

Hills Holdings Limited

ABN 35 007 573 417

Annual report for the year ended 30 June 2012

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Annual report - 30 June 2012

Contents

	Page
Directors' report	2
Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001	29
Corporate governance statement	30
Financial statements	41
Directors' declaration	113
Independent auditor's report to the members	114
Shareholder information	116

Directors' report

The Directors present their report on the consolidated entity (referred to hereafter as the Group or Hills) consisting of Hills Holdings Limited (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2012, 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
Graham Lloyd Twartz
Fiona Rosalyn Vivienne Bennett
Ian Elliot
David Moray Spence
Peter William Stancliffe

Matthew Arnold Campbell was appointed as a Director on 19 December 2011 and continues in office at the date of this report.

Roger Baden Flynn was a Director from the beginning of the financial year until his retirement on 4 November 2011.

Review of operations

Overview

The Hills Group of companies recorded a net profit after tax attributable to owners of \$26.02M for the year ended 30 June 2012. The Hills Group also recorded much improved cash flow from operations of \$52.7M and maintained its annual dividend at 10.0 cents per share.

The year in review

Most businesses within the Hills Group of companies produced acceptable results in the year ended 30 June 2012 despite generally challenging trading conditions. All business segments produced improved results over the prior year. There were a number of highlights during the period including:

- Further product developments in the Electronics and Communications Division around the Company's own intellectual property
- A growth in market share for Hills SVL
- Further contract wins for Hills' 50% owned subsidiary OptiComm
- Reduced losses from Orrcon Steel
- A very strong result from Hills' Korvest subsidiary around buoyant infrastructure projects.

Although there were a number of very positive developments as outlined above, activity in the building and construction sector continued to deteriorate during the year which saw lower results from Fielders Australia.

The Company strategy is to consistently grow shareholder value over time by investing in businesses that deliver superior service and innovative products and which are exposed to high growth markets.

This approach is built on a commitment to diversification in order to mitigate the impacts of short term changes to individual markets and economies.

As a result of this strategy, the focus for growth and acquisitions remains on the Electronics and Communications Division where higher returns are available.

Review of operations (continued)

Vision and values

Hills is a diversified Company operating mainly in Australia and New Zealand. The Company's aim is to be recognised as a superior investment by delivering a portfolio of profitable and growing businesses. The Company values can be summarised as follows:

- Hills cares about its people, its customers and the environment
- Hills is in many businesses but comes together as one team
- Innovation is Hills past present and future – the life blood of the Company
- Hills invests the best of its time and talent to deliver on its promises.

Funding

Hills net debt as at 30 June 2012 was \$92.4M. Gearing, measured as debt to equity, stood at 23.0% at the end of the period. Since year end, Hills has announced that it has extended its banking facilities such that the earliest date for review of any of the debt facilities is August 2015. Hills continues to comfortably meet all of its banking covenants.

Dividends

The Directors have announced an annual dividend of 10.0 cents per share. This dividend is fully franked and comprised an interim dividend of 5.0 cents per share paid in March 2012 and a final dividend of 5.0 cents per share to be paid in September 2012. This represents a payout ratio of slightly under 100% for the year.

Given Hills' strong Balance Sheet position the dividend reinvestment plans have remained suspended for both the interim and final dividends.

On market share buy back

Given Hills' low levels of debt and the current share price being below the net asset backing, the Board has resolved to extend the on market buy back of its issued shares announced last year. The announcement of the buy back gives Hills the option to acquire up to 10% of the issued shares over the next 12 months and will be earnings per share accretive and will not affect Hills' existing dividend policy.

Likely developments

Whilst Hills has invested in a number of new products and opportunities and continues to look for suitable acquisitions in the electronics and communications market, the outlook for commercial building and the steel industry remains subdued. There is continuing fierce competition from growing imports in these markets. Hills has implemented a number of cost reduction initiatives over the course of the last year to ensure that businesses are structured in line with market conditions.

In view of the above Hills is unable at this time to provide specific profit guidance for the year ending 30 June 2013. It is expected that the Company will be in a position to provide an update at its Annual General Meeting in November 2012.

Electronics & Communications

The Electronics and Communications division comprises Hills Electronic Security, Hills SVL, Hills Antenna & TV Systems, Hills Signalmaster, Access Television Services, Techlife, Step Electronics, UHS, OptiComm and Cygnus Satellite. The division continues to produce the highest profit margins and return on assets employed within any of the Hills divisions.

Hills Electronic Security

- Hills Electronic Security comprises the market leading business operations of Pacific Communications, DAS and UHS. The business unit markets an extensive range of electronic security products ranging from simple domestic alarms to more complicated integrated surveillance and access control systems. The security market was affected during the period by a continuing reduction in capital expenditure from major corporates and governments. Despite this, volumes of products sold increased, however selling prices and margins were lower.
- The division won a number of important contracts and launched the innovative TouchNav alarm panel during the period and was able to produce an improved result overall.

Review of operations (continued)

Hills Sound Vision & Lighting (SVL)

- Hills SVL is a leading provider of professional audio, lighting and control systems to a wide range of customers in Australia and New Zealand and to export markets.
- Although parts of the SVL market were slow during the period the business produced an excellent result.
- Hills SVL has taken on a number of new agencies and successfully completed the acquisition of certain assets and the operations of Herma Technologies Pty Ltd in February 2012.

Hills Antenna and TV Systems

- Hills Antenna and TV Systems provides a comprehensive range of reception and distribution equipment for wireless and both subscription and free-to-air television along with a range of products for the distribution of internet protocol signals.
- Demand for equipment for both free-to-air and satellite markets was steady during the period. The business commissioned its new antenna manufacturing plant which produces the highly efficient and robust range of TRU-SPEC and TRU-BAND antenna designed to meet the current and future demand arising from the switch off of the analogue television signal by the end of 2013.
- The Exerity range of IP video distribution products won a number of contracts for entertainment and mining applications.

Access Television Services, SignalMaster, TechLife

- Access Television Services (ATS) in Australia and Signal Master in New Zealand provides subscription television installation services to AUSTAR and SKY TV respectively. Demand was not constant through the period which resulted in ATS experiencing some challenges and cost increases.
- Techlife won a number of contracts to provide similar services to government and commercial customers although the financial performance has been below expectations.

OptiComm/Cygnus

- Hills has a strategy to continue to expand its exposure to communications markets. The 50% owned OptiComm business provides fibre to the node and fibre to the home in new housing developments. The 50% owned Cygnus Satellite business provides bandwidth to rural and remote markets in Australia.
- Although both businesses are relatively small, they are growing in line with expectations and improved profits are expected from the Communications assets in the future.

Lifestyle & Sustainability

The Lifestyle and Sustainability division comprises Hills Home and Hardware Products operations in Australia and New Zealand, the Hills Healthcare, Rehabilitation and Mobility business, LW Gemmell plumbing supplies and Team Poly.

Home & Hardware Products

- The results of the Hills traditional branded products business continued the steady improvement shown in previous years.
- As a result of further changes in the Australian hardware industry certain listings of Bailey Ladders were lost during the year; however the Company has experienced increased market share in sprayers and clotheslines.
- LW Gemmell provides speciality plumbing products to the building industry. Despite very subdued activity in the Australian building industry during the period a steady result was delivered by the LW Gemmell business.

Hills Healthcare

- Hills Healthcare is the leading manufacturer of rehabilitation, mobility and hospital equipment in Australia.
- Results in this business were steady during the period due to the success of some innovative new products being launched, particularly a new bed offer for nursing homes.

Review of operations (continued)

Team Poly/Hills Eco

- Hills operates a number of businesses in the eco and sustainability markets. Team Poly operates in the very competitive water tank industry which has been subject to intense competition. Despite the launch of a new product range and some success with the innovative Smart Bar range of frontal protection systems the results from Team Poly continue to be disappointing.

Building & Industrial

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

Orrcon Steel

- Orrcon Steel is a leading manufacturer and distributor of steel tube and pipe in Australia. Orrcon specialises in the manufacture of precision tube, structural tube and rectangular sections and distributes a range of other steel products including oil, gas and water pipelines.
- Whilst the results from Orrcon Steel were improved over the previous year and included the closure of the large pipe mill at Unanderra in September 2011, the business has not delivered a satisfactory return on the funds employed.
- There have been ongoing changes to the structure at Orrcon Steel designed to meet the changing market conditions, however very low priced imported tubular products continue to set the price in this market, making profitability extremely difficult for Australian manufacturers.

Fielders

- The Fielders roll-forming roofing and flooring business is a market leader in new and innovative products.
- The decline in both domestic and commercial building activity saw lower volumes of prices available to Fielders although market share was held nationally.
- The deteriorating market conditions saw lower market margins and despite significant overhead reduction initiatives the result was disappointing.
- Late in the year Fielders launched the innovative Aramax product which gives the opportunity for customers to design buildings with extremely long roof spans. The Aramax product can be run on Fielders mobile mills at customer sites giving great efficiencies in the erection of commercial buildings.

Korvest

- Hills holds 48.6% of Korvest which comprises the market leading Ezystrut cable and pipe support business, Korvest Galvanisers and Indax industry access equipment. The Korvest business recorded a very strong performance from its Ezystrut business and consequently delivered excellent results and was able to increase its profit and dividends to shareholders.
- As Korvest is a separately listed public company further details are available from the Korvest website.

Information on Directors

Jennifer Helen Hill-Ling LLB (Adel) FAICD. *Chairman Non-Independent Non-Executive Director.* Age 50.

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 is also currently a director of MS Limited, Hills Associates Limited and Hills Holdings NZ Limited and was formerly a director of Tower Trust 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, Chairman of the Remuneration Committee, Member of the Nomination Committee.

Interests in shares and options at the date of this report

15,832,484 ordinary shares in Hills Holdings Limited (including 1,188,918 shares owned by Hills Associates Limited and Poplar Pty Ltd (jointly held) and 14,450,548 shares owned by Hills Associates Limited of which JH Hill-Ling is a Director). Nil options over ordinary shares in Hills Holdings Limited.

Graham Lloyd Twartz BA (Adel) DipAcc (Flinders). *Group Managing Director.* Age 55.

Experience and expertise

Appointed Director in July 1993. Appointed as Group Managing Director 1 July 2008.

Graham Twartz is the Group Managing Director and Chief Executive Officer and is responsible for Group operations, including business strategy and acquisitions. He was formerly the Finance Director and Company Secretary and has over 25 years' experience in his field. Mr Twartz held senior management positions in diversified companies before joining Hills in 1993. He is currently a director of Hills Associates Limited and Hills Holdings NZ Limited.

Other current listed company directorships

Director of Korvest Ltd (since 1999).

Former listed company directorships in last 3 years

None.

Special responsibilities

Managing Director.

Interests in shares and options at the date of this report

207,342 ordinary shares in Hills Holdings Limited and 29,115 ordinary shares in Korvest Ltd.
348,859 Performance rights over ordinary shares in Hills Holdings Limited.

Information on Directors (continued)

Fiona Rosalyn Vivienne Bennett BA (Hons) FCA FAICD FAIM. *Independent Non-Executive Director.* Age 56.

Experience and expertise

Appointed Director on 31 May 2010.

Fiona Bennett is a Chartered Accountant with over 30 years' experience in business and financial management, corporate governance, risk management and audit. She has previously held senior executive positions at BHP Billiton Limited and Coles Group Limited and has been a Chief Financial Officer at several organisations in the health sector.

Ms Bennett is a graduate of The Executive Program at the University of Virginia's Darden Graduate School and the AICD Company Directors' course.

Other current listed company directorships

Director of Boom Logistics Limited (since March 2010).

Former listed company directorships in last 3 years

None

Special responsibilities

Chairman of the Audit, Risk and Compliance Committee.

Interests in shares and options at the date of this report

4,000 ordinary shares in Hills Holdings Limited.

Nil options over ordinary shares in Hills Holdings Limited.

Matthew Arnold Campbell *Independent Non-Executive Director.* Age 58.

Experience and expertise

Appointed Director on 19 December 2011.

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

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

Other current listed company directorships

None.

Former listed company directorships in last 3 years

None.

Special responsibilities

Member of the Audit, Risk and Compliance Committee.

Interests in shares and options at the date of this report

1,000 ordinary shares in Hills Holdings Limited.

Nil options over ordinary shares in Hills Holdings Limited.

Information on Directors (continued)

Ian Elliot FAICD. *Independent Non-Executive Director.* Age 58.

Experience and expertise

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

Ian Elliot has spent 39 years in marketing. His speciality is brand building, with extensive involvement in a number of icon brands. Mr Elliot is a fellow of the Australian Institute of Company Directors and graduate of the Harvard Business School Advanced Management Program. In addition to his listed company directorships he was formerly Chairman of Zenith Media Pty Ltd, Cordiant Communications Group, Allied Brands Limited, Promentum Limited and Artist & Entertainment Group Limited and Chairman and Chief Executive Officer (CEO) of George Patterson Advertising and the National Australia Day Council. He is a current Director of the Australian Rugby League Commission.

Other current listed company directorships

Director of Salmat Limited (since 2005).

Former listed company directorships in 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

6,235 ordinary shares in Hills Holdings Limited.

Nil options over ordinary shares in Hills Holdings Limited.

David Moray Spence B Com. *Independent Non-Executive Director.* Age 60.

Experience and expertise

Appointed Director on 1 September 2010.

David Spence has experience in a number of industries and more recently in the technology and communications industry. He has over 25 years of senior management experience, including as Chief Financial Officer (CFO) of Freedom Furniture and OPSM, where he also assumed responsibility for manufacturing and logistics. He has been directly involved in many internet and communications companies including the building of Australia's first and largest dial up ISP, OzEmail.

Mr Spence was the chief executive officer of Unwired Australia until February 2010. He has been involved in a number of listed and non-listed boards including WebCentral, uuNet, Access1, Emitch, Commander Communications, Chaosmusic, ubowireless, Vividwireless and is a past chairman of the Internet Industry Association. He is currently a non-executive Director of AWA Limited and of PayPal Australia Pty Ltd.

Other current listed company directorships

Chairman of VOCUS Communications Ltd (since June 2010).

Former listed company directorships in last 3 years

None.

Special responsibilities

Member of the Audit, Risk and Compliance Committee, Member of the Remuneration Committee.

Interests in shares and options at the date of this report

19,000 ordinary shares in Hills Holdings Limited.

Nil options over ordinary shares in Hills Holdings Limited.

Information on Directors (continued)

Peter William Stancliffe BE (Civil) FAICD. *Independent Non-Executive Director.* Age 64.

Experience and expertise

Appointed Director in August 2003.

Peter Stancliffe has over 40 years' experience in the management of large industrial companies both in Australia and overseas and has held various senior management positions, including Chief Executive Officer. He has extensive experience in strategy development and a detailed knowledge of modern company management practices. Mr Stancliffe is a graduate of the MIT Senior Management Program and the AICD Company Directors' Course. In addition to his listed company directorships he is a director of Harris Scarfe Pty Ltd.

Other current listed company directorships

Chairman of Korvest Ltd (since 2009). Director of Automotive Holdings Group Limited (since 2005).

Former listed company directorships in last 3 years

Former Chairman of View Resources Limited (from 2006 to 2009).

Special responsibilities

Member of the Nomination Committee.

Interests in shares and options at the date of this report

19,104 ordinary shares in Hills Holdings Limited and 1,000 ordinary shares in Korvest Ltd.
Nil options over ordinary shares in Hills Holdings Limited.

Roger Baden Flynn BEng (Hons) MBA FIE (Aust) FAICD. *Independent Non-Executive Director.* Age 62.

Experience and expertise

Appointed Director in November 1999. Retired as Director 4 November 2011.

Roger Flynn has extensive experience in manufacturing and distribution industries in Australia, Asia and the United States, including over 40 Board years of experience in ASX listed companies. He has been Managing Director of four ASX listed companies over an 18 year period. Mr Flynn is a fellow of the Australian Institute of Company Directors.

Other current listed company directorships

Executive Chairman of Coventry Group Limited (since 2001).

Former listed company directorships in last 3 years

None.

Special responsibilities

None.

Interests in shares and options at the date of this report

None.

Company secretary

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

As Company Secretary, Rachel is responsible for all of the legal and compliance issues associated with Hills. Previously Ms Rees was a Director and CFO/Company Secretary of Uranium One for seven years. She assisted the company in developing Australia's fourth uranium mine, Honeymoon. Prior to working for Uranium One, Ms Rees was the Taxation Partner of a Chartered Accounting firm. Ms Rees is the Chair – Institute of Chartered Company Secretaries – SA & NT State Council and is also a member of the South Australian Regional Council for the Institute of Chartered Accountants in Australia.

David Lethbridge, LLB (Otago, NZ), Grad Dip ACG, FCIS, GAICD was appointed to the position of Company Secretary in January 2010 and held this position until 1 February 2012. Mr Lethbridge was previously the company secretary of NIB Holdings Limited and prior to that was Board Secretary and Legal Counsel for the New Zealand Apple and Pear Marketing Board.

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 2012, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Meetings of committees					
			Audit, Risk and Compliance		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Jennifer Helen Hill-Ling	16	16	-	-	5	5	8	8
Graham Lloyd Twartz *	16	16	-	-	-	-	-	-
Fiona Rosalyn Vivienne Bennett	16	16	10	10	-	-	-	-
Matthew Arnold Campbell ~	7	7	4	4	-	-	-	-
Ian Elliot	14	16	-	-	5	5	8	8
Roger Baden Flynn ^	7	7	-	-	-	-	8	8
David Moray Spence	15	16	10	10	-	-	8	8
Peter William Stancliffe #	16	16	6	6	5	5	-	-

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

* = An executive Director

~ = Commenced as a Director on 19 December 2012 and commenced as a member of the Audit, Risk and Compliance Committee on 30 March 2012

^ = Retired 4 November 2011

= Resigned as a member of the Audit, Risk & Compliance Committee on 10 February 2012

Remuneration report - audited

The Directors of Hills Holdings Limited present this Remuneration report for the Group for the year ended 30 June 2012. This Remuneration report forms part of the Directors' report and has been prepared in accordance with section 300A of the *Corporations Act 2001* (Cth) (Corporations Act) for the Group. The information provided in this Remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*. Below is a summary of Hills Holdings Limited's (Hills or the Group) executive and Non-Executive Director remuneration arrangements in place for the year ended 30 June 2012.

Directors and other key management personnel disclosed in this report

The Remuneration report sets out the remuneration arrangements that apply to the Non-Executive Directors, the Managing Director and other senior executives who are the key management personnel of the Group for the purposes of the Corporations Act and Accounting Standards.

The key management personnel of the Group includes the Directors as per pages 6 to 9 of the Directors' report and the following executive officers who report directly to the Managing Director and have authority and responsibility for planning, directing and controlling the activities of the Group:

Name	Position
<i>Non-executive and executive directors – see pages 6 to 9 of the Directors' report.</i>	
<i>Other key management personnel</i>	
S Cope A Kachellek D Lethbridge G Logan M McKinstry A Muir R Rees T Sullivan	Chief Executive Officer - Electronics and Communications Division Managing Director - Korvest Ltd Company Secretary (until 1 February 2012) Chief Financial Officer (from 8 August 2011) Chief Operating Officer Chief Financial Officer (until 7 July 2011) Company Secretary (from 1 February 2012) Group General Manager Strategy

Changes since the end of the reporting period

None.

Payments to persons before taking office

There were no payments to persons before taking office.

Principles used to determine the nature and amount of remuneration

(a) Role of the Remuneration Committee

Information on the composition and functions of the Remuneration Committee ("the Committee") is set out in the Corporate Governance Statement in this Annual Report. The charter of the Committee is available from the Hills' internet site at www.hillsholdings.com.au.

The Committee assists and makes recommendations to the Board on remuneration policies, strategies and practices for the Board, its Committees, the Managing Director, the direct reports to the Managing Director, senior executives and other management as appropriate.

The Board established the Committee to provide advice to the Board on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive Directors, other senior executives and Non-Executive Directors.

The Committee's responsibilities include developing, reviewing and making recommendations to the Board on:

- the remuneration framework for the Non-Executive Directors and Board Committees;
- the remuneration policy for the Managing Director and senior executives; and
- remuneration incentive schemes for the Managing Director and senior executives.

The Board regularly reviews the remuneration strategy and framework to assess its effectiveness in achieving its objectives. As part of these reviews, the Board relies on external and independent remuneration consultants.

Remuneration report - audited (continued)

Principles used to determine the nature and amount of remuneration (continued)

(b) Use of remuneration consultants

During 2012, Hills' Remuneration Committee employed the services of Godfrey Remuneration Group Pty Ltd to review its existing remuneration policies and to provide recommendations in respect of benchmarking salaries and executive short-term and long-term incentive plan design. These recommendations also covered the Group's key management personnel. Under the terms of the engagement, Godfrey Remuneration Group provided remuneration recommendations as defined in section 9B of the *Corporations Act 2001* and was paid \$33,600 for these services.

The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

- Godfrey Remuneration Group was engaged by, and reported directly to, the Chairman of the Remuneration Committee. The agreement for the provision of remuneration consulting services was executed by the Chairman of the Remuneration Committee under delegated authority on behalf of the Board.
- The report containing the remuneration recommendations was provided by Godfrey Remuneration Group directly to the Chairman of the Remuneration Committee; and
- Godfrey Remuneration Group was permitted to speak to management throughout the engagement to understand Company processes, practices and other business issues and obtain management perspectives. However, Godfrey Remuneration Group was not permitted to provide any member of management with a copy of their draft or final report that contained the remuneration recommendations.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

(c) Voting and comments made at the Company's 2011 Annual General Meeting

Hills received more than 87% of "yes" votes cast on its Remuneration report for the 2011 financial year.

(d) Executive remuneration policy

Hills' remuneration strategy is designed to attract, motivate and retain senior executives and Hills' employees generally. Given the diversified nature of the Group, the Board has developed a remuneration framework which reflects this diversity and is structured to reward executives for performance both at the Group level and at the operating divisional level.

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

(i) Market competitive and fair:

- Executive remuneration is reviewed annually;
- Hills' aim, in attracting and retaining the best people for the job, is to provide market competitive remuneration against jobs of comparable size and responsibility, with an opportunity for highly competitive total remuneration for superior performance; and
- External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role.

(ii) Performance driven:

- Remuneration is designed to reward executives for performance against business plans and longer term shareholder returns to a level that is appropriate for the results delivered;
- A portion of the executive remuneration is at risk and performance dependent; and
- The variable components of the remuneration are driven by targets that focus on external and internal measures of financial and non-financial performance.

(iii) Alignment with shareholder interests:

- Incentive plans and performance measures are aligned with Hills' short and long term success.

Remuneration report - audited (continued)

Principles used to determine the nature and amount of remuneration (continued)

(e) Executive remuneration framework

The executive remuneration framework has a mix of fixed and variable ("at risk") pay. It has three components:

- Fixed remuneration, being base pay, superannuation and other benefits;
- Short term incentives; and
- Long term incentives.

The combination of these comprises an executive's total remuneration. The Board considers that the performance linked remuneration structure generates the desired outcome for Hills.

The relative weightings of the three components comprising an executive's total remuneration are set out in the table below. The weightings are calculated on the basis that the "at risk" components (STI and LTI) are at their maximum.

	Fixed	STI	LTI
Managing Director	45%	40%	15%
Other key management personnel			
Range	48% - 75%	17% - 45%	6% - 10%
Average	62%	30%	8%

(i) Fixed remuneration

Fixed remuneration is targeted at or above the median of the market for jobs of comparable size and responsibility in companies in an Industrial and Service Market Comparator Group comprised of a group of ASX listed companies of similar size to Hills in terms of market capitalization and business characteristics and it also takes into account an individual's responsibilities, performance, qualifications and experience. In some cases, experience, superior performance or strong market demands for specific job categories may justify above median fixed remuneration.

Structured as a total employment cost package, the base pay may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

There are no guaranteed base pay increases included in any executives' contracts.

The fixed component of remuneration for all continuing key management personnel is frozen at levels set in 2011, except where competitive market forces have forced a review or there has been a change in responsibilities.

Retirement benefits comprise employer contributions to defined contribution superannuation funds.

(ii) Short term incentives

Hills' executives all participate in an STI Plan which is designed to drive individual and team performance to deliver annual business plans and increase shareholder value by providing rewards for achievement of business financial performance goals and individual performance goals which are focussed on non-financial performance.

Each year the Remuneration Committee recommends to the Board the key performance indicators (KPIs) for the key management personnel. KPIs generally include measures relating to the Group, the relevant business segment and the individual, and may include a mix of financial and non-financial performance measures.

Remuneration report - audited (continued)

Principles used to determine the nature and amount of remuneration (continued)

Features of all executives' STI plans for FY 2012 are as follows:

Frequency and timing	Participation is determined on an annual basis with performance measured over the financial year ending 30 June.
Financial measures used	<p>A principal focus of Hills is earnings before interest and tax (EBIT), net profit after tax (NPAT), returns on funds employed (ROFE) which measures effective utilisation of assets, earnings per share (EPS) and working capital.</p> <p>The measures used in the STI plan are:</p> <ul style="list-style-type: none"> • for senior executive roles with corporate responsibility: a combination of ROFE, NPAT and working capital; • for senior executives with divisional responsibility: EBIT and ROFE; and • for the Managing Director: ROFE, NPAT and EPS.
Non financial measures	<p>Non financial measures vary with position and responsibility and are chosen because they are critical to Hills' short term and long term success, and are aligned to the business plan. The measures typically cover areas including:</p> <ul style="list-style-type: none"> • Safety; • Strategic outcomes; • Operational improvements; • Succession planning; • Diversity; • Restructuring and rationalisation; and • Other discretionary performance targets.
Assessment of performance	<p>At the end of the financial year each senior executive's performance is assessed based on the actual performance of the Group and the relevant segment and individual performance overall and against KPIs set at the beginning of the financial year.</p> <p>The Managing Director makes recommendations in respect of each senior executive to the Remuneration Committee who in turn makes recommendations to the Board in relation to the payment of individual short term bonuses.</p>
Service condition	<p>At the Board's discretion, new executives may be eligible to participate in the STI plan on a pro-rata entitlement basis. The Board retains the discretion in awarding payment to executives who retire, die or are retrenched during the financial year. No payments are made to executives who have their employment terminated for inadequate performance or misconduct, before the end of the financial year.</p>
STI awarded in FY 2012	<p>In terms of the targets set by the Board for FY 2012, the annual STI awarded to the Senior Executives reflected the following:</p> <ul style="list-style-type: none"> • The overall financial performance for the Group did not meet the financial targets set; • The overall financial performance for the Electronics and Communications division met some of the financial targets set; • The Building and Industrial and Lifestyle and Sustainability divisions did not meet the financial targets set; • Certain strategy and succession planning targets were met; and • The Group's safety targets were exceeded.

Remuneration report - audited (continued)

Principles used to determine the nature and amount of remuneration (continued)

(iii) Long term incentives

(a) Long Term Incentive Plan (LTIP)

In 2010, consistent with Hills' remuneration strategy of rewarding executives for performance against business plans and longer term shareholder returns to a level that is appropriate for the results delivered, Hills established the LTIP. The aim of the LTIP is to incentivise senior executives by aligning their long term incentives with the interests of shareholders.

General features of the Plan are as follows:

- eligible employees may be offered shares in Hills (which will be held in trust pending the satisfaction of specified performance conditions) (deferred shares) or a right to receive shares in the Company in the future (subject to the satisfaction of specified performance conditions) (performance rights);
- the Board imposes performance conditions on deferred shares or performance rights at the time at which an offer is made in respect of such deferred shares or performance rights;
- except in special circumstances, deferred shares or performance rights do not vest unless the performance conditions attaching to them have been satisfied within the prescribed period;
- Performance rights or deferred shares which have not vested will lapse or be forfeited (respectively) if an eligible employee ceases to be employed by Hills before vesting has occurred (unless the Board determines otherwise), or in the Board's opinion, the eligible employee has acted fraudulently, dishonestly, or committed an act of harassment or discrimination or brought the Company into disrepute;
- with the Board's approval, the eligible employee may nominate someone else to hold the Deferred Share or Performance Right (generally a relative or dependent or entity under the eligible employee's control);
- the Board may impose disposal restrictions on trading Performance Shares (that is shares received by the eligible employee or their nominee on vesting of a Performance Right) or Deferred Shares for up to a maximum of seven years;
- no payment is required for the grant of a Performance Right (unless the Board specifies otherwise) and the Board may determine the price (if any) at which Deferred Shares will be offered;
- an eligible employee will receive all dividends paid by the Company in respect of deferred shares which have not yet vested. However, the eligible employee will not be entitled to any dividends in respect of performance rights which have not yet vested.

At Hills' 2011 Annual General Meeting, shareholder approval was obtained for the Managing Director to be issued with 229,933 (at Hills' 2010 Annual General Meeting: 118,926) performance rights under the LTIP.

Following the approval given at the 2011 AGM, certain senior executives were also invited to participate in Hills' LTIP and receive performance rights under the LTIP.

The details of the LTIP performance rights allocations made to the Managing Director and senior executives are set out in the following table and the table on page 23 of this Report.

Participation	Executive participation is determined by the Board.
Performance conditions	The performance conditions attaching to the performance rights will be measured over a three year period commencing from 1 July 2011 (performance rights issued in the previous financial year are measured over the three year period commencing from 1 July 2010). If the relevant performance conditions at the end of that three year period have been met, in whole or in part, all or the relevant percentage of the performance rights (as applicable) will vest. The senior executive (or nominees) will be entitled to be issued or transferred one ordinary share in the Company for each performance right that has vested.

Remuneration report - audited (continued)

Principles used to determine the nature and amount of remuneration (continued)

Performance measures	<p>Vesting of the performance rights will be determined by reference to EPS and TSR performance conditions. These performance conditions have been chosen as EPS focuses attention on the Hills' three year strategic and financial objectives and TSR measures growth in the price of Hills' shares and dividends against the ASX 200 Industrial Accumulation Index.</p> <p>The principles used in setting the performance conditions are as follows:</p> <p>(a) the EPS hurdle – a compound annual growth rate in Hills' EPS which is applicable to 50% of the performance rights;</p> <p>(b) the TSR hurdle - the TSR performance achieved by Hills in comparison to the TSR of the ASX 200 Industrial Accumulation Index (Index) which is applicable to the other 50% of the performance rights.</p>
Performance testing	<p>The performance hurdles will be tested at 30 June 2014 (performance rights issued in the previous financial year will be tested at 30 June 2013). No further testing will occur.</p>
Vesting schedule	<p>The vesting schedule for the performance rights issued in the 2012 financial year is:</p> <p>EPS hurdle:</p> <ul style="list-style-type: none"> • EPS compound annual growth rate of less than 15%, with a starting EPS of 19.2 cents - 0% vested • EPS compound annual growth rate of 15% or more, with a starting EPS of 19.2 cents - 25% vested • EPS compound annual growth rate of 20% or more, with a starting EPS of 20.0 cents - 50% vested <p>TSR hurdle:</p> <ul style="list-style-type: none"> • Hills' TSR compound annual growth rate less than 20%, with a starting share price of \$3.00 - 0% vested • Hills' TSR compound annual growth rate of 20% or more, with a starting share price of \$3.00 - 25% vested • Hills' TSR compound annual growth rate of 25% or more, with a starting share price of \$3.00 - 25% vested <p>The vesting schedule for the performance rights issued in the 2011 financial year is:</p> <p>EPS hurdle:</p> <ul style="list-style-type: none"> • EPS compound annual growth rate of less than 15% - 0% vested • EPS compound annual growth rate of 15% or more - 25% vested • EPS compound annual growth rate of 20% or more - 50% vested <p>TSR hurdle:</p> <ul style="list-style-type: none"> • Hills' TSR less than Index - 0% vested • Hills' TSR outperforms Index - 25% vested • Hills' TSR outperforms Index by 15% or more - 25% vested
Trading restrictions	<p>There are no restrictions on the trading performance shares once issued.</p>

(b) Prior long-term Incentive Plans

Until the 2010 financial year, long term incentives were provided to certain employees as options over ordinary shares of the Company under the rules of the Executive Share Option Plan. The Group established a share option plan in October 1997 that entitled selected senior managers and executives to acquire shares in the Company subject to the successful achievement of performance targets related to improvements in total shareholder returns.

Remuneration report - audited (continued)

Principles used to determine the nature and amount of remuneration (continued)

Prior to 2008 the options were exercisable if Hills' TSR (over a two year period from the grant date) exceeded ten percent plus CPI per annum. Once exercised the shares were forfeited if the holder ceased to be an employee of the Group within a further three year period.

The shareholders approved an amendment to this plan as part of the 2007 Annual General Meeting (AGM) such that the option period over which the shareholder return must be achieved was extended to three years. The three year period during which the shares were restricted has now been removed. This amendment is applicable for all share options granted after the resolution was passed. No changes were made to the rules governing options already granted.

Executives who acquired shares through the exercise of options were provided with 20 year interest free loans by the Company in accordance with the rules of the Executive Share Option Plan approved by the Shareholders. These loans are of a non-recourse nature. For accounting purposes these 20 year, non-recourse loans are treated as part of options to purchase shares, until the loan is extinguished at which point the shares are recognised.

In accordance with Hills' Securities Trading Policy, participants in equity based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements.

(iv) Employee share plan

The Hills' Employee Share Bonus Plan provides that eligible employees may receive up to \$1,000 of Hills' ordinary shares for no consideration. Shares are allotted under the plan in two tranches, (usually in March / April and in September / October). Shares issued under the Hills' Employee Share Bonus Plan cannot be sold until seven years after issue. The number of Hills' Shares each eligible employee receives is the value of the allotment divided by the weighted average price at which the Company's shares are traded on the ASX on the five business days prior to the date of the allotment, rounded down to the nearest whole share, or as otherwise determined by the Directors.

(v) Link between remuneration and Group performance

A key underlying principle of the executive reward strategy is that remuneration should be linked to performance.

As discussed earlier, STI payments are based on a variety of performance conditions, both financial and non-financial. The key financial measures are NPAT, EBIT, ROFE and EPS, at a business unit and divisional level for some executives and at a Group level for other executives. The non-financial measures include safety, strategic outcomes, diversity, operational improvements, restructuring and rationalisation and other discretionary performance targets.

In the financial year ended 30 June 2012 the Group performance improved on the prior year, with EBIT (before CGU impairment and closure costs in the year ended 30 June 2011) increasing 11% to \$44.702 million¹ and net profit after tax (before CGU impairment and closure costs in the year ended 30 June 2011) increasing 6% to \$28.822 million.²

In difficult trading conditions, some of the businesses within the Electronics and Communications division achieved their budget EBIT results. However, the Lifestyle and Sustainability division and the Building and Industrial division businesses of Orrcon and Fielders did not meet the EBIT thresholds set by the Board. As a consequence, STI payments related to financial measures were low.

Non-financial STIs were achieved where executives achieved their strategic, operational or other discretionary targets. Pleasingly, and as reported elsewhere in this report, Hills continues to drive down the total reportable incident frequency rate (TRIFR) to 10.1, a 47% improvement on the prior year. Most executives achieved the safety component of their non-financial STI's.

Remuneration report - audited (continued)

Principles used to determine the nature and amount of remuneration (continued)

The following table summarises financial and share price information and safety performance over the last five years:

Key financials	FY12	FY11 *	FY10	FY09	FY08
Earnings before interest and tax (EBIT) (\$'000) ¹	44,702	40,376	65,469	59,978	87,772
Shareholders' funds (\$'000)	400,963	402,307	496,499	428,520	429,517
Return on funds employed (ROFE) based on year end Funds Employed	9.1%	8.2%	12.0%	10.3%	14.2%
Net profit (\$'000) ²	28,822	27,126	43,095	34,201	53,589
Net profit (\$'000)	28,822	(73,116)	43,095	15,655	52,360
Basic earnings per share (cents) ³	10.5	10.2	16.7	14.6	27.3
Dividends (cents)	10.0	10.0	12.5	10.0	27.5
Share price (\$)	1.06	1.20	2.15	1.57	3.34
Safety (TRIFR)	10.1	19.8	34.7	41.4	65.1

¹ EBIT before CGU impairment and closure costs in the year ended 30 June 2011 of \$40.376M is a non-IFRS measure calculated as: EBIT loss of the year of \$74.459M adjusted for Orrcon and Team Poly impairment and Orrcon closure costs of \$114.839M.

² Net profit after tax (NPAT) before CGU impairment and closure costs for the year ended 30 June 2011 of \$27.126M is a non-IFRS measure calculated as: NPAT loss of \$73.116M adjusted for Orrcon and Team Poly impairment and Orrcon closure costs of \$100.242M,

³ Basic earnings per share before CGU impairment and closure costs for the year ended 30 June 2011 is a non-IFRS measure calculated using NPAT attributable to owners of \$74.955M adjusted for Orrcon and Team Poly impairment and Orrcon closure costs of \$100.242M.

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

(d) Non-executive Director remuneration

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. Non-Executive Directors do not receive performance based pay. The Board has also considered the advice of independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market.

The Chairman's fees are determined independently to the fees of Non-Executive Directors based on comparative roles in the external market.

Directors' fees

The aggregate amount of remuneration paid to Non-Executive Directors is \$1,200,000.

Non-Executive Directors who chair a committee receive an additional \$10,000 per annum. Directors' fees were not increased during the period and have been frozen for the past three years.

The following fees have applied:

	Current fees
Base fees	
Chairman	\$200,000
Other Non-Executive Directors	\$100,000
Additional fees	
Committee - Chairman	\$10,000

Retirement allowances for Non-Executive directors

Superannuation contributions required under the Australian superannuation guarantee legislation are made and are deducted from the Directors' overall fee entitlements.

Remuneration report - audited (continued)

Principles used to determine the nature and amount of remuneration (continued)

Ms J Hill-Ling is the only Director entitled to receive benefits on retirement under a scheme that has since been discontinued. Under the scheme, Ms J Hill-Ling is entitled to a maximum retirement benefit of twice her annual Directors' fees (calculated as an average of her fees over the last three years) accumulated over a period of eight years of service. 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.

Details of remuneration

Amounts of remuneration

Details of the remuneration paid or payable of the Directors and the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) are set out in the following tables.

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

+ J Hill-Ling remuneration includes a dividend of \$5,600 (2011: \$5,600) paid as a shareholder of Hills Associates Limited.

* P Stancliffe remuneration includes Board fees from Korvest Ltd.

¹ D Lethbridge ceased employment on 14 February 2012.

² G Logan commenced employment on 8 August 2011.

³ A Muir ceased employment on 7 July 2011.

⁴ R Rees commenced employment on 1 February 2012.

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

(B) Other comprises dividends paid to shareholders of Hills Associates Limited, annual leave accrued in excess of annual leave taken in the year and payment in compensation for transferring from the Company's previous defined contribution scheme.

Remuneration report - audited (continued)

Details of remuneration (continued)

Amounts of remuneration (continued)

(C) The long service leave component of remuneration represents the expense relating to the provision for long service leave calculated in accordance with accounting standard AASB 119 *Employee Benefits*. It does not represent cash payments or statutory obligations.

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

Performance rights were granted to various executives during the year. No options were granted during the year. Options granted in 2009 lapsed during the current financial year as the conditions were not met. The ability to exercise the performance rights is conditional on the Group achieving certain performance hurdles.

The fair value of performance rights granted to the Managing Director and senior executives included above is described in the Long Term Incentives discussion below. Further details of performance rights granted during the year are set out below.

2011 Name	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments (D)		Total \$
	Cash salary and fees \$	Cash bonus (A) \$	Other (B) \$	Super-annuation \$	Long service leave \$	Performance rights & options \$	Shares \$	
Non-Executive Directors								
J Hill-Ling+	192,661	-	5,600	17,339	-	-	-	215,600
F Bennett	97,095	-	-	8,739	-	-	-	105,834
I Elliot	100,917	-	-	9,083	-	-	-	110,000
R Flynn	91,743	-	-	8,257	-	-	-	100,000
G Hill	74,632	-	-	6,717	-	-	-	81,349
D Spence	76,453	-	-	6,881	-	-	-	83,334
P Stancliffe*	147,233	-	-	13,251	-	-	-	160,484
Sub-total Non-Executive Directors	780,734	-	5,600	70,267	-	-	-	856,601
Executive Director								
G Twartz	779,816	75,000	65,508	70,183	19,495	13,277	-	1,023,279
Other key management personnel (Group)								
L Andrewartha [^]	348,624	10,000	1,400	31,376	-	3,222	999	395,621
S Cope ^{#^}	321,101	60,664	5,091	28,952	-	3,222	999	420,029
D Edgecombe	76,453	-	8,709	6,881	-	-	599	92,642
R Gros	218,721	32,926	24,748	19,685	-	988	599	297,667
A Kachellek [^]	240,005	87,039	350	29,944	-	5,635	-	362,973
D Lethbridge	211,009	25,000	4,058	18,991	-	1,117	-	260,175
M McKinstry	31,845	-	2,289	2,866	-	-	-	37,000
K Middleton [^]	349,197	10,000	700	25,803	-	2,563	999	389,262
A Muir ^{#^}	316,605	20,000	8,598	23,448	54,587	412	999	424,649
T Sullivan	190,584	10,000	13,171	17,153	-	1,564	-	232,472
Total key management personnel compensation (Group)	3,864,694	330,629	140,222	345,549	74,082	32,000	5,194	4,792,370
Other Company and Group executives								
G Daher [#]	211,271	75,155	6,650	21,960	3,500	329	999	319,864
R Meacham [#]	208,627	93,508	5,646	18,829	3,546	412	999	331,567
A Oliver [#]	230,856	69,153	16,694	20,779	3,917	412	999	342,810

[^],# denotes one of the 5 highest paid executives of the Group([^]) and/or Company ([#]), as required (prior to 1 July 2011) to be disclosed under the *Corporations Act 2001*.

Remuneration report - audited (continued)

Details of remuneration (continued)

Amounts of remuneration (continued)

The relative proportions of remuneration for the year ended 30 June 2012 as set out in the remuneration table above that are linked to performance and that are fixed are as follows:

Name	Fixed remuneration %	At risk -STI paid / payable %	Value of performance rights / options as proportion of remuneration %
	2012	2012	2012
G Twartz	94.6%	4.0%	1.4%
Other key management personnel of Group			
S Cope	82.8%	16.6%	0.6%
A Kachellek	63.3%	28.3%	8.4%
D Lethbridge	93.6%	6.0%	0.4%
G Logan	91.2%	8.7%	0.1%
M McKinstry	96.0%	3.9%	0.1%
A Muir	100.0%	0.0%	0.0%
R Rees	95.7%	4.3%	0.0%
T Sullivan	99.4%	0.0%	0.6%

The total potential and actual STI, and the proportion of actual STI compared to fixed remuneration are as follows:

Name	Potential STI \$	Actual STI paid / payable \$	Actual STI paid / payable as % of potential STI	STI paid / payable as % of fixed remuneration
G Twartz	750,000	40,000	5.3%	4.2%
Other key management personnel of Group				
S Cope	325,000	75,252	23.2%	20.1%
A Kachellek	138,622	138,622	100.0%	44.7%
D Lethbridge	55,000	10,000	18.2%	6.4%
G Logan	200,000	37,500	18.8%	9.5%
M McKinstry	200,000	20,000	10.0%	4.1%
R Rees	115,000	5,000	4.3%	4.5%
T Sullivan	70,000	-	0.0%	0.0%

Service agreements

Executives

The details of the contracts of Hills' senior executives named in the remuneration tables (excluding the Managing Director) can be summarised as follows:

- All executives have ongoing contracts of no fixed term;
- The period of notice required to be given to terminate a contract varies depending upon an executive's contract, with an executive's period of notice to the Company ranging from three to six months, and the Company's period of notice to an executive ranging from three to six months or payment in lieu of that notice;
- Upon termination, executives are entitled to payment of annual and long service leave;
- If an executive is retrenched, the executive is not entitled to contractual termination payments other than those generally applicable to all staff.

Remuneration report - audited (continued)

Service agreements (continued)

Managing Director

Graham Twartz was appointed as Managing Director effective 1 July 2008. The details of the Managing Director's contract and the remuneration package for the financial year are as follows:

Term	The contract is for indefinite duration. The contract can be terminated by the Company or the Managing Director giving three month's notice to the other.
Fixed remuneration	The Managing Director has received an annual base salary, inclusive of superannuation, for the year ended 30 June 2012 of \$850,000.
Short-term incentive	An annual maximum STI opportunity of \$750,000. The performance of the Managing Director against performance measures is assessed and the payment determined by the Board.
Long-term incentive	An annual maximum LTI opportunity of \$275,000, based upon the price of the shares on the date of issue of the rights. The details of the LTIP are set out in the discussion above.

Share-based compensation

Performance rights and options

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

Grant date	Date exercisable / vested	Expiry date	Exercise price	Value per right / option at grant date	Performance achieved	% Vested
Options 4 Feb 2009	31 Jan 2012	31 Jan 2032	\$3.01	\$0.00	No	0%
Performance rights 30 April 2011	30 June 2013	30 June 2013	\$0.00	\$0.905	n/a	n/a
Performance rights 19 Dec 2011	30 June 2014	30 June 2014	\$0.00	\$0.45	n/a	n/a

The maximum value of the performance rights represents their fair value as at their grant date, determined in accordance with AASB 2 *Share Based Payment*. The fair value for each performance rights hurdle was:

EPS hurdle: \$0.86 (2011: \$1.19)

TSR hurdle: \$0.04 (2011: \$0.62)

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 25 to the financial statements.

No performance rights have been granted since the end of the financial year. The performance rights were provided at no cost to the recipients.

All performance rights expire on the earlier of their expiry date or termination of the individual's employment. The performance rights will vest on 30 June 2014 for the rights issued in the current financial year and on 30 June 2013 for the rights issued in the previous financial year. In addition to a continuing employment service condition, the ability for performance rights to vest is conditional on the Group achieving certain performance hurdles. Details of the performance criteria are included in the long-term incentives discussion above.

The options issued in 2009 lapsed during the current financial year due to performance hurdles not being met.

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Remuneration report - audited (continued)

Share-based compensation (continued)

Details of performance rights and options over ordinary shares in the Company provided as remuneration to each Director of the Company and each of the key management personnel of the Company and the Group are set out below. When vested, each performance right is convertible into one ordinary share of Hills Holdings Limited. Further information on the options is set out above and in note 25 to the financial statements.

No performance rights or options vested during the financial year.

Name	Number of performance rights granted during the year	Fair value of performance rights at grant date calculated in accordance with AASB 2	Value of performance rights using the share price of \$1.1960 *	Number of performance rights / options lapsed / forfeited during the year	Value at lapse / forfeit date **
Directors of Hills Holdings Limited					
G Twarz	229,933	\$103,470	\$275,000	100,000	\$114,000
Other key management personnel of the Group					
S Cope	41,806	\$18,813	\$50,000	60,000	\$68,400
D Lethbridge	20,903	\$9,406	\$25,000	31,714	\$34,251
G Logan	41,806	\$18,813	\$50,000	-	\$0
M McKinstry	62,709	\$28,219	\$75,000	-	\$0
A Muir	-	\$0	\$0	80,000	\$98,800
T Sullivan	29,264	\$13,169	\$35,000	-	\$0

* The share price used to calculate the number of performance rights issued to the Managing Director and Senior Executives was \$1.1960, being the volume weighted average price of the Company's shares for the ten trading days commencing on the day after the announcement of the Company's full year financial results for the year ended 30 June 2011.

** The value at lapse date of rights / options that were granted as part of remuneration and that were forfeited or lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

Shares provided on exercise of remuneration options

During the reporting period, no shares were issued on the exercise of options previously granted as compensation to key management personnel.

Additional information

Details of remuneration: Bonuses and share-based compensation benefits

For each grant of rights included in the tables on pages 19 - 20 and 22 - 23, the percentage of the available grant that vested in the financial year, and the percentage that was forfeited because the person did not meet the service criteria is set out below. The performance rights / options vest after three years, provided the vesting conditions are met (see page 16 above). No performance rights / options will vest if the conditions are not satisfied, hence the minimum value of the performance rights / options yet to vest is \$nil.

The maximum value of the performance rights / options yet to vest has been determined as the amount of the grant date fair value of the performance rights / options that is yet to be expensed.

The percentage (%) of rights / options forfeited in the year represents the reduction from the maximum number of rights / options available to vest due to the highest level performance criteria not being met as well as rights / options that have lapsed due to termination of employment.

Remuneration report - audited (continued)

Share-based compensation (continued)

Details of remuneration: Bonuses and share-based compensation benefits (continued)

Name	Share-based compensation benefits (rights / options)					
	Financial year granted	Vested %	Lapsed / forfeited %	Financial years in which rights / options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
G Twarz	2009 2011 2012	- - -	100 - -	2012 2013 2014	- - -	- 83,050 101,937
S Cope	2009 2011 2012	- - -	100 - -	2012 2013 2014	- - -	- 15,100 18,534
D Lethbridge	2011 2012	- -	100 100	2013 2014	- -	- -
G Logan	2012	-	-	2014	-	18,534
M McKinstry	2012	-	-	2014	-	27,801
A Muir	2009	-	100	2012	-	-
T Sullivan	2011 2012	- -	- -	2013 2014	- -	10,569 12,974

Principal activities

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

Objectives

The Group's objectives are to:

- provide a safe, challenging and rewarding workplace;
- deliver superior returns to shareholders;
- increase earnings per share;
- represent quality, reliable and value for money products; and
- improve the retention rate of our outstanding people resources.

In order to meet these objectives the following targets were set for the 2012 financial year and beyond:

- increase revenue, operating activities, profits, earnings per share and return on funds employed;
- reduce operating costs;
- achieve strategic objectives;
- continue to improve our safety performance;
- continue to source cost effective supplies; and
- further develop our employees.

Dividends

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

	2012 \$'000	2011 \$'000
Final ordinary dividend for the year ended 30 June 2011 of 4.5 cents (year ended 30 June 2010: 5.5 cents) per fully paid share paid on 26 September 2011 (Year ended 30 June 2010: 26 September 2010)	11,190	13,623
Interim ordinary dividend for the year ended 30 June 2012 of 5.0 cents (2011: 5.5 cents) per fully paid share paid on 30 March 2012 (2011: 21 March 2011)	<u>12,293</u>	<u>13,650</u>
	<u>23,483</u>	<u>27,273</u>

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a final ordinary dividend of approximately \$12.301 million (5.0 cents per fully paid share) to be paid on 26 September 2012 out of retained profits at 30 June 2012. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2012 and will be recognised in subsequent financial periods. For more information regarding dividends please refer to note 23 of the financial statements.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

On 13 August 2012 the Company entered into an agreement to acquire the business of Lan 1. Completion is expected by 30 September 2012, subject to conditions precedent being satisfied.

On 16 August 2012 the Company renewed its banking facilities jointly with Commonwealth Bank, National Australia Bank and Westpac Banking Corporation through a Common Deed. The total facility is \$196 million, comprising Tranche A \$81 million, expiring in 3 years (16 August 2015), Tranche B \$69 million, expiring in 4 years (16 August 2016), and Tranche C \$46 million, expiring in 3 years (16 August 2015), but subject to annual review. Tranches A and B comprise bank loans and Tranche C comprises bank guarantees, letters of credit and cash advances.

Mr Twartz will retire as Chief Executive Officer and Managing Director on 2 September 2012 and will cease to be an employee on 30 November 2012. Mr Ted Pretty will commence as Chief Executive Officer and Managing Director on 3 September 2012.

Apart from the matters noted above, there has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Likely developments and expected results of operations

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

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

Manufacturing

The Group holds all required environmental licences for its manufacturing sites around Australia. No significant environmental incidents were reported over the 2012 financial year and the Group continued to meet or exceed the requirements specified in relevant licenses and authorisations.

Environmental regulation (continued)

Greenhouse gas and energy data reporting requirements

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

During the 2012 financial year, Hills submitted its first report under the NGER Act with data collected over the 2010-11 reporting period. The Group's reported energy consumption was 253TJ of energy with total GHG emissions of 34,444 tonnes of Carbon Dioxide equivalent (tCO₂-e).

Projections made utilising data collected during the 2011-12 reporting period indicate that the Group will again trigger the legislated reporting threshold. Total energy consumption is estimated to be approximately 241TJ while total GHG emissions are approximately 28,594tCO₂-e. This represents a 5 per cent reduction in total energy consumption and a 17 per cent reduction in greenhouse gas emissions over the 2012 financial year.

National Packaging Covenant

Hills is a signatory to the Australian Packaging Covenant (APC), which is the successor to the National Packaging Covenant (NPC). The APC is a voluntary initiative, by Government and industry, to reduce the environmental impacts of packaging. Under the APC Hills has revised its five year action plan, which will enable the Group to undertake reviews of new and existing packaging and complete actions against core Covenant KPIs. In the 2012 financial year Hills submitted its first annual report under the APC, which has been published on its website alongside the revised action plan and environmental policy. Hills remains compliant in relation to all Covenant requirements.

Shares under performance rights / options

Unissued ordinary shares of the Company under performance rights / option in accordance with accounting standards at the date of this report are as follows:

Date performance rights / options granted	Expiry date	Exercise price of shares	Number under right / option
February 2001	January 2023	\$2.50	50,000
February 2002	January 2024	\$2.90	53,000
February 2003	January 2025	\$3.23	80,000
February 2004	January 2026	\$3.66	115,000
February 2005	January 2027	\$4.16	185,000
April 2011	June 2013	\$-	198,929
December 2011	June 2014	\$-	405,518
			1,087,447

No rights / option holder has any right under the rights / options to participate in any other share issue of the Group or any other entity.

All rights / options expire on the earlier of their expiry date or termination of the employee's employment. In addition, the ability to exercise the rights / options is conditional on the Group achieving certain performance hurdles. Further details are included in the Remuneration report.

Shares issued on the exercise of options

During or since the end of the financial year, the Company has not issued ordinary shares as a result of the exercise of rights / options.

Insurance of officers

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

Insurance of officers (continued)

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 the Group, 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 the Group are important.

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

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

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

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

	Consolidated	
	2012	2011
	\$	\$
1. Audit services		
KPMG Australia:		
Audit and review of financial reports	492,000	498,500
Overseas KPMG firms - audit and review of financial reports	<u>32,909</u>	<u>31,768</u>
Total remuneration for audit services	<u>524,909</u>	<u>530,268</u>
2. Non-audit services		
Other assurance services		
KPMG Australia:		
Software implementation assurance services	76,257	-
Forensic accounting services	46,179	-
Other consulting services	<u>40,504</u>	<u>-</u>
Total remuneration for other assurance services	<u>162,940</u>	<u>-</u>

Non-audit services (continued)

	Consolidated	
	2012	2011
	\$	\$
Taxation services		
KPMG Australia:		
Taxation and other services	141,015	113,838
Overseas KPMG firms - taxation services	<u>14,316</u>	<u>26,824</u>
Total remuneration for taxation services	<u>155,331</u>	<u>140,662</u>
Total remuneration for non-audit services	<u>318,271</u>	<u>140,662</u>

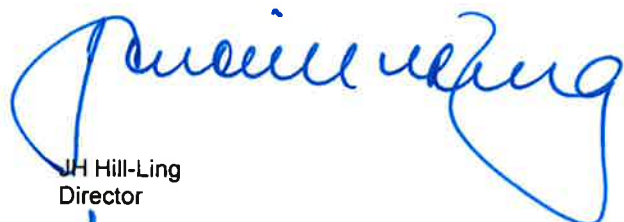
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 29.

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.



JH Hill-Ling
 Director



GL Twartz
 Director

Dated at Sydney
 this 31st day of August 2012



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

To: the Directors of Hills Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

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

KPMG

N T Faulkner
Partner

Adelaide

31 August 2012

Corporate governance statement

This report sets out Hills Holdings Limited's (Hills) annual statement on its corporate governance framework for the year ended 30 June 2012.

The Board is committed to achieving and demonstrating the highest standards of corporate governance. The Board considers that Hills' corporate governance framework and practices continue to comply with the requirements of the ASX Corporate Governance Council's (ASXCGC) Corporate Governance Principles and Recommendations, 2nd Edition (Principles and Recommendations) and meet the interests of shareholders.

A description of Hills' main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year and comply with the Principles and Recommendations.

Full details of the location of the references in this statement which specifically sets out how Hills applies each Principle and Recommendation are contained in the corporate governance section within the Hills' website which can be found at www.hillsholdings.com.au. This website also contains copies of the charters and policies referred to in this report.

1 Principle 1: Lay solid foundations for management and oversight

1.1 Role of the Board

The Board's role is to represent shareholders' interests and it is accountable to them for creating and delivering value through effective governance of the Hills' business. The Board operates in accordance with the broad principles set out in its Board charter. The charter details the roles and responsibilities of the Board, as well as the membership and operation of the Board.

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

The Board is responsible to the shareholders for the performance of Hills in both the short and the longer term and seeks to balance sometimes competing objectives in the best interests of Hills as a whole.

1.2 Responsibilities of the Board

The responsibilities of the Board include:

- Strategy and Planning - reviewing and approving Hills' business strategies and monitoring their implementation;
- Oversight of management - the appointment, and if appropriate, the removal of the Managing Director, setting the Managing Director's terms and conditions of employment, approving the remuneration policies and practices for all Hills' employees, monitoring the performance of the Managing Director and reviewing on a regular basis executive succession planning;
- Financial and Capital Management – reviewing and approving Hills' annual and half yearly financial reports, monitoring Hills' financial position on an ongoing basis, overseeing Hills' accounting and financial systems, reviewing the progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments, approving capital management decisions and the dividend policy;
- Shareholders – overseeing effective communication with and reporting to shareholders;
- Other stakeholders – overseeing and approving policies that govern the relationship with other stakeholders;
- Ethics and sustainability – monitoring Hills' culture and its ethics, overseeing and approving Hills' Code of Conduct, enhancing and protecting the reputation of the Company and monitoring progress in achieving the Company's objectives and compliance with its diversity policy; and
- Compliance and Risk Management - overseeing Hills' systems for corporate governance, internal control and risk management.

The Board has delegated to the Managing Director the authority to manage the day to day affairs of Hills, and the authority to control the affairs of Hills in relation to all matters delegated by the Board in the Hills' Delegation of Authority. These delegations are reviewed on an annual basis.

As part of the oversight of management, the Board has established a process of annual performance review and goal planning, whereby each executive is evaluated against a range of criteria, including achievement of strategic and financial goals, safety performance and business excellence. This performance assessment for senior executives was undertaken during the reporting period.

2 Principle 2: Structure the Board to add value

2.1 Board composition

The Board charter states:

- the Board will consist of a majority of Non-Executive independent Directors; and
- the Chairman is a Non-Executive Director appointed by the Board.

the lead independent Director will act in the Chairman's place where the Chairman is unable to act, or it is otherwise not appropriate for the Chairman to act.

The Board seeks to ensure that it has, at any point in time, a board of Directors with an appropriate range of skills, experience, expertise and who have an understanding and competence to deal with current and emerging issues in Hills' business. Hills' succession plans are designed to maintain that appropriate balance of skills, experience, expertise and diversity on the Board.

2.2 Directors' independence

The Board has adopted specific principles in relation to Directors' independence. These state that when determining independence, the Board should consider whether the Director:

- is a substantial shareholder of Hills or an officer of, or otherwise associated directly with, a substantial shareholder of Hills;
- is or has been employed in an executive capacity by Hills or any other Group member, within three years before commencing to serve on the Board;
- within the last three years, has been a principal of a material professional adviser or a material consultant to Hills or any other Group member, or an employee materially associated with the service provided;
- is a material supplier or customer of Hills or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- has a material contractual relationship with Hills or a controlled entity other than as a Director of the Group.

In determining whether a relationship between a Director and Hills is considered to be material, the Board assesses a range of quantitative and qualitative matters including the proportion the transactions represent to both Hills and the Director and the value or strategic importance of the relationship to both Hills and the Director.

The Board regularly assesses the independence of each Director in light of the interests disclosed by them. Each Director is required to provide the Board with all relevant information for this purpose.

2.3 Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office, relationships affecting their independence and their independent status are set out in the Directors' report under the heading "Information on Directors". At the date of signing the Directors' report, there is one executive Director and six Non-Executive Directors, five of whom have no relationships adversely affecting independence and so are deemed independent under the principles set out above.

2.4 Non-Executive Directors

The six Non-Executive Directors meet regularly during the year, prior to the commencement of scheduled Board meetings without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings are shared with the Managing Director.

2 Principle 2: Structure the Board to add value (continued)

2.5 Chairman and Managing Director Independence

The Chairman, Ms Jennifer Hill-Ling is not considered to be an independent Director. Hills considers this departure from ASXCGC Recommendation 2.2 appropriate however given:

- The Hill-Ling family's interest in Hills; and
- Ms Hill-Ling's considerable experience within Hills.

The Chairman is responsible for leadership and effective performance of the Board. The Chairman is independent of the role of the Managing Director of Hills.

2.6 Term of office

Hills' constitution specifies that all Non-Executive Directors must retire from office no later than the third annual general meeting (AGM) following their last election. A Director may stand for re-election.

2.7 Induction

The induction provided to new Directors and senior managers enables them to actively participate in Board decision-making as soon as possible. It ensures that they have a full understanding of Hills' financial position, strategies, operations and risk management policies. It also explains the respective rights, duties, responsibilities and roles of the Board and senior executives and Hills' meeting arrangements.

2.8 Commitment

The Board held 16 Board meetings and an additional corporate strategy workshop during the year. Five of these meetings were held at operational sites of Hills, some of which included a tour of the facilities and presentations from local management as part of the meeting.

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2012 and the number of meetings attended by each Director is disclosed on page 10 of the Annual Report.

2.9 Conflicts of interest

Directors whose business dealings may conflict with the interests of Hills declare those interests in such dealings and take no part in decisions relating to them.

2.10 Independent professional advice

Board Committees have the appropriate resources to discharge their duties and responsibilities, including authority to engage counsel, accountants or other experts as it considers appropriate. Following consultation with the Chairman, Directors are entitled to seek independent professional advice at Hills' expense. Generally, this advice is available to all Directors.

2.11 Performance assessment

The Board undertakes a regular annual assessment of its collective performance and that of individual Directors and its Committees. The Board performance evaluation process is conducted by way of questionnaires to effectively review:

- the performance of the Board and each of its Committees against the requirements of their respective charters; and
- the individual performance of the Chairman and each Director.

Management are invited to contribute to this appraisal process. The questionnaires are completed by each Director. The reports on the Board and Committee performance are provided to all Directors and discussed by the Board. The report on the Chairman's performance is discussed with the Chairman of the Nomination Committee. The Chairman of the Board meets with each Director to discuss his / her individual assessment. From time to time the Board engages external consultants to assist in this process.

The results and action plans are documented and agreed. An assessment carried out in accordance with this process was undertaken during November 2011.

Descriptions of the process for performance assessment for the Board and senior executives are available on the Company's website.

2 Principle 2: Structure the Board to add value (continued)

2.12 Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Currently the Board has three standing committees; these are the Nomination, Remuneration and Audit, Risk and Compliance Committees.

The committees operate principally in a review or advisory capacity. Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

Membership of the committees is based on Directors' qualifications, skills and experience. Each standing committee is comprised of:

- only Non-Executive Directors; and
- at least three members, the majority of whom are independent.

All Directors are entitled to attend meetings of the standing committees. Minutes of committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

Ad hoc committees are convened to consider matters of special importance or to exercise the delegated authority of the Board.

2.13 Nomination committee

The Nomination Committee consists of the following Non-Executive Directors (a majority of whom are independent):

I Elliot (Chairman)
J H Hill-Ling
P Stancliffe

Details of these Directors' attendance at Nomination Committee meetings are set out in the Directors' report on page 10 of the Annual Report.

The Nomination Committee operates in accordance with its charter. The main responsibilities of the Committee are to assist and make recommendations to the Board on:

- Director selection and appointment practices;
- Board composition and tenure;
- succession planning for the Board; and
- Hills' diversity obligations.

When a new Director is to be appointed, the Committee reviews the range of skills, diversity, experience and expertise of candidates and prepares a short-list of candidates for consideration by the Board. Advice is sought from independent search consultants as required.

The Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of Hills. The Board's nomination of existing Directors for reappointment is not automatic and is contingent on their past performance, the requirements of Hills and shareholder approval. The Board recognises the advantages of Board renewal and succession planning.

Notices of meetings for the election of Directors comply with the Principles and Recommendations.

New Directors are provided with a letter of appointment setting out Hills' expectations, their responsibilities, rights and the terms and conditions of their employment. All new Directors participate in a comprehensive, formal induction program which covers the operation of the Board, its committees and financial, strategic, operations and risk management issues.

3 Principle 3: Promote ethical and responsible decision making

3.1 Code of Conduct

Hills has developed a Code of Conduct (the Code) which has been approved by the Board and applies to all Hills' Directors, officers, employees, contractors, consultants and associates (collectively Hills' Employees). The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in Hills' integrity and to take into account legal obligations and reasonable expectations of Hills' stakeholders.

In summary, the Code sets out the standards of behaviour Hills expects from Hills' Employees and informs them of their responsibilities to Hills' shareholders, customers, employees, suppliers and the broader community.

From time to time, the Internal Auditor may review and will report directly to the Audit, Risk and Compliance Committee on compliance with the Code and the trading policy. Upon receiving a complaint, the Chairman and Managing Director will determine who will investigate the matter. An internal report on the outcome of any such investigation, including recommendations, will be prepared by the authorised officer. These matters are reported to the Audit, Risk and Compliance Committee.

3.2 Security Trading Policy

Hills has adopted a securities trading policy which sets out Hills' policy regarding buying and selling Hills' shares and complying with the law on insider trading. The policy applies to all Hills' Directors, officers and employees within the Hills Group and provides that where a person possesses inside information relating to Hills' shares, that person must not deal in Hills' shares, procure another person to deal in the shares or pass the inside information to another person.

The policy also restricts Directors and senior employees from dealing in shares during "blackout periods" commencing at midnight on 31 December for the Hills' half yearly results and midnight on 30 June for the Hills' annual results and continuing until midnight (Adelaide time) on the next ASX trading day after the day on which the Hills' results are released to the ASX.

The policy is aligned to recent amendments to the ASX Listing Rules on trading policies.

3.3 Whistleblower Protection Policy

Hills encourages its Directors, employees and contractors to report conduct that is dishonest, fraudulent, corrupt or illegal, endangers health and safety, is a suspected breach of Hills' Code of Conduct or any Hills' policy. Hills has adopted a whistleblower protection policy to ensure concerns regarding unacceptable conduct can be raised on a confidential basis without fear of reprisal, dismissal or discriminatory conduct.

3.4 Diversity Policy

Hills is committed to creating a diverse workplace that is fair and flexible, promotes personal and professional growth and enables employees to enhance their contribution to Hills by drawing from their different backgrounds, beliefs and experiences. Hills' Diversity Policy can be found on our website.

The policy provides guidance for the development and implementation of relevant plans, programs and initiatives to recognise and promote gender workforce diversity across all areas of Hills' businesses.

The Hills' Board is responsible for setting specific gender diversity objectives and a range of metrics designed to measure the achievement of those objectives.

The Board and the Nomination Committee are responsible for assessing, on an annual basis, the objectives and the progress of the achievement against Hills' gender diversity objectives. In accordance with this policy and the ASX Corporate Governance Principles, the Board has established the following objectives in relation to gender diversity. The aim is to achieve these objectives over the coming 2 years as positions become vacant and appropriately skilled candidates are available.

3 Principle 3: Promote ethical and responsible decision making (continued)

	Objective by 2014		Actual as at 2012	
	Number	%	Number	%
Number of women in senior management positions	95	20	66	15.4
Number of women in sales and marketing positions	191	25	122	21.6
Number of women employees in the whole organisation	552	20	459	19.6 *

*The ongoing review and restructure of our organisation has resulted in the achievement of the percentage target for the overall number of women in our organisation in 12 months. This has been achieved because of improved retention and attraction of women combined with the reduction of employee numbers across the Group.

A discussion of the gender diversity framework to support the diversity initiatives is set out in the Sustainability section of the Annual Report.

4 Principle 4: Safeguard integrity in financial reporting

4.1 Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee consists of the following Non-Executive Directors:

F Bennett (Chairman)
 M Campbell
 D Spence

Details of these Directors' qualifications and attendance at Audit, Risk and Compliance Committee meetings are set out in the Directors' report on pages 6 - 10 of the Annual Report.

The majority of members of the Audit, Risk and Compliance Committee are financially literate and have an appropriate understanding of the industries in which the Group operates.

The Audit, Risk and Compliance Committee operates in accordance with a charter. The role of the Committee is to assist the Board in:

- Reviewing Hills' financial statements and financial information distributed externally;
- Monitoring the internal control framework, procedures that are designed to ensure compliance with statutory responsibilities and other external reporting requirements, the activities of internal audit, and the adequacy of Hills' risk management framework; and
- Liaison with the external auditor.

In fulfilling its responsibilities, the Committee:

- Receives regular reports from management, the internal auditor and the external auditors;
- Regularly meets with the internal auditor and external auditors;
- Reviews the processes the Managing Director and CFO have in place to support their certifications to the Board;
- Reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- Meets separately with the external auditors and the internal auditor at least once a year without the presence of management; and
- Provides the internal auditor and external auditors with a clear line of direct communication at any time to either the Chairman of the Audit, Risk and Compliance Committee or the Chairman of the Board.

The Audit and Compliance Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

4.2 External auditors

Hills' policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. KPMG is Hills' current external auditor. It is KPMG's policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors' report and in note 36 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Board and the Audit, Risk and Compliance Committee.

The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

5 Principle 5: Make timely and balanced disclosures

5.1 Continuous disclosure

Hills has a Communications and Market Disclosure Policy which is consistent with the continuous disclosure obligations under the Corporations Act and ASX Listing Rules. The Policy focuses on continuous disclosure of any information concerning Hills that a reasonable person would expect to have a material effect on the price of Hills' securities.

The Company Secretary, in conjunction with the Managing Director is responsible for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and has primary responsibility for communications with the ASX.

Directors and staff are required to ensure that they are familiar with the Policy and report material information to the Company Secretary or Managing Director to allow a view to be formed as to whether the information requires disclosure. In addition, the Board is actively and regularly involved in discussing disclosure obligations in respect of all major matters that comes before it.

Specific processes adopted by Hills in relation to its continuous disclosure responsibilities are as follows:

- All information released to the ASX is posted on the Investor Information section of the Hills' website as soon as practicable after release;
- Communications with the media, share analysts and the market generally in relation to Hills' activities will normally be undertaken only by the Chairman, the Managing Director or the Chief Financial Officer;
- No media release of a material nature is to be issued unless it has first been sent to the ASX; and
- Hills will ensure that when conducting analyst and investor briefings, no price-sensitive information will be disclosed at these briefings unless previously or simultaneously released to the market; questions relating to price-sensitive information not previously disclosed will not be answered and any inadvertent disclosure of price and sensitive information will be immediately released to the ASX and disclosed on the Hills' website.

6 Principle 6: Respect the rights of shareholders

6.1 Shareholder communication

The rights of Hills' shareholders are set out in the constitution, legal and regulatory requirements. Hills' Communication and Market Disclosure Policy allows shareholders to effectively exercise these rights through the provision of high quality, relevant and useful information in a timely manner. In this regard shareholders are informed about strategic objectives and major developments through:

- ASX announcements;
- Company publications including the Annual Report;
- the Annual General Meeting;
- The Company website (www.hillsholdings.com.au); and
- The website of Hills' share register, Computershare Investor Services Pty Limited, including a facility for shareholders to amend their particulars.

Hills encourages shareholders to utilise its website as their primary tool to access shareholder information and disclosures.

6 Principle 6: Respect the rights of shareholders (continued)

Shareholders are encouraged to make their views known to the Company and to directly raise matters of concern. Shareholders are encouraged to attend the Annual General Meeting and use this opportunity to ask questions. The Annual General Meeting remains the main opportunity for shareholders to comment and to question Hills' Board and management.

The external auditor attends the Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

7 Principle 7: Recognise and manage risk

7.1 Recognise and manage risk

The Board, through the Audit, Risk and Compliance Committee, is responsible for ensuring there are adequate policies in relation to risk management compliance and internal control systems. In summary, Hills' policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of Hills' business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues. Internal audit carries out regular systematic monitoring of control activities and reports to both relevant business unit management and the Audit, Risk and Compliance Committee.

Hills' Risk Committee consisting of the Managing Director, senior executives from the executive management group and a Non-Executive Director assists and makes recommendations to the Audit, Risk and Compliance Committee on the design of the risk management framework, the manner in which it is implemented, the measures used to assess the framework's effectiveness and through continuous improvement, how the framework can be enhanced. Risks are considered under strategic, operational, financial and compliance categories at the enterprise and at the business level.

The Board and the Audit, Risk and Compliance Committee have received reports from the Risk Committee and management as to the effectiveness of the Hills' management of material risks that may impede meeting business objectives.

During the year the Board:

- Reviewed the framework and methodology for risk identification and the degree of risk Hills is willing to accept; and
- Considered Hills' strategic objectives in the context of the enterprise risks.

7.2 Corporate reporting

In complying with ASXCGC Recommendation 7.3, the Board has received a declaration from the Managing Director and the Chief Financial Officer, that:

- Hills' financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Group and are in accordance with relevant accounting standards; and
- That the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that Hills' risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

8 Principle 8: Remunerate fairly and responsibly

8.1 Remuneration Committee

The Remuneration Committee consists of the following Non-Executive Directors (a majority of whom are independent):

J H Hill-Ling (Chairman)
I Elliot
D Spence

Details of these Directors' attendance at Remuneration Committee meetings are set out in the Directors' report on page 10 of the Annual Report.

8 Principle 8: Remunerate fairly and responsibly (continued)

The current Chairman of the Committee, Ms Jennifer Hill-Ling is not considered to be an independent Director. Hills considers this departure from ASXCGC Recommendation 8.2 appropriate, given the role the Chairman of the Board has in developing and leading the implementation of the remuneration strategy and framework for Hills.

The Remuneration Committee operates in accordance with its charter. The Remuneration Committee is responsible for developing and making recommendations to the Board on the remuneration framework for the Chairman, the Board Committees, Non-Executive Directors, Hills' remuneration and incentive policies and practices for the Managing Director, direct reports to the Managing Director and other senior executives.

Further information on Directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' report under the heading "Remuneration report" on pages 11 to 24. In accordance with Hills' Securities Trading Policy, participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements. Details of this policy can be found on Hills' website.

9 ASX Corporate Governance Council Recommendations Checklist

This table cross-references the Principles and Recommendations to the relevant sections of the Corporate Governance Statement and the Remuneration Report.

	ASX Corporate Governance Council Recommendations	Reference	Comply
Principle 1:	Lay solid foundations for management and oversight		
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	1.1, 1.2	Y
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Remuneration report	Y
1.3	Companies should provide the information indicated in Guide to Reporting on Principle 1.	1.1, 1.2, Remuneration report	Y
Principle 2:	Structure the Board to add value		
2.1	A majority of the Board should be independent Directors.	2.1, 2.2	Y
2.2	The chairman should be an independent Director.	2.5	N
2.3	The roles of chairman and chief executive officer should not be exercised by the same individual.	2.5	Y
2.4	The Board should establish a Nomination Committee.	2.12	Y
2.5	Companies should disclose the process for evaluating the performance of the Board, its Committees and individual Directors.	2.10	Y
2.6	Companies should provide the information indicated in Guide to Reporting on Principle 2.	2.1, 2.2, 2.3, 2.5, 2.9, 2.10, 2.11, 2.12	Y

	ASX Corporate Governance Council Recommendations	Reference	Comply
Principle 3:	Promote ethical and responsible decision-making		
3.1	Companies should establish a code of conduct and disclose the code or summary of the code as to: <ul style="list-style-type: none"> • the practices necessary to maintain confidence in the company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	3.1	Y
3.2	Companies should establish a policy concerning diversity and disclose the policy or summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.	3.4	Y
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	3.4	Y
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive proportions and women on the Board.	3.4	Y
3.5	Companies should provide the information indicated in Guide to Reporting on Principle 3.	3.1, 3.4	Y
Principle 4:	Safeguard integrity in financial reporting		
4.1	The Board should establish an Audit Committee.	4.1	Y
4.2	The Audit Committee should be structured so that it: <ul style="list-style-type: none"> • consists only of non-executive Directors; • consists of a majority of independent Directors; • is chaired by an independent chairman, who is not chairman of the Board; • has at least three members. 	4.1	Y
4.3	The Audit Committee should have a formal charter.	4.1	Y
4.4	Companies should provide the information indicated in Guide to Reporting on principle 4.	4.1	Y
Principle 5:	Make timely and balanced disclosure		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	5.1	Y
5.2	Companies should provide the information indicated in Guide to Reporting on Principle 5.	5.1	Y

	ASX Corporate Governance Council Recommendations	Reference	Comply
Principle 6: Respect the rights of shareholders			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	6.1	Y
6.2	Companies should provide the information indicated in Guide to Reporting on Principle 6.	6.1	Y
Principle 7: Recognise and manage risk			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	7.1	Y
7.2	The Board should require management to design and implement the risk management and internal control systems to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	7.1	Y
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	7.2	Y
7.4	Companies should provide the information indicated in Guide to Reporting on Principle 7.	7.1, 7.2	Y
Principle 8: Remunerate fairly and responsibly			
8.1	The Board should establish a remuneration committee.	8.1	Y
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> • consists of a majority of independent Directors; • is chaired by an independent chairman; and • has at least three members. 	8.1	N
8.3	Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of the executive Directors and senior executives.	Remuneration report	Y
8.4	Companies should provide the information indicated in Guide to Reporting on Principle 8.	8.1, Remuneration report	Y

Hills Holdings Limited ABN 35 007 573 417

Annual report - 30 June 2012

Contents

	Page
Financial statements	
Consolidated income statement	42
Consolidated statement of comprehensive income	43
Consolidated statement of financial position	44
Consolidated statement of changes in equity	45
Consolidated statement of cash flows	46
Notes to the consolidated financial statements	47
Directors' declaration	113
Independent auditor's report to the members	114

These financial statements are the consolidated financial statements of the consolidated entity consisting of Hills Holdings Limited and its subsidiaries. The financial statements are presented in the Australian currency.

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

Hills Holdings Limited
159 Port Road
Hindmarsh SA 5007

A description of the nature of the Group's operations and its principal activities is included in the review of operations and activities within the Directors' report on pages 2 - 5, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 31 August 2012. The Directors have the power to amend and reissue the financial statements.

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

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

Hills Holdings Limited
Consolidated income statement
For the year ended 30 June 2012

		Consolidated	
	Notes	2012 \$'000	2011 \$'000
Revenue from continuing operations	3	1,082,272	1,095,845
Other income	4	<u>2,614</u>	<u>1,156</u>
		1,084,886	1,097,001
Expenses excluding finance costs	5	<u>(1,040,184)</u>	<u>(1,171,464)</u>
Profit / (loss) before net finance expense and income tax		<u>44,702</u>	<u>(74,463)</u>
Finance income		810	1,974
Finance expenses		<u>(6,563)</u>	<u>(6,000)</u>
Net finance expense	5	<u>(5,753)</u>	<u>(4,026)</u>
Profit / (loss) before income tax		38,949	(78,489)
Income tax (expense) / benefit	6	<u>(10,127)</u>	<u>5,373</u>
Profit / (loss) for the year		<u>28,822</u>	<u>(73,116)</u>
Profit / (loss) is attributable to:			
Owners of Hills Holdings Limited		26,021	(74,955)
Non-controlling interests		<u>2,801</u>	<u>1,839</u>
Profit / (loss) for the year		<u>28,822</u>	<u>(73,116)</u>
		Cents	Cents
Earnings per share for profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	24	10.5	(30.2)
Diluted earnings per share	24	10.5	(30.2)

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

Hills Holdings Limited
Consolidated statement of comprehensive income
For the year ended 30 June 2012

		Consolidated	
	Notes	2012	2011
		\$'000	\$'000
Profit / (loss) for the year		28,822	(73,116)
Other comprehensive income / (loss)			
(Loss) / gain on revaluation of land and buildings	22	(917)	13,480
Changes in the fair value of cash flow hedges	22	(2,295)	(1,484)
Exchange differences on translation of foreign operations	22	191	(749)
Income tax relating to components of other comprehensive income	6	792	(3,512)
Other comprehensive (loss) / income for the year, net of tax		(2,229)	7,735
Total comprehensive income / (loss) for the year		26,593	(65,381)
Total comprehensive income / (loss) for the year is attributable to:			
Owners of Hills Holdings Limited		23,792	(67,686)
Non-controlling interests		2,801	2,305
Total comprehensive income / (loss) for the year		26,593	(65,381)

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

Hills Holdings Limited
Consolidated statement of financial position
As at 30 June 2012

	Notes	Consolidated	
		2012 \$'000	2011 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	7	24,638	7,158
Trade and other receivables	8	177,482	184,042
Inventories	9	165,287	167,999
Current tax receivables	6(f)	5,692	-
		<u>373,099</u>	<u>359,199</u>
Assets classified as held for sale	15	-	2,702
Total current assets		<u>373,099</u>	<u>361,901</u>
Non-current assets			
Investments	10	2	2
Property, plant and equipment	11	188,027	197,040
Deferred tax assets	12	21,905	31,485
Intangible assets	13	65,444	49,213
		<u>275,378</u>	<u>277,740</u>
Total non-current assets		<u>275,378</u>	<u>277,740</u>
Total assets		<u>648,477</u>	<u>639,641</u>
LIABILITIES			
Current liabilities			
Trade and other payables	16	87,725	98,671
Borrowings	17	1,333	6,833
Current tax liabilities	6(f)	-	242
Provisions	18	33,239	30,963
Derivative financial instruments	14	606	520
		<u>122,903</u>	<u>137,229</u>
Total current liabilities		<u>122,903</u>	<u>137,229</u>
Non-current liabilities			
Borrowings	19	115,677	91,479
Provisions	20	4,828	6,570
Derivative financial instruments	14	4,106	2,056
		<u>124,611</u>	<u>100,105</u>
Total non-current liabilities		<u>124,611</u>	<u>100,105</u>
Total liabilities		<u>247,514</u>	<u>237,334</u>
Net assets		<u>400,963</u>	<u>402,307</u>
EQUITY			
Contributed equity	21	303,805	306,790
Reserves	22	43,203	57,245
Retained earnings		35,896	21,504
Capital and reserves attributable to owners of Hills Holdings Limited		<u>382,904</u>	<u>385,539</u>
Non-controlling interests		<u>18,059</u>	<u>16,768</u>
Total equity		<u>400,963</u>	<u>402,307</u>

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

Hills Holdings Limited
Consolidated statement of changes in equity
For the year ended 30 June 2012

Consolidated	Notes	Attributable to owners of Hills Holdings Limited			Non-controlling interests \$'000	Total equity \$'000	
		Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000			Total \$'000
Balance at 1 July 2010		306,595	47,899	126,107	480,601	15,898	496,499
Total comprehensive income for the year		-	7,269	(74,955)	(67,686)	2,305	(65,381)
Transactions with owners in their capacity as owners:							
Contributions of equity net of transaction costs and tax		195	-	-	195	-	195
Non-controlling interests in share capital issued by subsidiary		-	-	-	-	750	750
Change in non-controlling interests on acquisition of subsidiary	33	-	(332)	-	(332)	(811)	(1,143)
Dividends provided for or paid	23	-	-	(27,273)	(27,273)	-	(27,273)
Dividends paid to non-controlling interests in subsidiaries		-	-	-	-	(1,379)	(1,379)
Employee share options - value of employee services	22	-	34	-	34	5	39
Transfer to reserves		-	2,375	(2,375)	-	-	-
Balance at 30 June 2011		306,790	57,245	21,504	385,539	16,768	402,307
Balance at 1 July 2011		306,790	57,245	21,504	385,539	16,768	402,307
Total comprehensive income for the year		-	(2,229)	26,021	23,792	2,801	26,593
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs and tax	21	128	-	-	128	-	128
Buy-back of shares, net of tax	21	(3,113)	-	-	(3,113)	-	(3,113)
Non-controlling interests in share capital issued by subsidiary	22	-	(48)	-	(48)	118	70
Dividends provided for or paid	23	-	-	(23,483)	(23,483)	-	(23,483)
Dividends paid to non-controlling interests in subsidiaries		-	-	-	-	(1,698)	(1,698)
Employee share options - value of employee services	22	-	89	-	89	70	159
Transfer from reserves		-	(11,854)	11,854	-	-	-
Balance at 30 June 2012		303,805	43,203	35,896	382,904	18,059	400,963

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

Hills Holdings Limited
Consolidated statement of cash flows
For the year ended 30 June 2012

	Consolidated	
	2012	2011
Notes	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	1,196,701	1,204,824
Payments to suppliers and employees (inclusive of goods and services tax)	<u>(1,132,491)</u>	<u>(1,170,304)</u>
Cash generated from operations	64,210	34,520
Interest received	520	798
Interest paid	(6,426)	(5,960)
Income taxes paid	<u>(5,635)</u>	<u>(16,378)</u>
Net cash inflow from operating activities	32	12,980
Cash flows from investing activities		
Payment for acquisition of business operations, net of cash acquired	31	-
Payments to increase ownership interest in subsidiary	-	(1,143)
Payments for property, plant and equipment	11	(26,823)
Payments for software development and other intangible assets	13	(293)
Proceeds from sale of property, plant and equipment	1,830	832
Proceeds from sale of assets classified as held for sale	2,702	-
Rent received	<u>787</u>	<u>860</u>
Net cash (outflow) from investing activities	(25,639)	(26,567)
Cash flows from financing activities		
Payments for shares bought back	21	-
Proceeds from borrowings	25,000	-
Repayment of borrowings	-	(15,000)
Loans received from / (paid to) other entities	(1,066)	1,976
Proceeds from share issues to non-controlling interests in subsidiaries	-	300
Dividends paid to Company's shareholders	23	(27,273)
Dividends paid to non-controlling interests in subsidiaries	<u>(1,698)</u>	<u>(1,379)</u>
Net cash (outflow) from financing activities	(4,360)	(41,376)
Net increase / (decrease) in cash and cash equivalents	22,670	(54,963)
Cash and cash equivalents at the beginning of the financial year	646	55,531
Effects of exchange rate changes on cash and cash equivalents	<u>(11)</u>	<u>78</u>
Cash and cash equivalents at the end of the financial year	7	646

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 financial statements are for Hills Holdings Limited (the "Company" or "parent entity") and its subsidiaries (together referred to as the "Group" or "Consolidated Entity" and individually as "Group Entities").

(a) Basis of preparation

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

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

(i) Compliance with IFRS

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

(ii) New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(iii) Early adoption of standards

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

(iv) Historical cost convention

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

- financial instruments at fair value through profit or loss are measured at fair value; and
- land and buildings are measured at fair value.

The methods used to measure fair values are discussed further in notes 1(o), 1(p), 11 and 30.

(v) Critical accounting estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 31 - business combinations
- Note 13 - measurement of the recoverable amounts of cash-generating units containing goodwill
- Note 25 - measurement of share-based payments
- Notes 18, 20 and 28 - provisions and contingencies
- Note 14 - derivative financial instruments
- Notes 11 and 13 - measurement of the useful lives of property, plant and equipment and intangible assets

(vi) Changes to presentation

During the current year the comparative information on inventory impairment losses was reallocated between impairment losses and inventory at cost to match the allocations made in the current financial year.

1 Summary of significant accounting policies (continued)

(b) Parent entity financial information

The financial information for the parent entity, Hills Holdings Limited, disclosed in note 34 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 2012 and the results of all subsidiaries for the year then ended.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

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

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

(ii) Changes in ownership interests

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

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

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(d) Segment reporting

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

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

1 Summary of significant accounting policies (continued)

(e) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

(f) Revenue recognition

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

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

(ii) Services

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

(iii) Rental income

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

(iv) Dividends

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

1 Summary of significant accounting policies (continued)

(g) Income tax

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

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

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

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

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

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

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

(i) Tax consolidation legislation

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

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

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 6.

(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 29). 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.

1 Summary of significant accounting policies (continued)

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

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

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

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

(j) Impairment of non-financial 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 each reporting date.

(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.

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.

1 Summary of significant accounting policies (continued)

(l) Trade receivables (continued)

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

(m) Inventories

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

(n) Investments and other financial assets

Classification

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

(i) Financial assets at fair value through profit or loss

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in current assets - trade and other receivables (note 8) in the Consolidated statement of financial position.

Recognition and derecognition

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

Measurement

Loans and receivables are measured at amortised cost using the effective interest method.

Details on how the fair value of financial instruments is determined are disclosed in note 1(o).

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.

1 Summary of significant accounting policies (continued)

(o) Derivatives and hedging activities

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

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 14. Movements in the hedging reserve in shareholders' equity are shown in note 22. 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.

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 fixed assets) 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 fixed assets.

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.

1 Summary of significant accounting policies (continued)

(p) Property, plant and equipment

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

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

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

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

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

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

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

	2012	2011
- Buildings	0.75%	0.75%
- Plant and equipment	5.00% to 40.00%	5.00% to 40.00%
- Leasehold improvements	20.00% to 66.67%	20.00% to 66.67%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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 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 asset realisation reserve. Amounts transferred to the asset realisation reserve may subsequently be transferred to retained earnings.

(q) Intangible assets

(i) Goodwill

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

1 Summary of significant accounting policies (continued)

(q) Intangible assets (continued)

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.

(ii) Patents and Trademarks

Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents and trademarks over their estimated useful lives, which vary from 10 to 20 years.

(iii) IT development and software

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

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

(iv) Research and development

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

(v) Fair values

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

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.

1 Summary of significant accounting policies (continued)

(s) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are paid in accordance with the Group's terms of trade.

(t) Borrowings

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

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

(u) Provisions

Provisions 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. 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 each 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) Wages and salaries, and annual leave

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) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

(iii) Retirement benefit obligations

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

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

1 Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Long Term Incentive Share Plan (previously the Executive Share Option Plan) and the Employee Share Plan. Information relating to these schemes is set out in note 25.

Long Term Incentive Plan

The Long Term Incentive Share Plan (in previous years the Executive Share Option Plan) allows Group executives to acquire shares of the Company.

The fair value of performance rights / options granted under the Long term Incentive Share Plan / Executive Share Option 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 / options granted, measured at the grant date, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

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

Non-market vesting conditions are included in assumptions about the number of rights / options 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 / options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. No change is made for changes in market conditions.

Employee Share Bonus Plan

The Employee Share Bonus Plan allows Group employees to acquire shares of the Company. Up to \$1,000 per year in shares is allotted to employees who have served a qualifying period. The fair value of shares issued is recognised as an employee expense with a corresponding increase in equity. The fair value of the shares granted is measured using a present value method based upon independent advice.

(v) Profit-sharing and bonus plans

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

(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 entity reacquires its own equity instruments, for example as the result of a share buy-back, 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.

1 Summary of significant accounting policies (continued)

(y) 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.

(z) 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.

(aa) 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.

(ab) Rounding of amounts

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

(ac) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2015)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities and is likely to affect the Group's accounting for its financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. The Group has not yet decided when to adopt AASB 9 and has not yet determined the potential effect of the standard.

1 Summary of significant accounting policies (continued)

(ac) New accounting standards and interpretations (continued)

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

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

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

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

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

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

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

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the consolidated financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

(iv) Revised AASB 119 *Employee Benefits*, AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* and AASB 2011-11 *Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. Since the Group does not have any defined benefit obligations, the amendments will not have any impact on the Group's financial statements. The Group intends to adopt the new standard from 1 July 2013.

1 Summary of significant accounting policies (continued)

(ac) New accounting standards and interpretations (continued)

(v) AASB 2011-9 *Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the consolidated statement of financial position or the profit or loss in the current period. The Group intends to adopt the new standard from 1 July 2012.

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

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

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

2 Segment information

(a) Description of segments

The Group has four reportable segments, based upon reports reviewed by the Group Managing Director that are used to make strategic decisions. The following summary describes the operations in each of the Group's reportable segments:

Electronics & Communications

Includes electronic security systems, closed circuit television systems, home and commercial automation and control systems, professional audio products, consumer electronic equipment, fibre optic transmission solutions, communications related products and services, domestic and commercial antennas, master antenna television systems, communications antennas, amplifiers, and subscription TV installation services.

Lifestyle & Sustainability

Includes indoor and outdoor clothes driers, ladders, ironing boards, laundry trolleys, security doors, garden sprayers, rehabilitation and mobility products, water tanks and other rotationally moulded products, solar hot water products, and plumbing products.

Building & Industrial

Comprises the Fielders Steel Roofing and Orrcon Steel businesses and includes structural, precision and large steel tubing, steel doorframes, roll formed metal building products, carports and shed systems.

Korvest

Comprises the business of Korvest Ltd and includes electrical and cable support systems, pipe support systems, walkway systems, steel fabrication, associated metal treatment and galvanising services.

The Group principally considers the businesses from a products and services perspective. The Electronics & Communications division is managed separately by a divisional CEO and the Lifestyle & Sustainability division is managed by the Chief Operating Officer.

The Electronics & Communications businesses meet the aggregation criteria of the Standard because of similarities of products, markets, distribution and regulatory environments.

The Lifestyle & Sustainability division comprises a number of business units, which individually would not comprise reportable segments, however, rather than reporting these businesses as "other operations" they are reported as Lifestyle & Sustainability as this reflects the manner in which the Group manages these businesses.

For management reporting purposes, the Building & Industrial division comprises the operations of Orrcon, Fielders and Korvest. The Group considers these businesses to be separate operating segments. However, for the purposes of disclosure under *AASB 8 Operating Segments*, the Orrcon and Fielders businesses meet the aggregation criteria of the Standard because of similarities of products, markets, distribution and regulatory environments. However, Korvest does not meet the aggregation criteria, and as a consequence is reported separately.

Although the Group's divisions are managed on a products and services basis they operate in two main geographical areas:

Australia

Comprises manufacturing facilities and sales offices and customers in all states and territories.

Overseas

Comprises sales offices and customers in New Zealand and customers in Europe, Middle East, South Africa and North America.

2 Segment information (continued)

(b) Segment information provided to the Group Managing Director

2012	Electronics & Communications	Lifestyle & Sustainability	Building & Industrial	Korvest Ltd	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Total segment revenue	357,830	138,810	537,439	72,323	1,106,402
Inter-segment revenue	(20,719)	(695)	(3,401)	(102)	(24,917)
Revenue from external customers	337,111	138,115	534,038	72,221	1,081,485
Segment EBIT	29,401	10,473	(2,791)	7,925	45,008
Depreciation and amortisation	3,727	3,871	10,095	1,542	19,235
Total segment assets	148,777	106,107	255,170	40,813	550,867
Total assets includes: Additions to non-current assets (other than financial assets and deferred tax)	5,418	2,549	8,263	1,801	18,031
Total segment liabilities	44,595	16,263	46,860	7,062	114,780
2011	Electronics & Communications	Lifestyle & Sustainability	Building & Industrial	Korvest Ltd	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Total segment revenue	340,675	161,440	553,242	67,383	1,122,740
Inter-segment revenue	(23,296)	(680)	(3,622)	(157)	(27,755)
Revenue from external customers	317,379	160,760	549,620	67,226	1,094,985
Segment EBIT	28,027	9,697	(2,402)	5,556	40,878
Depreciation and amortisation	3,339	4,995	11,769	1,278	21,381
Total segment assets	142,608	107,815	277,649	42,434	570,506
Total assets includes: Additions to non-current assets (other than financial assets and deferred tax)	5,175	4,396	11,215	2,040	22,826
Total segment liabilities	37,846	19,900	57,047	8,974	123,767

(c) Notes to, and forming part of, the segment information

(i) Accounting policies

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. Segment assets do not include income taxes.

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on a "cost plus" basis and are eliminated on consolidation.

2 Segment information (continued)

(ii) Segment revenue

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

	Consolidated	
	2012 \$'000	2011 \$'000
Total segment revenue	1,106,402	1,122,740
Intersegment eliminations	(24,917)	(27,755)
Other revenue	787	860
Total revenue from continuing operations (note 3)	<u>1,082,272</u>	<u>1,095,845</u>

The Group is domiciled in Australia. The amount of its revenue from external customers in Australia is \$1,039.758 million (2011: \$1,050.138 million), and the total of revenue from external customers in other countries is \$41.727 million (2011: \$44.847 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.

(iii) Segment EBIT

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

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

	Consolidated	
	2012 \$'000	2011 \$'000
Segment EBIT	45,008	40,878
Interest revenue	520	798
Interest expense	(6,426)	(5,960)
Fair value profit on interest rate swaps and forward exchange contracts	153	1,136
Goodwill impairment	-	(66,182)
Impairment of other assets	-	(43,694)
Closure costs	-	(4,963)
Other	(306)	(502)
Profit / (loss) before income tax	<u>38,949</u>	<u>(78,489)</u>

(iv) Segment assets

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

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

	Consolidated	
	2012 \$'000	2011 \$'000
Segment assets	550,867	570,506
Cash	24,638	7,158
Current tax receivables	5,692	-
Deferred tax assets	21,905	31,485
Investments	2	2
Corporate assets	45,373	30,490
Total assets as per the Consolidated statement of financial position	<u>648,477</u>	<u>639,641</u>

2 Segment information (continued)

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is \$246.620 million (2011: \$238.629 million), and the total of these non-current assets located in other countries is \$6.851 million (2011: \$7.624 million). Segment assets are allocated to countries based on where the assets are located.

(v) Segment liabilities

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

The Group's borrowings and derivative financial instruments are not considered to be segment liabilities but rather managed by the treasury function.

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

	Consolidated	
	2012	2011
	\$'000	\$'000
Segment liabilities	114,780	123,767
Tax liabilities (including GST payable)	5,116	4,916
Borrowings	117,010	98,312
Derivative financial instruments	4,712	2,576
Corporate liabilities	<u>5,896</u>	<u>7,763</u>
Total liabilities as per the Consolidated statement of financial position	<u>247,514</u>	<u>237,334</u>

3 Revenue

	Consolidated	
	2012	2011
	\$'000	\$'000
Revenue from continuing operations		
<i>Sales revenue</i>		
Sale of goods	1,014,121	1,033,517
Services	<u>67,364</u>	<u>61,468</u>
	<u>1,081,485</u>	<u>1,094,985</u>
<i>Other revenue</i>		
Rents and sub-lease rentals	<u>787</u>	<u>860</u>
	<u>1,082,272</u>	<u>1,095,845</u>

4 Other income

	Consolidated	
	2012	2011
	\$'000	\$'000
Net gain on disposal of property, plant and equipment	560	106
Other income	<u>2,054</u>	<u>1,050</u>
	<u>2,614</u>	<u>1,156</u>

5 Expenses

	Consolidated	
	2012 \$'000	2011 \$'000
Classification of expenses by function		
Cost of goods sold	689,764	714,556
Cost of services provided	60,591	54,331
Other expenses from ordinary activities:		
Distribution expenses	90,372	89,409
Sales and marketing expenses	136,713	135,022
Administration expenses	62,744	63,307
Other expenses	-	114,839
	<u>1,040,184</u>	<u>1,171,464</u>
Profit / (loss) before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Buildings	1,911	1,769
Plant and equipment	18,008	20,112
Total depreciation	<u>19,919</u>	<u>21,881</u>
<i>Amortisation</i>		
Patents and trademarks	1,141	1,158
Development costs	40	40
Total amortisation	<u>1,181</u>	<u>1,198</u>
Total depreciation and amortisation	<u>21,100</u>	<u>23,079</u>
<i>Personnel expenses</i>		
Wages and salaries	186,459	192,454
Defined contribution superannuation expense	16,266	16,238
Other employee benefits expense	16,742	17,292
Equity-settled share-based payment transactions	264	479
	<u>219,731</u>	<u>226,463</u>
<i>Finance expenses</i>		
Interest and finance charges paid/payable	6,426	5,960
Ineffective portion of changes in fair value of cash flow hedges	137	40
	<u>6,563</u>	<u>6,000</u>
<i>Finance income</i>		
Interest income	(520)	(798)
Fair value gains on derivatives	(290)	(1,176)
	<u>(810)</u>	<u>(1,974)</u>
Net finance costs expensed	<u>5,753</u>	<u>4,026</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	27,240	25,191
Net foreign exchange losses	35	29
Research and development	123	446

5 Expenses (continued)

	Consolidated	
	2012 \$'000	2011 \$'000
<i>Impairment of financial and other assets</i>		
Plant and equipment	-	37,210
Inventories	(2,030)	3,783
Receivables	2,069	1,635
Intangible assets	-	66,182
	-	66,182
 Profit / (loss) after tax for the prior year included the following items that were significant because of their nature or size:		
(a) Impairment of Orrcon plant and equipment (recognised within Other expenses)	-	34,622
Less: Applicable income tax benefit	-	(10,387)
	-	24,235
(b) Impairment of Orrcon inventory (recognised within Other expenses)	-	7,324
Less: Applicable income tax benefit	-	(2,197)
	-	5,127
(c) Impairment of Orrcon goodwill (recognised within Other expenses)	-	49,590
Less: Applicable income tax benefit	-	-
	-	49,590
(d) Impairment of Team Poly plant and equipment (recognised within Other expenses)	-	1,748
Less: Applicable income tax benefit	-	(524)
	-	1,224
(e) Impairment of Team Poly goodwill (recognised within Other expenses)	-	16,592
Less: Applicable income tax benefit	-	-
	-	16,592
(f) Closure costs (recognised within Other Expenses)	-	4,963
Less: Applicable income tax benefit	-	(1,489)
	-	3,474
Total cash generating unit impairment and closure costs	-	114,839
Less: Applicable income tax benefit	-	(14,597)
	-	100,242

Commentary on impairment recorded in year ended 30 June 2011:

As a result of poor trading conditions during the previous financial year at Orrcon and Team Poly and the decision to close Orrcon's Unanderra operations, the Group undertook a comprehensive review of the carrying values of the assets including the goodwill of Orrcon and Team Poly. This resulted in total non-cash impairment of assets and goodwill of \$109.876 million, comprising impairment to Orrcon inventory of \$7.324 million, impairment in Orrcon plant and equipment of \$34.622 million, impairment in Orrcon goodwill of \$49.590 million, impairment in Team Poly goodwill of \$16.592 million and impairment in Team Poly assets relating to decommissioned assets of \$1.748 million. The after tax impact of these impairments was \$96.768 million in the previous financial year.

5 Expenses (continued)

Additionally, costs associated with the closure totalling \$4.963 million were recognised in the financial statements at 30 June 2011. The after tax impact of these costs was \$3.474 million in the financial year ended 30 June 2011.

Further details on the impairment of Orrcon plant and equipment and Team Poly plant and equipment in the previous financial year are disclosed in note 11.

Further details on the impairment of Orrcon goodwill and Team Poly goodwill in the previous financial year and the update for the current financial year are disclosed in note 13.

6 Income tax expense

	Consolidated	
	2012	2011
	\$'000	\$'000
(a) Income tax expense / (benefit):		
Current Tax	1,946	8,389
Deferred tax	10,433	(11,406)
Adjustments for current and deferred tax of prior periods	<u>(2,252)</u>	<u>(2,356)</u>
	<u>10,127</u>	<u>(5,373)</u>
Deferred income tax expense / (revenue) included in income tax expense comprises:		
Decrease / (increase) in deferred tax assets (note 12)	<u>10,433</u>	<u>(11,406)</u>
	<u>10,433</u>	<u>(11,406)</u>
(b) Numerical reconciliation of income tax expense / (benefit) to prima facie tax payable		
Profit / (loss) from operations before income tax expense / (benefit)	<u>38,949</u>	<u>(78,489)</u>
Tax at the Australian tax rate of 30% (2011: 30%)	<u>11,685</u>	<u>(23,547)</u>
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Goodwill impairment	-	19,855
Impairment of other assets	-	252
Non deductible expenses	646	249
Research and development allowances	(30)	(90)
Difference in overseas tax rates	(53)	28
Adjustments for current tax of prior periods	(2,252)	(2,356)
Tax losses not recognised	<u>131</u>	<u>236</u>
Total income tax expense / (benefit)	<u>10,127</u>	<u>(5,373)</u>
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Net deferred tax - debited / (credited) directly to equity (note 12)	<u>(61)</u>	<u>180</u>

6 Income tax expense (continued)

Consolidated	
2012	2011
\$'000	\$'000

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

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

(Losses) / gains on revaluation of land and buildings (note 12)	(103)	3,957
Cash flow hedges (notes 12, 22)	(689)	(445)
	(792)	3,512

(e) Tax losses

Unused capital tax losses for which no deferred tax asset has been recognised	41,320	41,320
Potential tax benefit @ 30%	12,396	12,396

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

Revenue tax losses for which no deferred tax asset has been recognised total \$4.929 million (2011: \$2.417 million). The potential deferred tax asset not recognised totals \$1.479 million (2011: \$0.725 million).

Revenue tax losses for which a deferred tax asset has been recognised total \$2.868 million (2011: \$nil).

(f) Current tax assets and liabilities

The current tax asset for the Group of \$5.692 million (2011: liability of \$0.242 million) represents the amount of income taxes receivable (2011: payable) in respect of current and prior financial periods.

(g) Tax consolidation legislation

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

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

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

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

7 Current assets - Cash and cash equivalents

	Consolidated	
	2012 \$'000	2011 \$'000
Cash at bank and in hand	12,983	6,396
Deposits at call	<u>11,655</u>	<u>762</u>
	<u>24,638</u>	<u>7,158</u>

(a) Reconciliation to cash at the end of the year

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

	Consolidated	
	2012 \$'000	2011 \$'000
Balances as above	24,638	7,158
Bank overdrafts (note 17)	(1,333)	(1,512)
Borrowings - at call (note 17)	<u>-</u>	<u>(5,000)</u>
Balances per Consolidated statement of cash flows	<u>23,305</u>	<u>646</u>

(b) Risk exposure

The Group's exposure to interest rate risk is discussed in note 30. 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 the fair value.

8 Current assets - Trade and other receivables

	Consolidated	
	2012 \$'000	2011 \$'000
Net trade receivables		
Trade receivables	176,309	180,445
Provision for impairment of receivables	<u>(6,770)</u>	<u>(9,180)</u>
	<u>169,539</u>	<u>171,265</u>
Net other receivables		
Other receivables	5,667	10,888
Prepayments	<u>2,276</u>	<u>1,889</u>
	<u>177,482</u>	<u>184,042</u>

8 Current assets - Trade and other receivables (continued)

(a) Impaired trade receivables

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

	Consolidated	
	2012 \$'000	2011 \$'000
Not past due	87,839	96,409
Past due 0 - 30 days	59,346	55,728
Past due 31 - 90 days	16,737	18,673
Past due more than 90 days	<u>12,387</u>	<u>9,635</u>
	<u>176,309</u>	<u>180,445</u>

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

	Consolidated	
	2012 \$'000	2011 \$'000
At 1 July	(9,180)	(9,418)
Provision for impairment recognised during the year	(2,069)	(1,635)
Receivables written off during the year as uncollectible	<u>4,479</u>	<u>1,873</u>
At 30 June	<u>(6,770)</u>	<u>(9,180)</u>

Based on 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 \$6.770 million (2011: \$9.180 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 30.

(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 pledged. Refer to note 30 for more information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

9 Current assets - Inventories

	Consolidated	
	2012	2011
	\$'000	\$'000
Raw materials		
- at cost and net realisable value	39,815	46,524
- impairment losses	(574)	(881)
	39,241	45,643
Work in progress		
- at cost and net realisable value	6,064	6,577
- impairment losses	-	-
	6,064	6,577
Finished goods		
- at cost and net realisable value	129,188	133,277
- impairment losses	(9,206)	(17,498)
	119,982	115,779
	165,287	167,999

10 Non-current assets - Investments

	Consolidated	
	2012	2011
	\$'000	\$'000
Other listed securities		
Equity securities	2	2
	2	2

These financial assets are carried at cost.

11 Non-current assets - Property, plant and equipment

Consolidated	Land - Fair Value \$'000	Buildings – Fair Value \$'000	Plant and equipment – Cost & Fair Value \$'000	Total \$'000
At 1 July 2010				
Cost or fair value	44,294	54,072	258,663	357,029
Accumulated depreciation and impairment	-	(4,465)	(132,906)	(137,371)
Net book amount	44,294	49,607	125,757	219,658
Year ended 30 June 2011				
Opening net book amount	44,294	49,607	125,757	219,658
Exchange differences	(201)	(172)	(29)	(402)
Revaluation to fair value	10,333	3,147	-	13,480
Additions	-	1,663	25,160	26,823
Disposals	-	(20)	(706)	(726)
Transfers to assets held-for-sale	-	-	(2,702)	(2,702)
Depreciation charge	-	(1,769)	(20,112)	(21,881)
Impairment charge recognised in profit or loss	-	-	(37,210)	(37,210)
Closing net book amount	54,426	52,456	90,158	197,040
At 30 June 2011				
Cost or fair value	54,426	57,838	230,248	342,512
Accumulated depreciation and impairment	-	(5,382)	(140,090)	(145,472)
Net book amount	54,426	52,456	90,158	197,040
Year ended 30 June 2012				
Opening net book amount	54,426	52,456	90,158	197,040
Exchange differences	60	39	9	108
Revaluation to fair value	(548)	(369)	-	(917)
Acquisition through business combinations	-	-	104	104
Additions	-	2,138	10,743	12,881
Disposals	-	(464)	(806)	(1,270)
Depreciation charge	-	(1,911)	(18,008)	(19,919)
Closing net book amount	53,938	51,889	82,200	188,027
At 30 June 2012				
Cost or fair value	53,938	58,741	234,205	346,884
Accumulated depreciation and impairment	-	(6,852)	(152,005)	(158,857)
Net book amount	53,938	51,889	82,200	188,027

(a) Assets in the course of construction

The carrying amounts of the assets disclosed above include the following expenditure recognised in relation to property, plant and equipment which is in the course of construction:

	Consolidated	
	2012 \$'000	2011 \$'000
Property, furniture, fittings, plant and equipment	6,878	15,732
Total assets in the course of construction	6,878	15,732

11 Non-current assets - Property, plant and equipment (continued)

(b) Valuations of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. Fair value at 30 June 2012 for land and buildings in Australia is based on a Directors' valuation of the assets at that date. This is based upon an independent valuation of all freehold land and buildings dated May 2011 and updated based upon the Directors' assessments of changes in market conditions affecting the components of those valuations. The 2011 valuations were based on independent assessments by a member of the Australian Property Institute as at 31 May 2011. Fair value at 30 June 2012 for land and buildings in New Zealand is based upon an independent valuation. In the current and previous financial year the revaluation (deficit) / surplus net of applicable deferred income taxes was (debited) / credited to the asset revaluation reserve in shareholders' equity.

(c) Impairment loss recorded in year ended 30 June 2011

The impairment loss in the previous financial year relates to certain plant and equipment within the Orrcon and Team Poly cash generating units and to property, plant and equipment in the course of construction. The whole amount was included in profit or loss, as there was no amount previously included in the asset revaluation reserve relating to the relevant assets.

The recoverable amount of certain plant and equipment within the Orrcon cash generating unit (Unanderra plant and equipment) was determined on a fair value less cost to sell basis, using an independent valuation of these assets. Based on this assessment the recoverable amount of this plant and equipment was determined to be \$34.622 million lower than its carrying amount.

The recoverable amount of certain decommissioned plant and equipment within the Team Poly cash generating unit was determined on a fair value less cost to sell basis. Based on this assessment the recoverable amount of this plant and equipment was determined to be \$1.748 million lower than its carrying amount.

The recoverable amount of the asset in the course of construction was determined by reference to a report provided by an independent valuer as fair value less costs to sell based on an active market. Based on this assessment the recoverable amount was determined to be \$0.840 million lower than its carrying amount.

12 Non-current assets - Deferred tax assets

Consolidated
2012 2011
\$'000 \$'000

The balance comprises temporary differences attributable to:

Property, plant and equipment	(2,136)	5,368
Inventories	2,086	4,869
Employee benefits	10,965	10,737
Receivables	2,030	2,811
Loans and borrowings	1,265	1,218
Provisions	1,455	2,201
Other accruals	1,100	2,293
Derivative financial instruments	1,384	1,303
Tax losses	2,868	-
Other items	888	685
	21,905	31,485
Net deferred tax assets		

Movements - Consolidated	Balance at 1 July 2010 \$'000	Recognised in profit or loss \$'000	Recognised in other compre- hensive income \$'000	Recognised in equity \$'000	Balance at 30 June 2011 \$'000
Property, plant and equipment	(1,921)	11,246	(3,957)	-	5,368
Inventories	4,614	255	-	-	4,869
Employee benefits	10,865	(128)	-	-	10,737
Receivables	2,543	268	-	-	2,811
Loans and borrowings	1,218	-	-	-	1,218
Provisions	2,238	(37)	-	-	2,201
Other accruals	1,576	717	-	-	2,293
Derivative financial instruments	1,233	(375)	445	-	1,303
Other items	1,405	(540)	-	(180)	685
	23,771	11,406	(3,512)	(180)	31,485
Movements - Consolidated	Balance at 1 July 2011 \$'000	Recognised in profit or loss \$'000	Recognised in other compre- hensive income \$'000	Recognised in equity \$'000	Balance at 30 June 2012 \$'000
Property, plant and equipment	5,368	(7,607)	103	-	(2,136)
Inventories	4,869	(2,783)	-	-	2,086
Employee benefits	10,737	228	-	-	10,965
Receivables	2,811	(781)	-	-	2,030
Loans and borrowings	1,218	47	-	-	1,265
Provisions	2,201	(746)	-	-	1,455
Other accruals	2,293	(1,193)	-	-	1,100
Derivative financial instruments	1,303	(608)	689	-	1,384
Tax loss carry-forwards recognised	-	2,868	-	-	2,868
Other items	685	142	-	61	888
	31,485	(10,433)	792	61	21,905

13 Non-current assets - Intangible assets

Consolidated	Development costs \$'000	Goodwill \$'000	Patents, trademarks and other rights \$'000	Software * \$'000	Total \$'000
At 1 July 2010					
Cost	200	122,461	5,957	2,813	131,431
Accumulated amortisation and impairment	(40)	(11,043)	(1,235)	-	(12,318)
Net book amount	160	111,418	4,722	2,813	119,113
Year ended 30 June 2011					
Opening net book amount	160	111,418	4,722	2,813	119,113
Additions	-	-	293	-	293
Impairment charge **	-	(66,182)	-	-	(66,182)
Amortisation charge **	(40)	-	(1,158)	-	(1,198)
Closing net book amount	120	45,236	3,857	2,813	52,026
At 30 June 2011					
Cost	200	122,461	6,250	-	128,911
Accumulated amortisation and impairment	(80)	(77,225)	(2,393)	-	(79,698)
Net book amount	120	45,236	3,857	-	49,213
Year ended 30 June 2012					
Opening net book amount	120	45,236	3,857	-	49,213
Additions	1,100	-	4	14,962	16,066
Acquisitions through business combinations	-	1,316	57	-	1,373
Amortisation charge **	(40)	-	(1,141)	-	(1,181)
Derecognised on disposal	-	-	(27)	-	(27)
Closing net book amount	1,180	46,552	2,750	14,962	65,444
At 30 June 2012					
Cost	1,300	121,858	6,267	14,962	144,387
Accumulated amortisation and impairment	(120)	(75,306)	(3,517)	-	(78,943)
Net book amount	1,180	46,552	2,750	14,962	65,444

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

** The amortisation and impairment charges are recognised in expenses in the Consolidated income statement.

(a) Impairment tests for goodwill

During the year ended 30 June 2012 the Group determined that there is no impairment of any of its cash generating units (CGU) containing goodwill or intangible assets with indefinite useful lives. During the previous financial year the Group determined that there was no impairment of any of its cash generating units (CGU) containing goodwill or intangible assets with indefinite useful lives, except for goodwill relating to the Orrcon and Team Poly CGUs.

13 Non-current assets - Intangible assets (continued)

For the purpose of impairment testing, goodwill is allocated to the Group's operating units that represent the lowest level within the Group at which the goodwill is monitored for internal management purposes (cash generating units).

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

Cash generating unit	Building and Industrial \$'000	Electronics and Communications \$'000	Lifestyle and Sustainability \$'000	Total \$'000
2012				
Hills SVL	-	17,553	-	17,553
Hills Healthcare	-	-	11,839	11,839
LW Gemmell	-	-	3,324	3,324
Fielders	7,789	-	-	7,789
Orrcon	-	-	-	-
Opticomm	-	754	-	754
UHS	-	5,293	-	5,293
Team Poly	-	-	-	-
	7,789	23,600	15,163	46,552
2011				
Hills SVL	-	16,237	-	16,237
Hills Healthcare	-	-	11,839	11,839
LW Gemmell	-	-	3,324	3,324
Fielders	7,789	-	-	7,789
Orrcon	-	-	-	-
Opticomm	-	754	-	754
UHS	-	5,293	-	5,293
Team Poly	-	-	-	-
	7,789	22,284	15,163	45,236

The cash generating unit impairment tests are based on value in use calculations which were determined by discounting the future cash flows generated from the continuing use of the unit and were based on the following key assumptions:

- Cash flow projections have been based on the coming year's budget and Board agreed forecasts with key assumptions for future years relating to sales, gross margins and expenses. Sales are based on management assessments with allowances for future growth based upon assessments of growth rates in the markets to which the assets belong. Gross margins and expense levels are based on past experience.
- A terminal value has been determined at the end of the five year strategic plan using a growth rate of 2.5% - 3.0% (2011: 2.5% - 3.0%), which is no greater than the long term average growth rate for the market to which the asset is dedicated.
- A pre-tax discount rate of between 13.7% and 14.91% (2011: 13.19% and 14.91%), determined by reference to the Group's weighted average cost of capital and specific industry factors was applied in determining the recoverable amount of the units.

(b) Impact of possible changes in key assumptions for the current year assessment

With the exception of the Fielders, Orrcon and Team Poly cash generating units, a reasonably possible change in the key assumptions above would not have resulted in the carrying amount of assets allocated to the cash generating unit exceeding the recoverable amount for any of the Group's cash generating units.

13 Non-current assets - Intangible assets (continued)

The Fielders cash generating unit's recoverable amount (which exceeds its carrying value in use by approximately \$11.080 million (2011: \$16.535 million) is sensitive to a possible change in EBIT. The business is forecasting for EBIT to return to 2005 levels by the end of the five year model period. A decrease in forecast annual EBIT across the five year forecast period of 12% (2011: 15%) could result in an impairment.

The Orrcon cash generating unit's recoverable amount (which exceeds its carrying value in use by approximately \$14.974 million (2011: impairment of \$49.590 million recorded) is sensitive to a possible change in EBIT. A decrease in forecast annual EBIT across the five year forecast period of 13% (2011: nil) could result in an impairment.

The Team Poly cash generating unit's recoverable amount (which exceeds its carrying value in use by approximately \$9.563 million (2011: impairment of \$16.592 million recorded) is sensitive to a possible change in EBIT. A decrease in forecast annual EBIT across the five year forecast period of 34% (2011: nil) could result in an impairment.

(c) Impairment charge recorded in the year ended 30 June 2011

In the previous financial year, the recoverable amount of the Orrcon cash generating unit was estimated based on its value in use for the Orrcon business. The estimate of value in use was determined using a pre tax discount rate of 13.19%. Cash flow projections were based on Board agreed forecasts with key assumptions for future years relating to sales, gross margins and expenses. Sales were based on management assessments with allowances for future growth based upon assessments of growth rates in the markets to which the assets belong. Gross margins and expense levels were based on past experience. The Orrcon cash generating unit recoverable amount is sensitive to a possible change in EBIT. The Orrcon business was forecasting annualised EBIT growth of 2% - 3% per annum over the five year model period. A terminal value was determined at the end of the five year strategic plan using a growth rate of 2.5%, which was no greater than the long term average growth rate for the market to which the assets are dedicated. Based on this assessment assets were impaired by \$49.590 million and in accordance with Accounting Standards the impairment was allocated against goodwill.

In the previous financial year, the recoverable amount of the Team Poly cash generating unit was estimated based on its value in use for the Team Poly business. The estimate of value in use was determined using a pre tax discount rate of 14.91%. Cash flow projections were based on Board agreed forecasts with key assumptions for future years relating to sales, gross margins and expenses. Sales were based on management assessments with allowances for future growth based upon assessments of growth rates in the markets to which the assets belong. Gross margins and expense levels were based on past experience. The Team Poly cash generating unit recoverable amount is sensitive to a possible change in EBIT. The Team Poly business was forecasting average annualised EBIT growth of 3% - 3.5% per annum over the five year model period. A terminal value was determined at the end of the five year strategic plan using a growth rate of 3%, which was no greater than the long term average growth rate for the market to which the assets were dedicated. Based on this assessment assets were impaired by \$16.592 million and in accordance with Accounting Standards the impairment was allocated against goodwill.

14 Derivative financial instruments

	Consolidated	
	2012 \$'000	2011 \$'000
Current liabilities		
Interest rate swaps - cash flow hedges (i)	-	8
Forward foreign exchange contracts - cash flow hedges (ii)	507	410
Forward foreign exchange contracts - held for trading (iii)	<u>99</u>	<u>102</u>
Total current derivative financial instrument liabilities	<u>606</u>	<u>520</u>
Non-current liabilities		
Interest rate swaps - cash flow hedges (i)	<u>4,106</u>	<u>2,056</u>
Total non-current derivative financial instrument liabilities	<u>4,106</u>	<u>2,056</u>
Total derivative financial instrument liabilities	<u>(4,712)</u>	<u>(2,576)</u>

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 30).

(i) Interest rate swap contracts - cash flow hedges

Bank loans of the Group at 30 June 2012 bear an average variable interest rate of 3.8% (2011: 5.0%). 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 2012 cover approximately 57% (2011: 83%) of the loan principal outstanding and are taken out with terms of between three and seven years. The fixed interest rates average 6.0% (2011: 6.2%).

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 2012 a loss of \$137,000 was reclassified into profit or loss (2011: \$40,000) and included in finance cost due to hedge ineffectiveness in the current or prior year and a gain of \$290,000 was reclassified into profit or loss (2011: \$1,176,000) to offset net interest expense paid.

(ii) Forward foreign 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 2012 a gain of \$3,000 was recognised in profit or loss for the ineffective portion of these hedging contracts (2011: \$8,000).

(iii) Forward foreign exchange contracts and interest rate swaps - 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 30 for details. However, they are accounted for as held for trading.

14 Derivative financial instruments (continued)

(a) 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 30. 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.

15 Non-current assets classified as held for sale

	Consolidated	
	2012 \$'000	2011 \$'000
Plant and equipment	-	2,702

In the previous financial year and as part of the restructuring of Orrcon, in May 2011 the Directors decided to close certain operations and assets previously used in manufacturing were classified as held for sale. An active programme of marketing and selling the assets was initiated and the asset was sold during the current financial year. The assets were presented within total assets of the Building and Industrial segment in note 2. The losses on measuring the assets at fair value less costs to sell were presented within "impairment of property, plant and equipment" in note 5 and disclosed within note 11.

16 Current liabilities - Trade and other payables

	Consolidated	
	2012 \$'000	2011 \$'000
Trade payables	51,129	54,162
Other trade payables and accrued expenses	36,596	44,509
	87,725	98,671

(a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 30.

17 Current liabilities - Borrowings

	Consolidated	
	2012 \$'000	2011 \$'000
Bank overdrafts **	1,333	1,512
Short term money market	-	5,000
Other loans	-	321
Total current borrowings	1,333	6,833

** Further information on the bank overdrafts and bills payable are set out in note 19.

(a) Security and fair value disclosures

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 19.

(b) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 30.

18 Current liabilities - Provisions

	Consolidated	
	2012 \$'000	2011 \$'000
Employee benefits	29,160	27,046
Outstanding claims	3,538	3,339
Other provisions	541	578
	33,239	30,963

Information on non-current provisions is set out in note 20.

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.

Other provisions

Other provisions comprise mainly provisions for site restoration and safety upgrades.

(a) Movements in provisions

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

	Provision for dividend \$'000	Outstanding claims \$'000	Other provisions \$'000	Total \$'000
2012				
Current & non-current				
Carrying amount at start of year	-	3,339	911	4,250
Charged/(credited) to profit or loss / retained earnings				
- additional provisions recognised	23,483	199	367	24,049
Amounts used during the year	(23,483)	-	(84)	(23,567)
Carrying amount at end of year	-	3,538	1,194	4,732
2011				
Current & non-current				
Carrying amount at start of year	-	5,701	692	6,393
Charged/(credited) to profit or loss / retained earnings				
- additional provisions recognised	27,273	-	269	27,542
- reductions from remeasurement or settlement without cost	-	(2,362)	-	(2,362)
Amounts used during the year	(27,273)	-	(50)	(27,323)
Carrying amount at end of year	-	3,339	911	4,250

19 Non-current liabilities - Borrowings

	Consolidated	
	2012 \$'000	2011 \$'000
Unsecured		
Bills payable	115,000	90,000
Other loans	556	1,458
Loans from non-controlling interests	<u>121</u>	<u>21</u>
Total unsecured non-current borrowings	<u>115,677</u>	<u>91,479</u>
Total non-current borrowings	<u>115,677</u>	<u>91,479</u>

(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 \$1,000,000 (2011: \$1,000,000), the Company's New Zealand subsidiary has a separate bank overdraft facility of \$1,762,000 (2011: \$1,737,000) and a partially owned subsidiary has a bank overdraft facility of \$500,000 (2011: \$1,700,000).

Unsecured bank loans

The Group has a number of multi option facilities with its bankers. Generally, these facilities can be utilised for a combination of bank loans, guarantees and standby letters of credit. Bank loans are denominated in both AUD and NZD. The bank loans are Commercial Bills and Fully Drawn Advances with interest charged at prevailing market rates. The Company and its wholly owned subsidiaries have provided an interlocking guarantee and indemnity to its financiers for these facilities. The bank loan facility of a controlled entity is secured by a guarantee from the Company, to the extent of its ownership interest. An assessment of the contractual maturities of financial liabilities is provided in note 30.

Subsequent to the end of the financial year, the Group has renewed its banking facilities jointly with Commonwealth Bank, National Australia Bank and Westpac Banking Corporation through a Common Deed. The total facility is \$196 million, comprising Tranche A \$81 million, expiring in 3 years (16 August 2015), Tranche B \$69 million, expiring in 4 years (16 August 2016), and Tranche C \$46 million, expiring in 3 years (16 August 2015), but subject to annual review. Tranches A and B comprise bank loans and Tranche C comprises bank guarantees, letters of credit and cash advances.

Standby letter of credit

The standby letter of credit facility forms part of the multi option 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.

19 Non-current liabilities - Borrowings (continued)

(b) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the reporting date:

	Consolidated	
	2012 \$'000	2011 \$'000
Facilities		
Bank overdraft	3,262	4,437
Unsecured bank loans	185,031	207,088
Standby letters of credit	19,955	10,869
Short term money market	5,000	5,000
	<u>213,248</u>	<u>227,394</u>
Used at balance date		
Bank overdrafts	1,333	1,512
Unsecured bank loans	115,000	90,000
Standby letters of credit	19,955	10,439
Short term money market	-	5,000
	<u>136,288</u>	<u>106,951</u>
Unused at balance date		
Bank overdrafts	1,929	2,925
Unsecured bank loans	70,031	117,088
Standby letters of credit	-	430
Short term money market	5,000	-
	<u>76,960</u>	<u>120,443</u>

(c) Fair value

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

Consolidated	2012		2011	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
<i>Non-traded financial liabilities</i>				
Bank overdrafts	1,333	1,333	1,512	1,512
Short term money market	-	-	5,000	5,000
Bills payable	115,000	115,000	90,000	90,000
Other loans	677	677	1,800	1,800
	<u>117,010</u>	<u>117,010</u>	<u>98,312</u>	<u>98,312</u>

(d) Risk exposures

Information about the Group's exposure to interest rate and foreign exchange risk is provided in note 30.

For an analysis of the sensitivity of borrowings to interest rate risk and foreign exchange risk refer to note 30.

20 Non-current liabilities - Provisions

	Consolidated	
	2012 \$'000	2011 \$'000
Employee benefits	4,175	6,237
Other provisions	<u>653</u>	<u>333</u>
	<u>4,828</u>	<u>6,570</u>

Movements in provisions are set out in note 18.

21 Contributed equity

	2012 Shares '000	2011 Shares '000	2012 \$'000	2011 \$'000
(a) Share capital				
Ordinary shares - fully paid	<u>246,017</u>	<u>248,636</u>	<u>303,805</u>	<u>306,790</u>

(b) Movements in ordinary share capital:

Date	Details	Number of shares '000	\$'000
1 July 2010	Opening balance	247,697	306,595
	Issued under the Employee Share Bonus Plan	939	375
	Movement in deferred tax asset relating to transaction costs arising on share issue	<u>-</u>	<u>(180)</u>
30 June 2011	Balance	248,636	306,790
1 July 2011	Opening balance	248,636	306,790
	Issued under the Employee Share Bonus Plan	283	67
	Share buy-back	(2,902)	(3,113)
	Movement in deferred tax asset relating to transaction costs arising on share issue	<u>-</u>	<u>61</u>
30 June 2012	Balance	<u>246,017</u>	<u>303,805</u>

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

(d) Dividend investment plan and share investment plan

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

21 Contributed equity (continued)

(e) Employee share scheme

The Company made two issues of ordinary shares under the Employee Share Bonus Plan during the year. All employees meeting the service criteria were eligible to participate in the issue. The shares are issued at market value.

(f) Executive shares, performance rights and options

Information relating to the Long Term Incentive Share Plan and the Executive Share Plan, including details of performance rights and options issued, exercised and lapsed during the financial year and performance rights and options outstanding at the end of the financial year, is set out in note 25.

(g) Share buy-back

On 23 August 2011 the Company announced an on-market buy-back giving the Company the option to acquire up to 10% of its issued ordinary shares. The buy-back was for ongoing capital management purposes and was to take place over the twelve months from the date of the announcement. Between that date and 16 December 2011 the Company bought back 2.902 million shares at an average price of \$1.07 per share, with prices ranging from \$0.98 to \$1.155 per share. The total cost of \$3.113 million, including transaction costs of \$12,000, was deducted from shareholders equity. The Directors subsequently resolved to suspend the share buy-back. On 13 August 2012 the Directors resolved to extend the on-market buy-back by a further twelve months.

(h) Capital risk management

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

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

The Group monitors capital on the basis of the gearing ratio in conjunction with its review of the Group's banking covenants. This ratio is calculated as net debt divided by 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 2012, the Group's strategy, which was unchanged from 2011, was to maintain a target gearing ratio less than 45%. The gearing ratios at 30 June 2012 and 30 June 2011 were as follows:

	Consolidated	
	2012	2011
	\$'000	\$'000
Total borrowings	117,010	98,312
Less: cash and cash equivalents	(24,638)	(7,158)
Net debt	92,372	91,154
Total equity	400,963	402,307
Gearing ratio	23.0%	22.7%

22 Reserves

	Consolidated	
	2012 \$'000	2011 \$'000
(a) Other reserves		
Asset revaluation reserve	46,227	47,041
Hedging reserve - cash flow hedges	(2,910)	(1,304)
Asset realisation reserve	-	11,854
Foreign currency translation reserve	(2,021)	(2,212)
Equity compensation reserve	736	647
Non-controlling interests acquisition reserve	1,171	1,219
	43,203	57,245
Movements:		
<i>Asset revaluation reserve</i>		
Balance 1 July	47,041	35,634
Revaluation - gross	(917)	12,814
Deferred tax	103	(3,757)
Transfer from retained earnings	-	2,350
Balance 30 June	46,227	47,041
<i>Hedging reserve - cash flow hedges</i>		
Balance 1 July	(1,304)	(265)
Revaluation - gross	(2,295)	(1,484)
Deferred tax	689	445
Balance 30 June	(2,910)	(1,304)
<i>Asset Realisation Reserve</i>		
Balance 1 July	11,854	12,019
Transfer (to) retained earnings	(11,854)	(165)
Balance 30 June	-	11,854
<i>Foreign currency translation reserve</i>		
Balance 1 July	(2,212)	(1,653)
Currency translation differences arising during the year	191	(722)
Disposal of foreign subsidiary	-	(27)
Transfer from retained earnings	-	190
Balance 30 June	(2,021)	(2,212)
<i>Equity Compensation Reserve</i>		
Balance 1 July	647	613
Long Term Incentive Share Plan and Executive Share Option Plan expense	89	34
Balance 30 June	736	647

22 Reserves (continued)

	Consolidated	
	2012 \$'000	2011 \$'000
<i>Non-Controlling Interests Acquisition Reserve</i>		
Balance 1 July	1,219	1,551
Adjustment to non-controlling interest upon change in Group shareholding	<u>(48)</u>	<u>(332)</u>
Balance 30 June	<u>1,171</u>	<u>1,219</u>

(b) Nature and purpose of other reserves

(i) Asset revaluation reserve

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

(ii) 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) Asset realisation reserve

Where a revalued asset is sold, that portion of the asset revaluation reserve that relates to that asset is transferred to the asset realisation reserve upon settlement. Amounts transferred to the asset realisation reserve may subsequently be transferred to retained earnings. During the financial year the Board resolved to transfer the balance of the asset realisation reserve to retained earnings.

(iv) 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.

(v) 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.

(vi) 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.

23 Dividends

	Consolidated	
	2012 \$'000	2011 \$'000
Final ordinary dividend for the year ended 30 June 2011 of 4.5 cents (year ended 30 June 2010: 5.5 cents) per fully paid share paid on 26 September 2011 (Year ended 30 June 2010: 27 September 2010) Fully franked based on tax paid @ 30%	11,190	13,623
Interim ordinary dividend for the year ended 30 June 2012 of 5.0 cents (2011: 5.5 cents) per fully paid share paid on 30 March 2012 (2011: 21 March 2011) Fully franked based on tax paid @ 30%	<u>12,293</u>	<u>13,650</u>
Total dividends provided for or paid	<u>23,483</u>	<u>27,273</u>

(a) Dividends and share reinvestment plan

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

Consolidated	
2012 \$'000	2011 \$'000

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

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a final dividend of 5.0 cents per fully paid ordinary share (2011: 4.5 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 26 September 2012 out of retained profits at 30 June 2012, but not recognised as a liability at year end, is

<u>12,301</u>	<u>11,189</u>
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(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2012 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2013.

Consolidated	
2012 \$'000	2011 \$'000

Franking credits available for subsequent financial years based on a tax rate of 30% (2011: 30%)

<u>17,405</u>	<u>32,713</u>
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The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

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

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

The impact on the franking account of the dividend recommended by the Directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of \$5.272 million (2011: \$4.795 million).

24 Earnings per share

	Consolidated	
	2012 Cents	2011 Cents
(a) Basic earnings per share		
From profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company	10.5	(30.2)
From profit from continuing operations before CGU impairment and closure costs attributable to the ordinary equity holders of the Company	10.5	10.2
(b) Diluted earnings per share		
From profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company	10.5	(30.2)
From profit before CGU impairment and closure costs attributable to the ordinary equity holders of the Company	10.5	10.2
(c) Reconciliations of earnings used in calculating earnings per share		
	Consolidated	
	2012 \$'000	2011 \$'000
<i>Basic earnings per share</i>		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	26,021	(74,955)
<i>Diluted earnings per share</i>		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	26,021	(74,955)
<i>Basic earnings per share before CGU impairment and closure costs</i>		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	26,021	(74,955)
Adjusted for CGU impairment and closure costs:		
Impairment of Orrcon plant and equipment	-	24,235
Impairment of Orrcon inventory	-	5,127
Impairment of Orrcon goodwill	-	49,590
Impairment of Team Poly plant and equipment	-	1,224
Impairment of Team Poly goodwill	-	16,592
Closure costs	-	3,474
Profit attributable to the ordinary equity holders of the Company before CGU impairment and closure costs used in calculating basic earnings per share	26,021	25,287

24 Earnings per share (continued)

(d) Weighted average number of shares used as the denominator

	Consolidated	
	2012	2011
	Number '000	Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	246,764	248,171
Adjustments for calculation of diluted earnings per share:		
Effect of share options and rights on issue	285	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	247,049	248,171

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

25 Share-based payments

(a) Executive share plan

In 2010 the Group established the Hills Holdings Limited Long Term Incentive Share Plan (LTIP). The Plan is designed to provide long term incentives to eligible senior employees in the Group and entitles 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).

Under the plan, eligible employees are offered performance rights, which enables the employee to acquire one fully paid ordinary share in the Company for no monetary consideration, once the performance rights vest. The conditions attached to the performance rights are measured over the three year period commencing at the beginning of the financial year in which the performance rights are granted. If the performance conditions at the end of the three year period are met, in whole or in part, all or the relevant percentage of the performance rights will vest.

The previous plan, the Executive Share Option Plan (ESOP), which is still operational for employees granted options under that plan, was established in 1997. The share option plan entitled selected senior managers to acquire shares in the Company subject to the successful achievement of performance targets related to improvements in total shareholder returns.

The shares issued pursuant to these options are financed by an interest free loan from the Company repayable within twenty years from the proceeds of dividends declared by the Company. These loans are of a non-recourse nature. For accounting purposes these 20-year loans are treated as part of the options to purchase shares, until the loan is extinguished at which point the shares are recognised.

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

25 Share-based payments (continued)

Grant date / Exercise date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited / lapsed during the year Number	Balance at end of the year Number
Consolidated - 2012							
Current Plan - LTIP							
April 2011 / June 2013	June 2013	\$-	209,740	-	-	(10,811)	198,929
Dec 2011 / June 2014	June 2014	\$-	-	426,421	-	(20,903)	405,518
Previous Plan - ESOP							
Feb 2001 / Jan 2003	Jan 2023	\$2.50	50,000	-	-	-	50,000
Feb 2002 / Jan 2004	Jan 2024	\$2.90	53,000	-	-	-	53,000
Feb 2003 / Jan 2005	Jan 2025	\$3.23	80,000	-	-	-	80,000
Feb 2004 / Jan 2006	Jan 2026	\$3.66	125,000	-	-	(10,000)	115,000
Feb 2005 / Jan 2007	Jan 2027	\$4.16	195,000	-	-	(10,000)	185,000
Feb 2009 / Jan 2012	Jan 2032	\$3.01	415,000	-	-	(415,000)	-
Total			1,127,740	426,421	-	(466,714)	1,087,447
Weighted average exercise price (ESOP)			\$3.33	\$-	\$-	\$3.05	\$3.58
Grant date / Exercise date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited / lapsed during the year Number	Balance at end of the year Number
Consolidated - 2011							
Current Plan - LTIP							
April 2011 / June 2013	June 2013	\$-	-	209,740	-	-	209,740
Previous Plan - ESOP							
Feb 2001 / Jan 2003	Jan 2023	\$2.50	50,000	-	-	-	50,000
Feb 2002 / Jan 2004	Jan 2024	\$2.90	53,000	-	-	-	53,000
Feb 2003 / Jan 2005	Jan 2025	\$3.23	80,000	-	-	-	80,000
Feb 2004 / Jan 2006	Jan 2026	\$3.66	135,000	-	-	(10,000)	125,000
Feb 2005 / Jan 2007	Jan 2027	\$4.16	205,000	-	-	(10,000)	195,000
Feb 2008 / Jan 2011	Jan 2031	\$5.49	445,000	-	-	(445,000)	-
Feb 2009 / Jan 2012	Jan 2032	\$3.01	525,000	-	-	(110,000)	415,000
Total			1,493,000	209,740	-	(575,000)	1,127,740
Weighted average exercise price (ESOP)			\$3.96	\$-	\$-	\$4.96	\$3.33

25 Share-based payments (continued)

Details of options under the ESOP outstanding under accounting standards are as follows:

Grant Date	Options granted Number	Outstanding at balance date AIFRS Number	Outstanding at balance date ASX Number
Consolidated - 2012			
February 2001	195,000	50,000	-
February 2002	245,000	53,000	-
February 2003	280,000	80,000	-
February 2004	370,000	115,000	-
February 2005	460,000	185,000	-
February 2009	535,000	-	-
Total	2,085,000	483,000	-
Consolidated - 2011			
February 2001	195,000	50,000	-
February 2002	245,000	53,000	-
February 2003	280,000	80,000	-
February 2004	370,000	125,000	-
February 2005	460,000	195,000	-
February 2008	625,000	-	-
February 2009	535,000	415,000	415,000
Total	2,710,000	918,000	415,000

Fair value of performance rights granted

The share price used to calculate the number of performance rights issued to the Managing Director and Senior Executives was \$1.1960 (2011: \$2.31237), being the volume weighted average price of the Company's shares for the ten trading days commencing on the day after the announcement of the Company's full year financial results for the year ended 30 June 2011 (2011: year ended 30 June 2010).

The fair value assessed in accordance with AASB 2 *Share Based Payment* at grant date of performance rights granted during the year ended 30 June 2012 was 45.0 cents (2011: 90.5 cents) per performance right. 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, that take into account the exercise price, the expected life and vesting period of the performance right, the share price at grant date and expected price volatility of the underlying shares, the expected dividend yield and the risk free interest rate for the term of the performance rights.

The model inputs for the valuation of performance rights in accordance with AASB 2 *Share Based Payment* for performance rights granted during the year ended 30 June 2012 included:

- (a) exercise price: \$0.00 (2011: \$0.00)
- (b) vesting period: 3 years (2011: 3 years)
- (c) grant date (for Accounting Standards): 19 December 2011 (2011: 28 April 2011)
- (d) expiry date: 30 June 2014 (2011: 30 June 2013)
- (e) share price at grant date: \$1.11 (2011: \$1.53)
- (f) expected price volatility of the Company's shares: 40% (2011: 35%)
- (g) expected dividend yield: 9.0% (2011: 8.7%)
- (h) risk-free interest rate: 3.01% (2011: 5.01%)

25 Share-based payments (continued)

(b) Employee Share Bonus Plan

The Hills Employee Share Bonus Plan provides that eligible employees may receive up to \$1,000 of Hills' ordinary shares for no consideration. Shares are allotted under the plan in two tranches, (usually in March/April and in September/October). Shares issued under the Hills Employee Share Bonus Plan cannot be sold until seven years after issue. The number of Hills Shares each eligible employee receives is the value of the allotment divided by the weighted average price at which the Company's shares are traded on the ASX on the five business days prior to the date of the allotment, rounded down to the nearest whole share, or as otherwise determined by the Directors.

	Consolidated	
	2012	2011
	Number '000	Number '000
Number of shares issued under the plan to participating employees on 30 September 2011 (2011: 22 September 2010)	153	457
Number of shares issued under the plan to participating employees on 26 March 2012 (2011: 29 March 2011)	151	462
	304	919

Each participant was issued with 100 shares in each tranche, (2011: shares worth \$1,000 in total for the financial year) based on the weighted average market price of \$1.09 (March 2012 issue) and \$1.01 (September 2011 issue) (2011: \$1.52 (March 2011 issue) and \$2.34 (September 2010 issue)).

(c) Expenses arising from share-based payment transactions

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

	Consolidated	
	2012	2011
	\$'000	\$'000
Performance rights / options issued under executive Long Term Incentive Plan / Executive share Option Plan	170	53
Shares issued under Employee Share Bonus Plan	119	425
	289	478

26 Key management personnel disclosures

(a) Directors

The following persons were Directors of Hills Holdings Limited during the financial year and unless otherwise indicated were Directors for the entire period:

(i) *Chairman - Non-Executive*

Jennifer Helen Hill-Ling

(ii) *Executive Directors*

Graham Lloyd Twartz (Group Managing Director)

(iii) *Non-Executive Directors*

Fiona Rosalyn Vivienne Bennett

Matthew Arnold Campbell (appointed 19 December 2011)

Ian Elliot

Roger Baden Flynn (retired 4 November 2011)

David Moray Spence

Peter William Stancliffe

There were no changes in Directors since the end of the financial year and prior to the date when the financial report is authorised for issue.

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year and unless otherwise indicated were key management personnel for the entire period:

<i>Name</i>	<i>Position</i>	<i>Employer / Division</i>
S Cope	Chief Executive Officer – Electronics & Communications Division	Hills Holdings Limited / Electronics and Communications
D Lethbridge	Company Secretary (until 1 February 2012)	Hills Holdings Limited
A Kachellek	Managing Director	Korvest Ltd
G Logan	Chief Financial Officer (from 8 August 2011)	Hills Holdings Limited
M McKinstry	Chief Operating Officer	Hills Holdings Limited
A Muir	Chief Financial Officer (until 7 July 2011)	Hills Holdings Limited
R Rees	Company Secretary (from 1 February 2012)	Hills Holdings Limited
T Sullivan	Group General Manager Strategy	Hills Holdings Limited

All of the above persons were key management persons throughout the year ended 30 June 2012, except for G Logan, who commenced employment with the Group on 8 August 2011, R Rees, who commenced employment with the Group on 1 February 2012, A Muir, who resigned from the Group with effect from 7 July 2011 and D Lethbridge, who resigned from the Group with effect from 14 February 2012.

All of the above persons were also key management persons throughout the year ended 30 June 2011, except for T Sullivan, who commenced employment with the Group on 11 October 2010, M McKinstry, who commenced employment with the Group on 6 June 2011, G Logan and R Rees. In addition, following a restructure, L Andrewartha and K Middleton, who were key management personnel during the year ended 30 June 2011 are not key management personnel for the year ended 30 June 2012.

26 Key management personnel disclosures (continued)

(c) Key management personnel compensation

The key management personnel (KMP) compensation included in 'personnel expenses' in note 5 is:

	Consolidated	
	2012	2011
	\$	\$
Short-term employee benefits (fixed and STI remuneration)	3,838,022	4,335,545
Post-employment benefits (superannuation)	291,271	345,549
Long-term benefits (accrued long service leave)	96,319	74,082
Share-based payments (LTI expense and employee share bonus plan expense)	60,797	37,194
	4,286,409	4,792,370

Information regarding individual Directors' and Executives' compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 are provided in the Remuneration report on pages 11 to 24.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

(d) Equity instrument disclosures relating to key management personnel

(i) Rights and options provided as remuneration

Details of rights and options over ordinary shares in the Company provided as remuneration to each key management person of the Group and held, directly, indirectly or beneficially, are set out below. When exercisable, each right or option is convertible into one ordinary share of the Company. Further information on the rights and options is set out in note 25 and in the Remuneration report on pages 22 to 24.

Name	Number of rights granted during the year		Number of rights / options vested during the year	
	2012	2011	2012	2011
Directors of Hills Holdings Limited				
GL Twartz	229,933	118,926	-	-
Other key management personnel of the Group				
L Andrewartha	-	21,623	-	-
S Cope	41,806	21,623	-	-
D Lethbridge	20,903	10,811	-	-
G Logan	41,806	-	-	-
M McKinstry	62,709	-	-	-
K Middleton	-	21,623	-	-
T Sullivan	29,264	15,134	-	-

No rights or options were held by key management person related entities.

(ii) Rights and options provided as remuneration and shares issued on exercise of such rights / options

Details of rights / options provided as remuneration and shares issued on the exercise of such rights / options, together with terms and conditions of the rights / options, can be found in the Remuneration report on pages 15 to 17 and 22 to 24.

(iii) Rights / option holdings

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

26 Key management personnel disclosures (continued)

2012							
Name	Balance at start of the year	Granted as compensation	Exercised	Rights / options lapsed / forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of Hills Holdings Limited							
G Twarz	421,926	229,933	-	(100,000)	551,859	203,000	348,859
Other key management personnel of the Group							
S Cope	81,623	41,806	-	(60,000)	63,429	-	63,429
D Lethbridge	10,811	20,903	-	(31,714)	-	-	-
G Logan	-	41,806	-	-	41,806	-	41,806
M McKinstry	-	62,709	-	-	62,709	-	62,709
A Muir	80,000	-	-	(80,000)	-	-	-
T Sullivan	15,134	29,264	-	-	44,398	-	44,398
2011							
Name	Balance at start of the year	Granted as compensation	Exercised	Options lapsed / forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of Hills Holdings Limited							
G Twarz	363,000	118,926	-	(60,000)	421,926	203,000	218,926
Other key management personnel of the Group							
L Andrewartha	180,000	21,623	-	(60,000)	141,623	60,000	81,623
S Cope	120,000	21,623	-	(60,000)	81,623	-	81,623
D Edgecombe	25,000	-	-	(25,000)	-	-	-
R Gros	120,000	-	-	(120,000)	-	-	-
D Lethbridge	-	10,811	-	-	10,811	-	10,811
K Middleton	45,000	21,623	-	(20,000)	46,623	-	46,623
A Muir	105,000	-	-	(25,000)	80,000	-	80,000
T Sullivan	-	15,134	-	-	15,134	-	15,134

(iv) Share holdings

The numbers of shares in the Company held during the financial year by each Director of Hills Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation aside from those issued to the Executives as part of the employee share scheme.

The analysis does not include options exercised, as options subject to a non-recourse loan for the purchase of shares are not recognised as exercised by International Financial Reporting Standards, until the loan is extinguished at which point the shares are recognised.

Share disclosures for JH Hill-Ling includes 1,188,918 (2011: 1,188,918) shares owned by Hills Associates Limited & Poplar Pty Ltd (jointly held) and 14,450,548 (2011: 13,455,689) 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 994,859 shares in Hills Holdings Limited by Hills Associates Limited. In the previous financial year other changes for JH Hill-Ling were as a consequence of JH Hill-Ling ceasing to be one of a number of shareholders in a private company that is a trustee of a trust that holds voting shares in the Company. The transfer of the shares in the private company was part of the finalisation of an estate. There has been no change in the underlying beneficial interest in the ownership of the Company's shares. JH Hill-Ling did not have a beneficial interest in those Company shares.

Other changes during the year for R Flynn comprises the removal of the disclosure of his shareholdings in the Company, as R Flynn ceased to be a Director of the Company on 4 November 2011. In the previous financial year other changes during the year for G Hill comprised the removal of the disclosure of his shareholdings in the Company, as G Hill ceased to be a Director of the Company on 24 April 2011.

26 Key management personnel disclosures (continued)

2012	Balance at the start of the year	Granted during reporting year as compensation	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Hills Holdings Limited					
Ordinary shares					
J Hill-Ling	14,817,671	-	-	994,859	15,812,530
G Twartz	4,342	-	-	-	4,342
F Bennett	4,000	-	-	-	4,000
M Campbell	-	-	-	1,000	1,000
I Elliot	6,235	-	-	-	6,235
R Flynn	35,665	-	-	(35,665)	-
D Spence	19,000	-	-	-	19,000
P Stancliffe	19,104	-	-	-	19,104
Other key management personnel of the Group					
Ordinary shares					
S Cope	978	200	-	-	1,178
A Muir	5,278	-	-	(5,278)	-

2011	Balance at the start of the year	Granted during reporting year as compensation	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Hills Holdings Limited					
Ordinary shares					
J Hill-Ling	16,512,469	-	-	(1,694,798)	14,817,671
G Twartz	9,036	-	-	(4,694)	4,342
F Bennett	4,000	-	-	-	4,000
I Elliot	6,235	-	-	-	6,235
R Flynn	35,665	-	-	-	35,665
G Hill	92,505	-	-	(92,505)	-
D Spence	-	-	-	19,000	19,000
P Stancliffe	19,104	-	-	-	19,104
Other key management personnel of the Group					
Ordinary shares					
L Andrewartha	1,228	519	-	-	1,747
S Cope	459	519	-	-	978
D Edgecombe	2,690	256	-	(2,946)	-
R Gros	4,047	256	-	(4,303)	-
K Middleton	2,790	519	-	-	3,309
A Muir	4,759	519	-	-	5,278

(e) Loans to key management personnel

There were no loans outstanding at the reporting date to key management personnel and their related parties. Option loans are not recognised as loans as they are included in the fair value of the options as required by IFRS.

(f) Other transactions with key management personnel

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

Alfred Health, an entity associated with F Bennett, has purchased goods during the year from the Hills Group. Amounts were billed and payable under normal commercial terms and conditions. The total amount recognised as an expense during the year was \$30,977 (2011: \$nil).

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

26 Key management personnel disclosures (continued)

There were no amounts receivable from or payable to key management personnel at reporting date arising from these transactions (2011: \$nil).

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

27 Related party transactions

(a) Parent entities

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 33.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 26.

(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 \$24.917 million (2011: \$27.755 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 \$0.410 million (2011: \$0.431 million).

Entities within the Group rent properties to or from other entities within the Group at rentals that are market related. Property rentals within the Group during the year were \$2.278 million (2011: \$2.234 million).

Group entities charge an administration fee for services rendered which during the year was \$14.277 million (2011: \$11.967 million).

Inter entity dividends paid and received during the year amounted to \$16.168 million (2011: \$13.236 million).

Other related parties

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

(e) Loans to/from related parties

Subsidiaries

Group entity trading transactions and borrowings result in balances arising in respect of current and non-current assets and liabilities. At 30 June 2012 the Group current assets and liabilities that were eliminated were \$265.682 million (2011: \$258.907 million) and the Group non-current assets and liabilities that were eliminated were \$0.336 million (2011: \$0.426 million).

Other related parties

Loans (from) Hills Associates Limited amounted to (\$0.665 million) (2011: (\$0.993 million)).

28 Contingent liabilities

(a) Contingent liabilities

The Group had contingent liabilities at 30 June 2012 in respect of:

(i) Claims

Responding to a request from the Environmental Protection Authority, the extent of groundwater contamination potentially originating from the Company's former Edwardstown site is being assessed by the Company. The Company has provided for the anticipated cost of ongoing assessment. At this time the possibility of or cost of potential claims or remediation cannot be reliably estimated and no provision has been made.

(ii) Guarantees

- (a) Letters of credit established in favour of suppliers / creditors amounting to \$19.955 million (2011: \$10.439 million).
- (b) Bank guarantees in favour of customers and suppliers amounting to \$16.953 million (2011: \$19.302 million).
- (c) Performance guarantees have been given to a customer of a partially owned subsidiary. Should that subsidiary fail to perform under the contracts, the Company will assume responsibility for performance of current work-in-progress.

The Group has various commercial legal claims common to businesses of its type which constitute contingent liabilities, no one of which is material to the Group's financial position.

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

(b) Contingent assets

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

29 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	Consolidated	
	2012	2011
	\$'000	\$'000
<i>Property, plant and equipment</i>		
Payable:		
Within one year	4,866	12,938

(b) Lease commitments: Group as lessee

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

The leases run for a period ranging from 1 to 15 years with the majority running for a period of 5 years, with an option to renew the lease after that date. Lease payments are increased each renewal period to reflect market rentals. Some leases provide for additional rent payments that are based on changes in the consumer price index, local capital city consumer price indices or a fixed percentage.

29 Commitments (continued)

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Consolidated	
	2012 \$'000	2011 \$'000
Within one year	24,865	25,557
Later than one year but not later than five years	60,972	61,249
Later than five years	29,410	37,429
	<u>115,247</u>	<u>124,235</u>

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

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

	Consolidated	
	2012 \$'000	2011 \$'000
Within one year	<u>187</u>	<u>143</u>

30 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 co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Group holds the following financial instruments:

	Consolidated	
	2012 \$'000	2011 \$'000
Financial assets		
Cash and cash equivalents	24,638	7,158
Trade and other receivables	175,206	182,153
Investments	<u>2</u>	<u>2</u>
	<u>199,846</u>	<u>189,313</u>
Financial liabilities		
Trade and other payables	87,725	98,671
Borrowings	117,010	98,312
Derivative financial instruments	<u>4,712</u>	<u>2,576</u>
	<u>209,447</u>	<u>199,559</u>

30 Financial risk management (continued)

(a) Market risk

(i) Foreign exchange risk

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

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

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

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

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

	30 June 2012				30 June 2011			
	USD \$'000	NZD \$'000	euro '000	JPY '000	USD \$'000	NZD \$'000	euro '000	JPY '000
Trade receivables	1,419	-	-	-	1,052	-	-	-
Cash at bank	331	-	-	-	35	3	-	-
Trade payables	(23,672)	(211)	(226)	(22,867)	(12,933)	(181)	(103)	(66,574)
Forward exchange contracts - buy foreign currency (cash flow hedges)	(47,060)	-	-	-	(31,514)	-	-	-
Forward exchange contracts - buy foreign currency (FVTPL)	(4,327)	-	-	-	(1,096)	-	-	-

Group sensitivity

Based on the financial instruments held at 30 June 2012, had the Australian dollar weakened / strengthened by 10% against other currencies with all other variables held constant, the Group's pre-tax profit for the year would have been \$1,880,000 lower / \$1,537,000 higher (2011: \$1,202,000 lower / \$977,000 higher), mainly as a result of foreign exchange gains / losses on translation of US dollar denominated financial assets and liabilities as detailed in the above table. Profit is more sensitive to movements in the Australian dollar / US dollar exchange rates in 2012 than 2011 because of the increased amount of US dollar denominated trade creditors.

Other components of equity would have been \$5,125,000 higher / \$4,193,000 lower (2011: \$2,856,000 higher / \$3,077,000) had the Australian dollar weakened / strengthened by 10% against the US dollar, arising from forward foreign exchange contracts designated as cash flow hedges.

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Group policy is to maintain approximately 50% to 75% of its borrowings at fixed rate using interest rate swaps to achieve this when necessary. During 2012 and 2011, the Group's borrowings at variable rate were denominated in Australian Dollars and NZ Dollars.

30 Financial risk management (continued)

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.

At the end of the reporting period the interest rate profile of the Group's variable rate borrowings and interest rate swap contracts was:

Consolidated	30 June 2012		30 June 2011	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank overdrafts and bank loans	3.8%	(116,333)	5.3%	(96,512)
Cash and cash equivalents	3.2%	24,638	4.3%	7,158
Other loans	2.6%	(556)	3.9%	(1,281)
Interest rate swaps (notional principal amount)	6.0%	65,000	6.2%	75,000

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

Sensitivity

At 30 June 2012, if interest rates had increased by 100 basis points or decreased by 100 basis points from the year end rates with all other variables held constant, pre-tax profit for the year would have been \$1,159,000 higher / \$925,000 lower (2011: \$946,000 higher / \$1,839,000 lower), mainly as a result of lower interest income from cash and cash equivalents and higher interest expense from borrowings. Other components of equity would have been \$1,300,000 higher / \$1,586,000 lower (2011: \$1,733,000 higher / \$909,000 lower) mainly as a result of a decrease in the fair value of the cash flow hedges of borrowings.

(iv) Summarised sensitivity analysis

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

Consolidated 2012	Amount \$'000	Interest rate risk				Foreign exchange risk			
		-100bps		+100bps		-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Financial assets									
Cash and cash equivalents	24,638	239	-	(239)	-	39	-	(32)	-
Trade and other receivables	175,206	-	-	-	-	164	-	(134)	-
Total increase/ (decrease) in financial assets		239	-	(239)	-	203	-	(166)	-
Financial liabilities									
Derivatives - cash flow hedges	(4,613)	-	(1,586)	234	1,300	-	5,125	(1)	(4,193)
Derivatives - fair value through profit or loss	(99)	-	-	-	-	595	-	(487)	-
Trade and other payables	(87,725)	-	-	-	-	(2,678)	-	2,191	-
Borrowings	(117,010)	(1,164)	-	1,164	-	-	-	-	-
Total increase/ (decrease) in financial liabilities		(1,164)	(1,586)	1,398	1,300	(2,083)	5,125	1,703	(4,193)
Total increase/ (decrease)		(925)	(1,586)	1,159	1,300	(1,880)	5,125	1,537	(4,193)

30 Financial risk management (continued)

Consolidated 2011	Amount \$'000	Interest rate risk				Foreign exchange risk			
		-100bps		+100bps		-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Financial assets									
Cash and cash equivalents	7,158	19	-	(19)	-	5	-	(4)	-
Trade and other receivables	182,153	-	-	-	-	110	-	(90)	-
Total increase/(decrease) in financial assets		19	-	(19)	-	115	-	(94)	-
Financial liabilities									
Derivatives - cash flow hedges	(2,474)	(931)	(909)	38	1,733	(1)	2,856	(6)	(3,077)
Derivatives - fair value through profit or loss	(102)	-	-	-	-	158	-	(129)	-
Trade and other payables	(98,671)	-	-	-	-	(1,474)	-	1,206	-
Borrowings	(98,312)	(927)	-	927	-	-	-	-	-
Total increase/(decrease) in financial liabilities		(1,858)	(909)	965	1,733	(1,317)	2,856	1,071	(3,077)
Total increase/ (decrease)		(1,839)	(909)	946	1,733	(1,202)	2,856	977	(3,077)

(b) Credit risk

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

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

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

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

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

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

(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.

At 30 June 2012 the Group had multi option financing facilities totalling \$220.0 million (2011: \$225.0 million) of which \$65.0 million had been approved until 1 July 2013, a further \$75.0 million had been approved until 30 July 2013 and the remainder of the facility had been approved until 30 November 2013. For more information, including details of banking facilities renewed since the end of the financial year please refer to note 19 (unsecured bank loans and standby letters of credit).

30 Financial risk management (continued)

Maturities of financial liabilities

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

Contractual maturities of financial liabilities	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 (assets)/ liabilities
Consolidated - at 30 June 2012	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives							
Non-interest bearing	87,725	-	-	-	121	87,846	87,846
Variable rate	3,553	2,185	115,969	-	-	121,707	116,333
Fixed rate	212	212	177	-	-	601	556
Total non-derivatives	91,490	2,397	116,146	-	121	210,154	204,735
Derivatives							
Net settled (interest rate swaps and forward exchange contracts)	1,376	997	1,773	959	-	5,105	4,712
Consolidated - at 30 June 2011	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 (assets)/ liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives							
Non-interest bearing	98,671	-	-	-	519	99,190	99,190
Variable rate	8,935	2,256	48,781	45,188	-	105,160	96,512
Fixed rate	620	212	425	177	-	1,434	1,281
Total non-derivatives	108,226	2,468	49,206	45,365	519	205,784	196,983
Derivatives							
Net settled (interest rate swaps and forward exchange contracts)	781	343	624	463	-	2,211	2,576

(d) Fair value measurements

Fair value measurement hierarchy

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2012 and 30 June 2011:

30 Financial risk management (continued)

At 30 June 2012	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivatives used for hedging	-	-	-	-
Total assets	-	-	-	-
Liabilities				
Derivatives used for hedging	-	4,712	-	4,712
Total liabilities	-	4,712	-	4,712
At 30 June 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivatives used for hedging	-	-	-	-
Total assets	-	-	-	-
Liabilities				
Derivatives used for hedging	-	2,576	-	2,576
Total liabilities	-	2,576	-	2,576

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 2012.

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.

31 Business combination

Current Period

(a) Summary of acquisition

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

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

31 Business combination (continued)

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

	\$'000
Purchase consideration (refer to (c) below):	
Cash paid	2,068
Direct costs relating to the acquisition	<u>(57)</u>
Total purchase consideration	<u>2,011</u>
Fair value of net identifiable assets acquired (refer to (b) below)	<u>2,011</u>
Goodwill (refer to (b) below and note 13)	<u>1,316</u>

(b) Assets and liabilities acquired

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

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

The goodwill is attributable to the synergies expected to arise following the Group's acquisition, including the extension of the range of products offered by Hills SVL.

(c) Purchase consideration - cash outflow

	Consolidated	
	2012	2011
	\$'000	\$'000
Outflow of cash to acquire business operation:		
Cash consideration	<u>2,011</u>	<u>-</u>
Outflow of cash - investing activities	<u>2,011</u>	<u>-</u>

Acquisition-related costs

Acquisition-related costs of \$57,000 are included in expenses in profit or loss and in operating cash flows in the Consolidated statement of cash flows.

Prior Period

There were no acquisitions of subsidiaries or business operations in the previous financial year.

32 Reconciliation of profit / (loss) after income tax to net cash inflow from operating activities

	Consolidated	
	2012	2011
	\$'000	\$'000
Profit / (loss) for the year	28,822	(73,116)
Depreciation and amortisation	21,100	23,079
Impairment of goodwill	-	66,182
Gain on repayment of government loans at net present value	(386)	-
Non-cash employee benefits expense - share-based payments	289	478
Net (gain) loss on sale of non-current assets	(533)	(106)
Fair value (gain) loss on derivatives	(161)	(1,054)
Foreign currency translation reserve recycled through profit or loss on disposal of subsidiary	-	(27)
Impairment of trade receivables	2,069	1,635
Impairment of inventories	(2,030)	3,783
Impairment of property, plant and equipment	-	37,210
Rent received	(787)	(860)
Amounts set aside to provisions	16,562	13,726
Change in operating assets and liabilities, net of effects from purchase of controlled entities and business operations:		
Decrease / (increase) in trade and other receivables	4,632	(103)
Decrease in inventories	5,371	9,508
Decrease / (increase) in deferred tax assets	10,427	(10,884)
(Decrease) in trade and other creditors	(10,667)	(29,648)
(Decrease) in provision for income taxes payable	(5,935)	(10,883)
(Decrease) in other provisions	(16,104)	(15,940)
Net cash inflow from operating activities	<u>52,669</u>	<u>12,980</u>

33 Subsidiaries and transactions with non-controlling interests

(a) Investments in subsidiaries

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

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2012 %	2011 %
Hills Finance Pty Ltd	Australia	Ordinary	100	100
Hills Industries NZ Limited	New Zealand	Ordinary	100	100
Korvest Limited (i) (note (b))	Australia	Ordinary	49	49
Hills Hoists Pty Ltd	Australia	Ordinary	100	100
Bailey Aluminium Products Pty Ltd	Australia	Ordinary	100	100
Hills Industries Pty Ltd (formerly ACN 000 195 951 Pty Ltd and formerly Triton Manufacturing & Design Co Pty Ltd)	Australia	Ordinary	100	100
ACN 089 622 622 Pty Ltd (formerly Triton Workshop Systems (UK) Pty Ltd)	Australia	Ordinary	100	100
Woodroffe Industries Pty Ltd	Australia	Ordinary	100	100
Fielders Australia Pty Ltd	Australia	Ordinary	100	100
Fielders Mobile Mill Pty Ltd	Australia	Ordinary	100	100
Zen 99 Pty Ltd	Australia	Ordinary	100	100
Orrcon Holdings Pty Ltd	Australia	Ordinary	100	100
Orrcon Operations Pty Ltd	Australia	Ordinary	100	100
Orrcon Tubing Pty Ltd	Australia	Ordinary	100	100
Access Television Services Pty Ltd	Australia	Ordinary	100	100
Techlife Solutions Pty Ltd (shelved)	Australia	Ordinary	100	100
Audio Telex Communications Pty Ltd	Australia	Ordinary	100	100
Crestron Control Solutions Pty Ltd	Australia	Ordinary	100	100
Team Poly Pty Ltd	Australia	Ordinary	100	100
KDB Engineering Pty Ltd	Australia	Ordinary	100	100
Kerry Equipment (Aust) Pty Ltd	Australia	Ordinary	100	100
Step Electronics 2005 Pty Ltd (i)	Australia	Ordinary	50	50
Greenwattle Investments Pty Ltd	Australia	Ordinary	100	100
Access Scaffolding (Aust) Pty Ltd	Australia	Ordinary	100	100
Greenwattle Equipment Pty Ltd	Australia	Ordinary	100	100
ACN 095 224 034 Pty Ltd (formerly Alquip (Holdings) Pty Ltd)	Australia	Ordinary	100	100
ACN 009 696 084 Pty Ltd (formerly Alquip Pty Ltd)	Australia	Ordinary	100	100
Hills Nominees Pty Ltd	Australia	Ordinary	100	100
DAS Security Wholesalers Pty Ltd	Australia	Ordinary	100	100
Pacific Communications Pty Ltd	Australia	Ordinary	100	100
Pacom Security Pty Ltd	Australia	Ordinary	100	100
CBS Hardware Pty Ltd	Australia	Ordinary	100	100
Step Electronics Pty Ltd	Australia	Ordinary	100	100
Opticomm Co Pty Ltd (i)	Australia	Ordinary	50	50
UHS Systems Pty Ltd	Australia	Ordinary	51	51
UHS Pty Ltd	Australia	Ordinary	100	100
Cygnus Satellite Pty Ltd (i)	Australia	Ordinary	50	50

Names inset indicate shares held by the company immediately above the inset.

- (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.

33 Subsidiaries and transactions with non-controlling interests (continued)

(b) Transactions with non-controlling interests

During the year Korvest made two issues of shares to its employees under its employee share plan. These issues had the effect of diluting the Company's shareholding in Korvest. The shares were issued for no consideration.

In the previous financial year, on 23 August 2010, the Group increased its shareholding in Korvest Ltd from 45.9% to 48.8% through an on market acquisition of 250,000 shares at \$4.56. The total consideration paid was \$1.143 million.

	2012 \$'000	2011 \$'000
Carrying amount of non-controlling interests diluted / acquired	(48)	811
Consideration paid to non-controlling interests	-	(1,143)
Impact of dilution / excess consideration paid recognised in the transactions with non-controlling interests reserve within equity	<u>(48)</u>	<u>(332)</u>

34 Parent entity financial information

(a) Summary financial information

The individual financial statements for the Company show the following aggregate amounts:

	Company	
	2012 \$'000	2011 \$'000
Statement of financial position		
Current assets	343,821	340,124
Non-current assets	<u>285,059</u>	<u>272,425</u>
Total assets	<u>628,880</u>	<u>612,549</u>
Current liabilities	120,825	137,846
Non-current liabilities	<u>121,339</u>	<u>98,641</u>
Total liabilities	<u>242,164</u>	<u>236,487</u>
Net assets	<u>386,716</u>	<u>376,062</u>
<i>Shareholders' equity</i>		
Contributed equity	303,805	306,790
Reserves		
Asset revaluation reserve	45,034	45,034
Hedging reserve - cash flow hedges	(2,910)	(1,303)
Asset realisation reserve	-	1,855
Equity compensation reserve	643	620
Retained earnings	<u>40,144</u>	<u>23,066</u>
Total shareholders' equity	<u>386,716</u>	<u>376,062</u>
Profit or loss for the year	<u>38,706</u>	<u>32,020</u>
Total comprehensive income	<u>37,099</u>	<u>38,497</u>

34 Parent entity financial information (continued)

(b) Guarantees entered into by the Company

Bank guarantees given by the Company in favour of customers and suppliers amounted to \$8.696 million (2011: \$8.723 million).

Cross guarantees are given by the Company and its wholly owned subsidiaries as described in note 35. 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 \$241.339 million (2011: \$260.277 million). No material deficiency in net tangible assets exists in these companies at reporting date with net tangible assets amounting to \$288.815 million (2011: \$296.171 million).

(c) Contingent liabilities of the Company

The parent entity had a contingent liability in respect of claims, as disclosed in note 28. For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2012, the Company had contractual commitments for the acquisition of property, plant or equipment totalling \$3.030 million (2011: \$8.479 million). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

35 Deed of cross guarantee

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

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

The subsidiaries subject to the Deed are:

Hills Finance Pty Ltd

Hills Hoists Pty Ltd

Bailey Aluminium Products Pty Ltd

KDB Engineering Pty Ltd

Kerry Equipment (Aust) Pty Ltd

Woodroffe Industries Pty Ltd

Hills Industries Pty Ltd (Formerly ACN 000 195 951 Pty Ltd and formerly Triton Manufacturing & Design Co Pty Ltd)

Orrcon Operations Pty Ltd

Orrcon Holdings Pty Ltd

Greenwattle Investments Pty Ltd (Alquip)

Audio Telex Communications Pty Ltd

Team Poly Pty Ltd

Fielders Australia Pty Ltd

Access Television Services Pty Ltd

35 Deed of cross guarantee (continued)

All of the subsidiaries except KDB Engineering Pty Ltd, Kerry Equipment (Aust) Pty Ltd, Orrcon Operations Pty Ltd, Orrcon Holdings Pty Ltd, Greenwattle Investments Pty Ltd, Audio Telex Communications Pty Ltd, Team Poly Pty Ltd, Fielders Australia Pty Ltd and Access Television Services Pty Ltd became a party to the deed on 15 April 2004 by virtue of a Deed of Assumption.

KDB Engineering Pty Ltd, Kerry Equipment (Aust) Pty Ltd, Orrcon Holdings Pty Ltd and Orrcon Operations Pty Ltd became parties to the deed on 23 June 2006, by virtue of a Deed of Assumption. Greenwattle Investments Pty Ltd (Alquip) and Audio Telex Communications Pty Ltd became parties to the deed on 25 June 2007. Team Poly Pty Ltd became a party to the deed on 14 May 2008. Fielders Australia Pty Ltd and Access Television Services Pty Ltd became parties to the deed on 29 June 2010.

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

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

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 2012 and a Consolidated statement of financial position as at 30 June 2012 of the Company and controlled entities that are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee.

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

	2012 \$'000	2011 \$'000
Consolidated income statement		
Revenue from continuing operations	967,166	993,991
Other income	4,853	2,873
Finance costs	(5,835)	(3,964)
Other expenses	<u>(934,545)</u>	<u>(1,074,017)</u>
Profit / (loss) before income tax	31,639	(81,117)
Income tax (expense) / benefit	<u>(7,009)</u>	<u>7,543</u>
Profit / (loss) for the year	<u>24,630</u>	<u>(73,574)</u>
Consolidated statement of comprehensive income		
Profit / (loss) for the year	24,630	(73,574)
Other comprehensive income		
Gain on revaluation of land and buildings	-	12,250
Changes in the fair value of cash flow hedges	(2,296)	(1,484)
Income tax relating to components of other comprehensive income	<u>689</u>	<u>(3,230)</u>
Other comprehensive (loss) / income for the year, net of tax	<u>(1,607)</u>	<u>7,536</u>
Total comprehensive income / (loss) for the year	<u>23,023</u>	<u>(66,038)</u>
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	23	101,403
Profit / (loss) for the year	24,630	(73,574)
Transfers from / (to) reserves	11,757	(533)
Dividends provided for or paid	<u>(23,483)</u>	<u>(27,273)</u>
Retained earnings at the end of the financial year	<u>12,927</u>	<u>23</u>

35 Deed of cross guarantee (continued)

(b) Consolidated statement of financial position

	2012 \$'000	2011 \$'000
Current assets		
Cash and cash equivalents	16,448	2,669
Trade and other receivables	177,426	210,750
Inventories	149,625	154,093
Current tax receivables	6,984	-
Assets classified as held-for-sale	-	2,702
Total current assets	<u>350,483</u>	<u>370,214</u>
Non-current assets		
Investments	12,453	12,453
Property, plant and equipment	162,605	171,307
Deferred tax assets	23,429	33,322
Intangible assets	48,469	32,503
Total non-current assets	<u>246,956</u>	<u>249,585</u>
Total assets	<u>597,439</u>	<u>619,799</u>
Current liabilities		
Trade and other payables	79,351	118,040
Borrowings	7,138	13,467
Current tax liabilities	-	104
Provisions	32,419	29,023
Derivative financial instruments	507	418
Total current liabilities	<u>119,415</u>	<u>161,052</u>
Non-current liabilities		
Borrowings	115,557	91,458
Provisions	2,261	5,711
Derivative financial instruments	4,106	2,056
Total non-current liabilities	<u>121,924</u>	<u>99,225</u>
Total liabilities	<u>241,339</u>	<u>260,277</u>
Net assets	<u>356,100</u>	<u>359,522</u>
Equity		
Contributed equity	303,805	306,790
Reserves	39,368	52,709
Retained earnings	12,927	23
Total equity	<u>356,100</u>	<u>359,522</u>

36 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:

	Consolidated	
	2012	2011
	\$	\$
(a) Audit services		
<i>KPMG Australia:</i>		
Audit and review of financial reports	492,000	488,500
<i>Overseas KPMG Firms:</i>		
Audit and review of financial reports	32,909	31,768
Total remuneration for audit and other assurance services	524,909	520,268
(b) Non-audit services		
<i>(i) Other assurance services:</i>		
Software implementation assurance services	76,257	-
Forensic accounting services	46,179	-
Other consulting services	40,504	-
<i>(ii) Taxation services:</i>		
Taxation and other services	141,015	113,838
<i>(iii) Overseas KPMG Firms:</i>		
Taxation services	14,316	26,824
Total remuneration for non-audit services	318,271	140,662

37 Events occurring after the reporting period

On 13 August 2012 the Company entered into an agreement to acquire the business of Lan 1. Completion is expected by 30 September 2012, subject to conditions precedent being satisfied.

On 16 August 2012 the Company renewed its banking facilities jointly with Commonwealth Bank, National Australia Bank and Westpac Banking Corporation through a Common Deed. The total facility is \$196 million, comprising Tranche A \$81 million, expiring in 3 years (16 August 2015), Tranche B \$69 million, expiring in 4 years (16 August 2016), and Tranche C \$46 million, expiring in 3 years (16 August 2015), but subject to annual review. Tranches A and B comprise bank loans and Tranche C comprises bank guarantees, letters of credit and cash advances.

Mr Twartz will retire as Chief Executive Officer and Managing Director on 2 September 2012 and will cease to be an employee on 30 November 2012. Mr Ted Pretty will commence as Chief Executive Officer and Managing Director on 3 September 2012.

Apart from the matters noted above, no other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

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

- (a) the consolidated financial statements and notes set out on pages 41 to 112 and the Remuneration report on pages 11 to 24 in the Directors' report, 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 2012 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 35 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group Entities pursuant to ASIC Class Order 98/1418.

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

The Directors have been given the declarations by the chief executive officer and the chief financial officer required by Section 295A of the *Corporations Act 2001*.

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



GL Twartz
Director

Dated at Sydney
this 31st day of August 2012



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

Report on the financial report

We have audited the accompanying financial report of Hills Holdings Limited (the Company), which comprises the Consolidated statement of financial position as at 30 June 2012, 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 37 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 controls as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a), the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the remuneration report

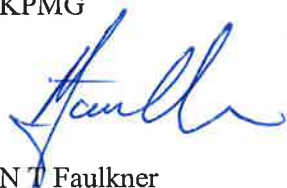
We have audited the remuneration report included in pages 11 to 24 of the Directors' report for the year ended 30 June 2012. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Hills Holdings Limited for the year ended 30 June 2012, complies with Section 300A of the *Corporations Act 2001*.



KPMG



N T Faulkner
Partner

Adelaide

31 August 2012

The shareholder information set out below was applicable as at 21 August 2012.

A. Distribution of equity securities

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

Holding		Ordinary shares	
		Shares	Rights / Options
1	- 1,000	4,492	-
1,001	- 5,000	8,626	-
5,001	- 10,000	4,120	-
10,001	- 100,000	3,234	3
100,001	and over	<u>83</u>	<u>2</u>
		<u>20,555</u>	<u>5</u>

There were 470 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted 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
RBC Investor Services Australia Nominees Pty Limited (PI POOLED A/C)	21,469,533	8.71
Poplar Pty Limited	20,286,335	8.23
Hills Associates Limited	14,450,548	5.86
National Nominees Limited	13,463,688	5.46
JP Morgan Nominees Australia Limited	10,049,135	4.08
HSBC Custody Nominees (Australia) Limited	7,303,273	2.96
Jacaranda Pastoral Pty Ltd	5,968,699	2.42
UBS Nominees Pty Ltd	4,281,294	1.74
Citicorp Nominees Pty Limited	3,496,185	1.42
BNP Paribas Noms Pty Ltd (Master Cust DRP)	2,774,189	1.13
Donald Cant Pty Ltd	1,979,060	0.80
Colleen Sims Nominees Pty Ltd	1,694,798	0.69
RBC Dexia Investor Services Australia Nominees Pty Limited (PIIC A/C)	1,373,574	0.56
Gwynvill Trading Pty Limited	1,260,000	0.51
Hills Associates Limited & Poplar Pty Ltd	1,188,918	0.48
Queensland Investment Corporation	948,393	0.38
Tamarisk Pty Ltd	603,865	0.24
Portman Trading Pty Ltd	580,000	0.24
Mr Clifford Christian Dahl	383,000	0.16
Mr John Gassner + Mr Nathan Rothchild	<u>375,751</u>	<u>0.15</u>
	<u>113,930,238</u>	<u>46.22</u>

C. Substantial holders

Substantial holders in the Company are set out below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
Perpetual Limited	29,652,196	12.03
Poplar Pty Limited ^{1,2}	21,475,253	8.71
Hills Associates Limited ²	14,450,548	5.86

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

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

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 buy-back

Details of the on-market buy-back are disclosed in Note 21.

F. Direct payment to shareholder accounts

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

G. Securities Exchange

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

H. Other information

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

I. Offices and Officers

Company Secretary

Ms Rachel Rees

Principal Registered Office

159 Port Road Hindmarsh SA 5007

Telephone: (08) 8301 3200

Facsimile: (08) 8301 3290

Web: www.hillsholdings.com.au

Locations of Share Registries

Computershare Investor Services Pty Limited

Level 5, 115 Grenfell Street Adelaide, SA 5000

Telephone (within Australia): 1300 556 161

Telephone (outside Australia): +61 3 9415 4000

Facsimile (within Australia): 1300 534 987

Facsimile (outside Australia): +61 3 9473 2408

Internet address: www.computershare.com.au