-
Hills Group Operations Pty Ltd	Australia	Ordinary	**100**	100
Hills Integrated Solutions Pty Ltd (formerly DAS Security Wholesalers Pty Ltd)	Australia	Ordinary	**100**	100
Audio Products Group Pty Ltd	Australia	Ordinary	**100**	-
EMG Finance Pty Ltd	Australia	Ordinary	**100**	-
Pacific Communications (PACOM) Pty Ltd	Australia	Ordinary	**100**	100
Pacom Security Pty Ltd	Australia	Ordinary	**100**	100
Hills Health Solutions Pty Ltd (formerly Hills Health Solutions Australia Pty Ltd, CBS Hardware Pty Ltd)	Australia	Ordinary	**100**	100
New-Tone (Aust) Pty Ltd	Australia	Ordinary	**100**	100
T.V Rentals Pty Ltd	Australia	Ordinary	**100**	100
Hospital Telecommunications Pty Ltd	Australia	Ordinary	**100**	-
Hills Polymers Pty Ltd	Australia	Ordinary	**100**	100
Hills Hoists Pty Ltd	Australia	Ordinary	**100**	100
Hills Share Plans Pty Ltd (formerly ACN 089 622 622 Pty Ltd)	Australia	Ordinary	**100**	100
Step Electronics 2005 Pty Ltd (i)	Australia	Ordinary	**50**	50
Cygnus Satellite Pty Ltd (i)	Australia	Ordinary	**-**	50
Lan 1 Pty Ltd	Australia	Ordinary	**100**	100
Woodroffe Industries Pty Ltd	Australia	Ordinary	**100**	100
ACN 091 954 442 Pty Ltd (formerly Fielders Australia Pty Ltd)	Australia	Ordinary	**100**	100
ACN 099 403 139 Pty Ltd (formerly Fielders Mobile Mill Pty Ltd)	Australia	Ordinary	**100**	100
Zen 99 Pty Ltd	Australia	Ordinary	**100**	100
ACN 010 853 817 Pty Ltd (formerly Orrcon Holdings Pty Ltd)	Australia	Ordinary	**100**	100
ACN 094 103 090 Pty Ltd (formerly Orrcon Operations Pty Ltd)	Australia	Ordinary	**100**	100
ACN 093 760 895 Pty Ltd (formerly Orrcon Tubing Pty Ltd)	Australia	Ordinary	**100**	100
Access Television Services Pty Ltd	Australia	Ordinary	**100**	100

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

30 Interests in Other Entities (continued)

(b) Non-controlling Interests (NCI)

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

	2015 $'000	2014 $'000
Summarised statement of financial position		
Current assets	-	3,867
Current liabilities	-	2,591
Current net assets	-	1,276
Non-current assets	-	834
Non-current liabilities	-	-
Non-current net assets	-	834
Net assets	-	2,110
Accumulated NCI	-	1,063
Summarised statement of comprehensive income		
Revenue	8,544	31,809
Profit for the period	333	3,419
Total comprehensive income	333	3,419
Profit allocated to NCI	167	1,589
Dividends paid to NCI	732	90
Summarised cash flows		
Cash flows from operating activities	(558)	3,314
Cash flows from investing activities	(139)	(242)
Cash flows from financing activities	(1,603)	(226)
Net (decrease) / increase in cash and cash equivalents	(2,300)	2,846

(c) Transactions with Non-controlling Interests

On 25 June 2015 the Group sold its interest in Cygnus Satellite Pty Ltd.

In the previous financial year, on 2 January 2014 the Group acquired the remaining 49% of UHS Systems Pty Ltd, for consideration of $5.000 million.

	2015 $'000	2014 $'000
Carrying amount of non-controlling interests acquired / (diluted)	-	505
Consideration paid to non-controlling interests	-	(5,000)
Impact of acquisition / dilution recognised in the transactions with non-controlling interests reserve within equity	-	(4,495)

31 Parent Entity Financial Information

(a) Summary Financial Information

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

	2015 $'000	2014 $'000
Balance sheet		
Current assets	109,233	219,292
Non-current assets	97,300	153,530
Total assets	206,533	372,822
Current liabilities	31,308	139,106
Non-current liabilities	49,506	41,555
Total liabilities	80,814	180,661
Net assets	125,719	192,161
Shareholders' equity		
Contributed equity	278,439	281,624
Reserves		
Asset revaluation reserve	-	15,809
Hedging reserve - cash flow hedges	151	(638)
Equity compensation reserve	754	721
Profits reserve	32,859	35,613
Retained earnings	(186,484)	(140,968)
	125,719	192,161
(Loss) / profit for the year	(45,530)	47,876
Total comprehensive income	(50,724)	40,335

(b) Guarantees Entered into by the Parent Entity

Bank guarantees given by the Company in favour of customers and suppliers amounted to $9.224 million (2014: $6.719 million).

Cross guarantees are given by the Company and its wholly owned subsidiaries as described in note 32. Under the terms of the Deed of Cross Guarantee the Company and its wholly owned subsidiaries have guaranteed the debt in each other's companies. Guarantees amount to $149.255 million (2014: $58,012 million). No material deficiency in net tangible assets exists in these companies at reporting date with net tangible assets amounting to $53.297 million (2014: $91.946 million).

(c) Contingent Liabilities of the Parent Entity

The parent entity had a contingent liability in respect of claims, as disclosed in note 25. For information about guarantees given by the parent entity, please see above.

(d) Contractual Commitments for the Acquisition of Plant or Equipment

As at 30 June 2015, the Company had contractual commitments for the acquisition of plant or equipment totalling $2.126 million (2014: $2.348 million). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

32 Deed of Cross Guarantee

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

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

The subsidiaries subject to the Deed are:

Subsidiary	**Date of becoming a party to the Deed**
Hills Finance Pty Ltd	15 April 2004
Hills Hoists Pty Ltd	15 April 2004
Woodroffe Industries Pty Ltd	15 April 2004
ACN 010 853 817 Pty Ltd (formerly Orrcon Holdings Pty Ltd)	23 June 2006
ACN 094 103 090 Pty Ltd (formerly Orrcon Operations Pty Ltd)	23 June 2006
Hills Polymers Pty Ltd	14 May 2008
ACN 091 954 442 Pty Ltd (formerly Fielders Australia Pty Ltd)	29 June 2010
Access Television Services Pty Ltd	29 June 2010
Hills Health Solutions Pty Ltd	25 June 2014
Hills Group Operations Pty Ltd	25 June 2014
New-Tone (Aust) Pty Ltd	25 June 2014
TV Rentals Pty Ltd	25 June 2014
Zen 99 Pty Ltd	25 June 2014
Lan 1 Pty Ltd	25 June 2014
Hills Integrated Solutions Pty Ltd	31 March 2015
Audio Products Group Pty Ltd	31 March 2015
Hospital Telecommunications Pty Ltd	15 May 2015

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

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

Set out below is a Consolidated income statement, a Consolidated statement of comprehensive income, a summary of movements in consolidated retained earnings for the year ended 30 June 2015 and a Consolidated statement of financial position as at 30 June 2015 of the Company and controlled entities that are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee.

32 Deed of Cross Guarantee (continued)

(a) Consolidated Income Statement, Consolidated Statement of Comprehensive Income and Summary of Movements in Consolidated Retained Earnings

	2015 $'000	2014 $'000
Consolidated income statement		
Revenue from continuing operations	**384,208**	386,692
Other income	**5,183**	1,032
Finance costs	**(3,239)**	(3,580)
Other expenses	**(445,673)**	(373,148)
(Loss) / profit before income tax	**(59,521)**	10,996
Income tax expense	**(27,032)**	(584)
Profit from discontinued operations	**-**	8,018
(Loss) / profit for the year	**(86,553)**	18,430
Consolidated statement of comprehensive income		
(Loss) / profit for the year	**(86,553)**	18,430
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	**1,127**	1,084
Income tax relating to these items	**(338)**	(325)
Other comprehensive income for the year that may be reclassified to profit or loss, net of tax	**789**	759
Items that will not be reclassified to profit or loss		
Reversal of previous revaluations of land and buildings	**(7,534)**	(14,227)
Income tax relating to these items	**2,261**	4,268
Other comprehensive loss for the year that will not be reclassified to profit or loss, net of tax	**(5,273)**	(9,959)
Other comprehensive loss for the period, net of tax	**(4,484)**	(9,200)
Total comprehensive (loss) / income for the year	**(91,037)**	9,230
Summary of movements in consolidated retained earnings		
Accumulated losses at the beginning of the financial year	**(81,228)**	(93,177)
Adjustment for subsidiaries entering the deed of cross guarantee	**-**	11,949
(Loss) / profit for the year	**(86,553)**	18,430
Transfer to profits reserve	**-**	(18,430)
Accumulated losses at the end of the financial year	**(167,781)**	(81,228)

32 Deed of Cross Guarantee (continued)

(b) Consolidated Statement of Financial Position

	2015 $'000	2014 $'000
Current assets		
Cash and cash equivalents	16,044	40,649
Trade and other receivables	86,106	93,222
Inventories	66,867	52,687
Derivative financial instruments	526	-
	169,543	186,558
Assets classified as held for sale	-	7,800
Total current assets	169,543	194,358
Non-current assets		
Trade and other receivables	653	-
Investments	1,102	1,301
Property, plant and equipment	31,471	45,430
Intangible assets	35,845	80,725
Deferred tax assets	30,460	55,614
Total non-current assets	99,531	183,070
Total assets	269,074	377,428
Current liabilities		
Trade and other payables	66,873	70,867
Borrowings	5,831	172
Current tax liabilities	-	686
Provisions	26,675	36,977
Derivative financial instruments	310	384
Total current liabilities	99,689	109,086
Non-current liabilities		
Borrowings	45,000	35,000
Provisions	4,566	5,530
Derivative financial instruments	-	527
Total non-current liabilities	49,566	41,057
Total liabilities	149,255	150,143
Net assets	119,819	227,285
Equity		
Contributed equity	278,439	281,624
Reserves	9,161	26,889
Accumulated losses	(167,781)	(81,228)
Total equity	119,819	227,285

33 Reconciliation of Profit After Income Tax to Net Cash Inflow from Operating Activities

	2015 $'000	2014 $'000
(Loss) / profit for the year	**(85,780)**	26,387
Depreciation and amortisation	**11,075**	9,197
Impairment of goodwill	**55,353**	-
Impairment of trade receivables	**314**	835
Impairment of inventories	**3,722**	2,117
Impairment of property, plant and equipment	**1,053**	936
Impairment of intangible assets	**5,662**	10,475
Net (gains) on disposal of businesses	**(1,853)**	(14,596)
Non-cash employee benefits expense - share-based payments	**33**	63
Net (gain) loss on sale of non-current assets (including assets held for sale)	**(292)**	(303)
Fair value adjustment to derivatives	**(169)**	(302)
Wind back of discounts on provisions	**-**	346
Rent received	**(3,149)**	(1,777)
Change in operating assets and liabilities, net of effects from purchases and sales of controlled entities and business operations:		
Decrease / (increase) in trade and other receivables	**13,944**	(14,955)
(Increase) in inventories	**(16,854)**	(18,313)
Decrease in deferred tax assets	**27,014**	4,071
(Decrease) / increase in trade and other creditors	**(9,994)**	625
(Decrease) / increase in provision for income taxes payable	**(1,374)**	797
(Decrease) in other provisions	**(11,748)**	(20,930)
Net cash flows from operating activities	**(13,043)**	(15,327)

34 Remuneration of Auditors

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

	2015 $	2014 $
KPMG audit and non-audit services		
Audit and other assurance services		
KPMG Australia - audit and review of the financial statements	**485,909**	628,000
Overseas KPMG firms - audit and review of the financial statements	**38,957**	22,140
Total remuneration for audit and other assurance services	**524,866**	650,140
Taxation services		
KPMG Australia - taxation and other services	**203,867**	102,520
Overseas KPMG firms - taxation services	**40,253**	24,367
Total remuneration for taxation services	**244,120**	126,887
Other services		
Financial advisory services	**397,534**	833,235
Other consulting services	**-**	40,268
Total remuneration for other services	**397,534**	873,503
Total remuneration of KPMG	**1,166,520**	1,650,530

34 Remuneration of Auditors (continued)

Non-audit fees remained high during the year due to significant work performed in relation to the Company's restructure and transformation program, in particular the sale of non-core businesses. These sale transactions were expected to complete early in the financial year, but sales were not complete until June 2015. Non-audit fees will return to normal levels in 2016.

35 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 financial years.

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

(a) the consolidated financial statements and notes set out on pages 45 to 112 and the Remuneration Report on pages 20 to 40 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 2015 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) there are reasonable grounds to believe that the Company and the Group Entities identified in note 32 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the Deed of Cross Guarantee between the Company and those Group Entities pursuant to ASIC Class Order 98/1418.

Note 1(a) confirms that the consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

David Spence
Director

Sydney
24 August 2015

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 2015, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 35 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a)(i), 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.

KPMG

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a)(i).

Report on the remuneration report

We have audited the Remuneration Report included in pages 20 to 40 of the directors' report for the year ended 30 June 2015. 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 2015, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Paul Cenko
Partner

Adelaide

24 August 2015

The shareholder information set out below was applicable as at 19 August 2015.

A. Distribution of Equity Securities

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

Holding	Class of equity security Ordinary shares Number of Holders
1 - 1000	4,171
1,001 - 5,000	6,797
5,001 - 10,000	3,112
10,001 - 100,000	2,862
100,001 and over	125
	17,067

There were 3,620 holders of less than a marketable parcel of ordinary shares.

B. Equity Security Holders

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

Name	Ordinary shares Number held	Percentage of issued shares
J P Morgan Nominees Australia Limited	17,811,190	7.68
Hills Associates Limited	16,568,441	7.14
Poplar Pty Limited	16,550,845	7.13
Citicorp Nominees Pty Limited	9,749,365	4.20
Hsbc Custody Nominees (Australia) Limited	8,040,083	3.47
Jacaranda Pastoral Pty Ltd	5,968,699	2.57
Cariste Pty Ltd <Petl No 1 A/C>	5,585,000	2.41
Greybox Holdings Pty Ltd	4,490,042	1.94
National Nominees Limited	3,413,659	1.47
Brispot Nominees Pty Ltd <House Head Nominee No 1 A/C>	2,938,265	1.27
Donald Cant Pty Ltd	1,337,578	0.58
Bnp Paribas Noms Pty Ltd <Drp>	1,326,469	0.57
Hills Associates Limited + Poplar Pty Ltd	1,188,918	0.51
Colleen Sims Nominees Pty Ltd <C J H Sims Family A/C>	1,129,866	0.49
Ace Property Holdings Pty Ltd	1,080,000	0.47
Cariste Pty Ltd <Cariste Pty Ltd S/Fund A/C>	1,006,872	0.43
Venn Milner Superannuation Pty Ltd	1,000,000	0.43
Mr Gregory Victor Shalit + Ms Miriam Faine <Cambrose Super Fund A/C>	970,000	0.42
Vagana Pty Ltd <Pretty Super Fund A/C>	700,000	0.30
Mr John Gassner + Mr Nathan Rothchild	620,001	0.27
	101,475,293	43.75

C. Substantial Holders

Substantial holders in the Company are set out below:

Name	Number held	Percentage of issued shares
Poplar Pty Ltd[3]	23,096,031	9.96
Hills Associates Limited	16,568,441	7.14
Dimensional Entities	12,011,643	5.02

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

D. Voting Rights

The voting rights attaching to each class of equity securities are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Rights / Options

No voting rights.

E. On-market Buyback

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

F. Direct Payment to Shareholder Accounts

Dividends may be paid directly to bank, building society or credit union accounts in Australia. Payments are electronically credited on the dividend date and confirmed by mailed payment advice. Shareholders who want their dividends paid this way should advise the Company's share register in writing.

G. Securities Exchange

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

H. Other Information

Hills Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

I. Offices and Officers

Company Secretary

Ms Gai Stephens

Principal Registered Office

Level 7, 130 Pitt Street, Sydney NSW 2000
Telephone: (02) 9216 5510
Facsimile: (02) 9216 5999
Web: http://www.hills.com.au

Locations of Share Registries

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street Adelaide, SA 5000
Telephone (within Australia): 1300 556 161
Telephone (outside Australia): +61 3 9415 4000
Facsimile (within Australia): 1300 534 987
Facsimile (outside Australia): +61 3 9473 2408
Internet address: www.computershare.com.au