



# Better lives. Better business.

Concise Annual Report 2011



At Hills Holdings, we believe that there will always be a market for clever products and services which make people's lives better.



And so we look for companies and people who share this belief and who want to work together to build better businesses.



# Contents

Hills Holdings Limited  
(formerly Hills Industries Limited)  
**Concise Annual Report 2011**

## Registered Office

159 Port Road  
Hindmarsh SA 5007

Telephone: (08) 8301 3200  
Facsimile: (08) 8301 3290  
Email: [info@hillsholdings.com.au](mailto:info@hillsholdings.com.au)  
Web: [www.hillsholdings.com.au](http://www.hillsholdings.com.au)

ABN 35 007 573 417

## Location of Share Registry

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](http://www.computershare.com.au)

## Shareholder enquires/change of address

Shareholders wishing to enquire about their shareholdings, dividends or change their address should contact the Company's share registry.

## Relationship of the Concise Annual Report to the full Annual Report

The Concise Annual Report is an extract from the full Annual Report for the year ended 30 June 2011. The financial statements and specific disclosures included in the Concise Annual Report have been derived from the full Annual Report.

The Concise Annual Report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Hills Holdings Limited and its subsidiaries (the Group) as the full Annual Report. Further information can be obtained from the full Annual Report.

A copy of the Group's 30 June 2011 full Annual Report, including the independent audit report, is available to all shareholders and will be sent to shareholders without charge upon request or can be downloaded from [www.hillsholdings.com.au](http://www.hillsholdings.com.au)

The 30 June 2011 full Annual Report can be requested by telephone:  
Australia: (08) 8301 3200  
Overseas: +61 8 8301 3200  
Or via email at [info@hillsholdings.com.au](mailto:info@hillsholdings.com.au)

## Directors' Report Section A

Operating and Financial Review	2
Five Year Summary	4
Group Profile	5
Electronics & Communications	6
Lifestyle & Sustainability	7
Building & Industrial	7
Sustainability	8
Board of Directors	10
Senior Leadership Team	12

## Concise Financial Report

Consolidated Income Statement	14
Consolidated Statement of Comprehensive Income	16
Consolidated Statement of Financial Position	18
Consolidated Statement of Changes in Equity	20
Consolidated Statement of Cash Flows	21
Notes to the Consolidated Financial Statements	22
Directors' Report Section B	35
Corporate Governance Statement	49
Directors' Declaration	56
Lead Auditor's Independence Declaration under Section 307C of the <i>Corporations Act 2001</i>	57
Independent Auditor's Report to the Members	58
Shareholder Information	59

# Operating and Financial Review

**The Hills Group of companies achieved an underlying profit after tax before unusual/significant items from ordinary activities attributable to shareholders of \$25.287 million, which was a 37.1% decline compared to the previous year's results. After recording a number of unusual impairment losses, comprising the impairment of goodwill and certain assets of Orrcon Steel and Team Poly, the loss after tax attributable to members was \$74.955 million. A reconciliation of underlying profit to the reported loss after tax attributable to members is provided in note 9 to the financial statements.**

## The Year in Review

Despite generally satisfactory performances from many of the Hills business units, in particular those in the Lifestyle & Sustainability and Electronics & Communications divisions, very poor trading conditions in the building, construction and steel markets, and to a lesser extent, the DGTEC consumer electronics and Team Poly businesses, saw the Company produce a lower profit from ordinary activities before unusual/significant items this year. These unusual/significant items are discussed later in this report. As a result of this reduced profit the full year dividend of 10.0 cents per share fully franked was lower than the prior year by 2.5 cents per share. The Directors resolved to increase the percentage of the earnings of the Company to be paid as dividends to the top end of the targeted range, which is between 50% and 100% of profits. Whilst debt levels were increased during the year, the balance sheet remains conservatively geared with debt to equity at balance date of 22.7%.

There were a number of highlights during the period, including:

- the introduction of a number of new products during the year in Hills' Electronics & Communications Division;
- the launch of a number of new products during the year in the traditional home hardware businesses, including a new range of clotheslines and ladders;
- increased profitability from Hills Electronic Security;
- the successful completion by OptiComm of projects in the fibre market that were undertaken with the National Broadband Network in Tasmania, the new Westfield property in Sydney and a record number of new greenfields project signings;
- gaining further contracts to provide digital television services under a Federal Government program in South Australia, Victoria and Queensland;
- the launch of Cygnus Satellite, a joint venture business which provides bandwidth to remote locations, including the mining sector; and
- increase in Hills SVL's share of the sound vision and lighting markets.

## Group Strategy

The Company's strategy is to consistently grow shareholder value over time by investing in businesses that deliver superior service and/or 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.

## Unusual Items

As a result of the well publicised difficulties in the Australian steel industry and in the market for rain water tanks, the Directors have booked impairment write downs of \$100.242 million after tax.

## Orrcon Steel

As a result of losses incurred by Orrcon during the year and the increasing market share held by imports, the Directors reviewed the carrying value of the Orrcon business in line with accounting standards and announced a non cash impairment of goodwill after tax of \$49.590 million.

In addition, as a result of a deteriorating market for the pipeline industry, it was decided to close the large pipe and tube manufacturing business of Orrcon Steel at Unanderra. This closure was announced in May 2011 and resulted in non operating costs of \$30.0 million after tax, including after tax cash costs of \$3.5 million.

## Team Poly

Trading conditions in the water tank market continued to be depressed during the period as a result of above average rainfall across much of Australia and the continued lack of Government subsidies.

There have been a number of insolvencies of water tank manufacturers and although management have continued to implement a number of profit improvement initiatives, which are expected to deliver profits in the future, the Directors reviewed the carrying value of the Team Poly business and announced a non cash impairment of goodwill and fixed assets of \$17.816 million after tax.

## Vision & 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's 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 lifeblood of the company; and
- Hills invests the best of its time and talent to deliver on its promises.

### **Funding**

Hills net debt at 30 June 2011 was \$91.2 million. Gearing, measured as debt to equity, stood at 22.7% at the end of the period. Hills bank facilities have been extended such that the earliest date for review of any of the debt facilities is June 2013. 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 5.5 cents per share paid in March 2011 and a final dividend of 4.5 cents per share to be paid in September 2011. 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 at below net asset backing, the Board resolved to undertake an on market buy-back of its issued shares. The announcement of the buy back gives Hills the option to acquire up to 10% of the issued Hills shares and will be earnings per share accretive and will not affect Hills' existing dividend policy.

### **Likely Developments**

While future trading conditions are forecast to remain difficult in many of the markets in which Hills operates in Australia and New Zealand, Hills' strategy remains focused on growth sectors and investing in the Electronics & Communications Division and those profitable businesses in the Lifestyle & Sustainability Division. The Group is currently evaluating a number of potential acquisitions, focussing on high growth markets.

Hills has implemented a number of overhead reduction initiatives to reflect the current demand for its products and services to improve performance.

The outlook for the commercial building and the steel industry remains subdued and increased competition from imports continues across those sectors.

In view of the above, and the current market volatility, the Company is unable at this time to provide specific profit guidance for the year ending 30 June 2012.

The recent appointments of Mike McKinstry as Chief Operating Officer and Grant Logan as Chief Financial Officer have strengthened the Company's senior management team, and will enable the Company to apply the resources and focus to the implementation of its strategic plans and restructuring initiatives.

# Five Year Summary

**Total revenue**  
Amount in \$ millions

<b>2011</b>	<b>\$1095.8</b>
2010	\$1156.3
2009	\$1192.1
2008	\$1184.7
2007	\$1014.0

**Net profit after tax attributable to members (before unusual items)**  
Amount in \$ millions

<b>2011</b>	<b>\$25.3</b>
2010	\$40.2
2009	\$28.0
2008	\$48.0
2007	\$47.2

**Earnings per share (before unusual items)**  
Amount in cents

<b>2011</b>	<b>\$10.2c</b>
2010	\$16.7c
2009	\$14.6c
2008	\$27.3c
2007	\$27.6c

<i>In thousands of AUD</i>	2007	2008	2009	2010	<b>2011</b>
Total revenue	1,013,999	1,184,737	1,192,081	1,156,326	1,095,845
Net (loss)/profit after tax attributable to members	47,173	46,807	9,506	40,188	(74,955)
Net profit after tax attributable to members (before unusual items)	47,173	48,036	28,052	40,188	25,287
Net (loss)/profit after tax and before non-controlling interests	52,042	52,360	15,655	43,095	(73,116)
Depreciation, impairment and amortisation	18,988	21,784	23,107	23,913	126,471
Net borrowing costs (before unusual items)	9,105	14,374	12,531	3,409	4,026
Shareholders' equity	331,726	408,219	402,535	496,499	402,307
Net (loss)/profit after tax attributable to members					
– as a % of shareholders' equity	14.0%	11.5%	2.4%	8.4%	(18.6%)
Net (loss)/profit after tax and before non-controlling interests					
– as a % of total revenue	5.2%	4.4%	1.3%	3.7%	(6.7%)
Earnings per share (cents)	27.6	26.6	4.9	16.7	(30.2)
Earnings per share (before unusual items) (cents)	27.6	27.3	14.6	16.7	10.2
Dividends per share (cents)	27.5	27.5	10.0	12.5	10.0
Employees at year end	2,999	3,140	2,608	2,832	2,804
Shareholders at year end	22,837	23,841	23,716	23,449	22,199

# Group Profile

## Electronics & Communications

- Electronic security systems
- Closed circuit television systems
- Home and business automation and control systems
- Satellite dishes
- Consumer electronic equipment
- Communications-related products and services
- Domestic and commercial antennas
- Professional audio equipment
- Communications antennas
- Subscription TV installation services
- Master antenna television systems
- Fibre optic transmission solutions

### Revenue

Amount in \$ millions

2011	\$317.4
2010	\$349.5
2009	\$336.0
2008	\$312.3
2007	\$277.2

### EBIT\*

Amount in \$ millions

2011	\$28.0
2010	\$32.5
2009	\$30.9
2008	\$38.1
2007	\$31.7

## Lifestyle & Sustainability

- Outdoor clothes dryers
- Laundry trolleys
- Ironing boards
- Barrier doors
- Garden sprayers
- Ladders
- Rehabilitation and mobility products
- Water storage solutions
- Plumbing products

### Revenue

Amount in \$ millions

2011	\$160.8
2010	\$176.3
2009	\$193.5
2008	\$227.5
2007	\$191.3

### EBIT\*

Amount in \$ millions

2011	\$9.7
2010	\$10.2
2009	(\$3.1)
2008	\$13.8
2007	\$13.8

## Building & Industrial

- Structural, precision and large steel tubing
- Metal roofing, flooring and fencing
- Carports and shed systems
- Steel door frames
- Cable and pipe support systems
- Walkway systems
- Hot-dip galvanising

### Revenue

Amount in \$ millions

2011	\$616.8
2010	\$629.7
2009	\$661.7
2008	\$643.0
2007	\$544.7

### EBIT\*

Amount in \$ millions

2011	\$3.2
2010	\$26.4
2009	\$31.8
2008	\$35.4
2007	\$36.0

\*EBIT – Earnings before interest and tax (before unusual/significant items).

# Electronics & Communications

**The Electronics & Communications division comprises Hills Electronic Security, Hills Antenna & TV Systems, Hills Signalmaster, Hills Sound, Vision and Lighting, 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. Revenue of \$317.4 million was 9.2% below the previous year while the EBIT of \$28.0 million was 13.8% below 2010.**

## Hills Electronic Security

- Hills Electronic Security comprises the market leading business operations of Pacific Communications, Direct Alarm Supplies and Ultra High Speed. Demand for security products remained at acceptable levels, although with the strength of the Australian dollar, selling prices continued to decrease across the period. This business unit markets an extensive range of electronic security products, ranging from simple domestic alarms to complex integrated surveillance and access control systems.
- Although the level of large project work remained subdued, the business continued to release a range of new products made specifically for the Australian and New Zealand markets and has delivered an improved result for the year despite a lower profit from UHS as a result of poor export sales to the UK.

## Hills Antenna & TV Systems

- Hills Antenna & TV Systems business unit provides a full range of reception and distribution equipment for subscription television, free to air television, the wireless voice and data market and DGTEC consumer electronic equipment.
- Demand from the subscription television and free to air television markets was good during the period. Furthermore, the business continues to look for opportunities as a result of the Australian Federal Government's decision to progressively shut down the analogue television signal.
- In the previous year, the DGTEC range of consumer electronics experienced good growth and contributed to profit. The appreciation in the Australian dollar, price deflation and fierce competition adversely affected the DGTEC business during the year. As a result, this business produced a loss of \$3.4 million (before tax). The business and its product range have been restructured to ensure that these losses are not repeated.

## Access Television Services/Techlife

- Access Television Services (ATS) in Australia and Signalmaster in New Zealand provide subscription television installation services to AUSTAR and SkyTV respectively. Demand from subscription television providers, in particular AUSTAR, was strong in the second half. The Techlife Solutions business has been successful in winning further contracts to provide installation services to non-subscription television providers.
- Of particular note was the successful conclusion to the Mildura, regional South Australia and regional Victoria Federal Government funded project to install digital television solutions for certain qualifying customers. In addition, Techlife Solutions has won installation contracts in rolling out fibre to the home networks, including Stage 1 of the National Broadband Network in Tasmania.

## Hills SVL

- Hills Sound Vision and Lighting (SVL) is the leading provider of professional audio, lighting and control systems to a wide range of customers in Australia and New Zealand and to a number of export markets. SVL's results from its Australian and New Zealand operations during the period were pleasing on the back of a range of new products launched under the Crestron and Australian Monitor brands. Unfortunately, the key export markets of the USA and Europe were weak due to the strength of the Australian dollar and very weak demand as a result of poor economic conditions in those markets. We continue to look for acquisitions and complementary products to add to our range.

## OptiComm/Cygnus

- Hills' strategy to expand its exposure to communications markets continued with the establishment of Cygnus Satellite, a new 50% joint venture to offer satellite bandwidth to rural and remote markets in Australia. This complements Hills' other 50% owned joint venture, OptiComm, which provides fibre to the node and fibre to the home in new housing developments. OptiComm's open platform offer is generally the preferred solution for customers and developers. The Company is forecasting improving profitability as the number of homes connected continues to increase.

OptiComm completed Stage 1 of the National Broadband Network's rollout in Tasmania and continues to operate the network operation centre for NBN Tasmania in Hobart. The business was pleased to sign a number of new greenfields estates to the OptiComm solution as a result of delays in the NBN offer. Also, during the period, OptiComm completed the fibre network in the new Westfield shopping centre in Pitt Street, Sydney. This was a first for OptiComm and for the Australian retail shopping centre market.

In both cases, all costs associated with the start up of operations have been expensed. As a result, Cygnus generated an EBIT loss of \$0.8 million (before tax) in the period under review. These losses are not forecast to continue.

# Lifestyle & Sustainability

**The Lifestyle & Sustainability division comprises our branded Home and Hardware Products operations in Australia and New Zealand, the Hills Healthcare rehabilitation and mobility business, LW Gemmell plumbing supplies, Hills Solar and Team Poly. During the year revenue declined by 8.8% to \$160.8 million and the division produced EBIT of \$9.7 million, which was 5.3% below the prior year.**

## Home & Hardware Products

- The results of Hills' traditional Hills Branded Products business continued the improvement of the previous year. The business has focussed on a smaller range of products and looks to achieve operational excellence in its supply chain and customer service. The rise in the Australian dollar has helped margins and the Directors were pleased with the solid contribution from the LW Gemmell plumbing distribution business. Since year end, the business has launched a new range of clotheslines with additional features designed to increase market share. In addition, the new range of 150kg Bailey Professional ladders has been launched.

## Hills Healthcare

- Hills Healthcare is the leading manufacturer of rehabilitation, mobility and hospital equipment in Australia. The business achieved a small improvement in profit during the period as a result of some additional nursing home construction activity, compared to the prior period, but also as a result of the higher Australian dollar. The Directors believe this business is well placed to grow over the next few years.

## Team Poly/Hills Eco

- Team Poly is one of Australia's leading manufacturers of rotationally moulded polyethylene water tanks. As a result of significant and widespread rainfall, the level of activity in the water tank industry remains at historically very low levels. During the period, other market players experienced financial difficulties including insolvency. Revenue was reduced this year compared to the prior comparable period. A number of profit improvement initiatives within Team Poly, focussing on improvements in supply chain and the manufacturing process have continued to be undertaken. The other Hills Eco business, Hills Solar, suffered from changes to government subsidies and delays in its products launch programme.

These businesses delivered an operating loss of around \$2.0 million (before tax) for the year. Profit improvement initiatives are expected to deliver better results in a difficult market.

# Building & Industrial

**The Building and Industrial Division comprises Orrcon Steel, Fielders and Korvest. Revenues declined by 2% to \$616.8 million while EBIT declined by 88% to \$3.2 million.**

## Orrcon Steel

- Orrcon Steel is a leading manufacturer and distributor of steel tube and pipe in Australia, specialising in the manufacture of precision tube, structural tube, rectangular hollow sections and water, oil and gas pipelines. After delivering an improved result in the prior year, demand for Orrcon Steel's products fell significantly below expectations.

The strengthening of the Australian dollar has led to increased competition for steel and tube products in a weak market and this, combined with very low priced imported product, has contributed to a greater market share for imported tube. In addition, inventory reductions by Orrcon Steel customers and a decline in demand for steel tube saw lower sales for Orrcon Steel.

In particular, a number of pipeline projects were deferred or sourced with imported product, which has adversely affected the results from Orrcon Steel's Pipeline and Infrastructure operation. In response to deteriorating market conditions, Hills undertook a restructure and cost reduction program in the Structural and Precision tube businesses, and after an unsuccessful process to sell the large pipe business, the Board announced in May the closure of the Unanderra plant. It is expected that all customer requirements will be met to enable a final closure in September 2011. The losses incurred by this operation, of around \$7.0 million (before tax) and which are included in profit from operations, will not recur this year.

While profit improvement initiatives have been initiated as a result of these lower levels of activity, volumes are not forecast to improve in the near term. This is consistent with information from other industry participants. The Orrcon Steel business will focus more on the domestic structural and precision markets, and will continue contracting for large major projects with imported product in the coming year.

## Fielders

- The Fielders rollforming business is a market leader in new and innovative products in a market that is not generally known for innovation.

While Fielders sales to domestic customers remained strong, the level of commercial building activity remained low, affecting the overall result for Fielders. Despite this, Fielders' national market share grew over the year, but in a contracting market.

During the period, the New South Wales operation relocated to new premises, and the business is seeing improved results from its New South Wales and Queensland operations.

Since balance date, activity in both the commercial and domestic construction markets has further deteriorated. As a result, a number of cost reduction initiatives have been implemented in Fielders.

## Korvest

- Hills holds 48.8% of Korvest which comprises the market leading EzyStrut cable and pipe support business, Korvest Galvanisers and Indax industrial access equipment. The Korvest business recorded increased revenue, but reduced profit during the period. Korvest is a separately listed public company and further details of its results are obtainable from Korvest's website.

# Sustainability

As a long established diversified company, Hills endeavours to operate its businesses in ways that are socially and environmentally responsible and consider the different needs of its stakeholders.

Hills sustainability efforts are centred around four key areas:

- the importance of Hills people;
- Hills' commitment to ensuring the health and safety of the workforce;
- the impact on the environment in which Hills operates; and
- the communities that Hills works with.

## Conduct

Hills acknowledges that its stakeholders expect it to operate in a manner that is both ethical and responsible. Hills' Code of Conduct sets out those matters which Hills considers necessary principles and standards of personal and corporate behaviour to ensure its ongoing success. Key aspects of the Code are:

- compliance with laws, policies and procedures;
- integrity and equitable dealing with third parties;
- behaviour in the work environment;
- confidentiality and privacy;
- managing conflicts of interest;
- use of company assets;
- responsibility to Hills' shareholders; and
- conduct of the business in regard to the environment.

Any breach of the Code is taken seriously. The Code provides that where a breach occurs, appropriate action will be taken that may result in termination of employment or legal action.

## People

Hills recognises that attracting, developing and retaining the best people throughout the organisation is a key component of ensuring long term sustainable outcomes for the business.

As at 30 June 2011, the Hills Group employed 2,804 staff in full-time, part-time and casual positions across Australia and New Zealand.

A key human resource strategy for Hills is to create an environment where all staff are treated equally with fairness and respect, free from harassment and discrimination. Hills' Equity and Diversity Policy underpins this objective.

This year Hills adopted a gender diversity policy to reflect the ASX Corporate Governance Council's Recommendations. Hills aims to meet its ongoing commitment to diversity by, among other things:

- creating an environment where women can achieve their career aspirations and balance their personal responsibilities;
- actively assisting women in the organisation to achieve their full potential;
- retaining Hills' female talent and drawing leaders from the total talent pool to give Hills more strength and flexibility; and
- establishing Hills as an employer of choice for women.

Hills has established a framework for its ongoing diversity initiatives. These include implementing actions that assist gender diversity across the organisation including:

- having managers participate in diversity awareness training;
- establishing a specific site on the Hills Intranet that focuses on relevant topics for women;
- providing career management training for all high potential women; and
- a mentoring program for high potential women earmarked for senior leadership roles.

Hills recognises the needs of its employees to maintain work-life balance. Hills supports flexible work practices and communicates this through its Flexible at Work Policy. Subject to the specific requirements of the position and the needs of the business at any given time, Hills employees can elect how they work at Hills from a number of flexible work options including working from home, adjusting working hours and job-sharing. An increase in the number of women returning to work in a part-time capacity following parental leave and part-time male employees at Hills is in part due to these flexible work practices.

Just as Hills considers that recruiting the best people into the business is integral to its success, so too is the ongoing learning and development of all Hills people. Hills recognises that having the skills to do the job well increases job satisfaction, productivity and improves retention.

In 2011 Hills conducted an employee survey to gain a better understanding on issues that included workplace safety; the ability to meet the needs of Hills' customers; the direction given by Hills' leadership; the reward framework and career management.

Hills' performance management process has a strong emphasis on targeted personal and professional development, supporting all people to be the best they can be today and into the future.

The majority of Hills' employees participate in learning activities specific to their development needs and the needs of the business. Working closely with third party education providers and Hills' internal learning and development staff, a number of compliance, skills and leadership development programs and traineeships are being delivered across the business.

With a focus on increasing leadership strength Hills has also introduced programs to identify and develop emerging leaders in the business.

## Health and safety

The health and safety of Hills employees is a key priority and guides business decisions and actions. Hills' strategic health and safety objective is to achieve Zero Harm. This 5 step strategy seeks to:

- integrate the Hills health and safety management systems;
- achieve compliance against recognised health and safety standards consistently across the business;
- implement a risk management based approach to health and safety management;
- ensure there is a high degree of awareness and a culture of continuous improvement throughout the business; and
- develop a customer driven health and safety culture in Hills.

Hills' policies and procedures on health and safety reflect its commitment to providing a healthy, safe and friendly environment for its employees. There is a focus on hazard management and staff are widely consulted on such matters. Staff and contractors are provided with the information necessary to perform their jobs safely. For those employees who do sustain injuries in the workplace, Hills provides an equitable claims management process and workplace rehabilitation programs to ensure the earliest possible return to meaningful and productive work.

In the last two years the Hills Group has seen a 63% reduction in its Lost Time Injury Frequency Rate, and a 46% reduction in the Total Recordable Incident Frequency Rate.

There are a number of business units that have been injury free for more than 12 months.

## Our Environment

Where appropriate in the conduct of its business, Hills cares for the environment and cultural heritage. Hills is committed to developing systems and processes that minimise any adverse environmental impacts to the furthest practical extent by:

- providing advice to its customers on the responsible use of its products;
- complying with all relevant environmental laws, regulations and standards; and
- developing standards that minimise any adverse environmental impacts resulting from its operations, products and services.

Hills recognises the long-term importance of building a reputation as an environmentally responsible company. As a business, Hills is committed to reducing the impact of its operations on the environment and playing a part in influencing consumers and the broader supply chain. In view of this, Hills is building its capacity to monitor and address these risks across all aspects of its operations.

Hills monitors and reports its energy consumption and greenhouse gas emissions output across the entire corporate group. This has led to a greater understanding of key risks and opportunities in relation to energy efficiency, process improvement, waste, business travel and supply chain carbon risks.

During September 2010, Hills became 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 effects of packaging. Hills is working toward key performance indicators set in a five year action plan aimed at optimising packaging design, recovery, recycling and product stewardship.

Hills encourages responsible energy management and offers resource efficiency workshops across the business, which identify energy, water and waste reduction opportunities. Hills has its own "Green Team", a staff led initiative that aims to establish a culture of continuous sustainability and improvement.

## The Community

Hills has a long established culture of encouraging staff participation in community activities where it operates. This includes sponsorship of employee teams in local charitable events such as the "Walk to Cure Juvenile Diabetes", Multiple Sclerosis Sydney to Wollongong Bike Ride, donations of Hills' products for fund raising events and charitable donations.

Through the Hills Charity Support Scheme (where employee contributions are matched dollar for dollar by Hills) donations in excess of \$150,000 were made during the year. These donations included:

- the finalisation of the sponsorship of a guide dog, "Hillsy" in WA;
- the training of an autism assistance dog, "Garnet", in SA;
- the purchase of a mobile cancer unit for the Cancer Council of Victoria;
- the purchase of a ventilated fume hood for the Children's Cancer Institute;
- the fit out of a new classroom for children with autism at the Aspect Hunter School (NSW); and
- the purchase of a vehicle and establishment of a sensory garden and playground for the Kath Dickson Family Centre (Qld).

Since the Scheme's inception some 11 years ago the Group has made donations in excess of \$1,000,000.



Jennifer Helen Hill-Ling



Graham Lloyd Twartz



Ian Elliot



Roger Baden Flynn

## Board of Directors

### Jennifer Helen Hill-Ling

LLB (Adel) FAICD  
Chairman, Non-Independent Non-Executive Director  
Age: 49

#### 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. In addition to any listed company directorships she is also currently a director of Hills Associates Limited and Hills Industries 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

15,602,477 ordinary shares in Hills Holdings Limited (including 1,188,918 shares owned by Hills Associates Limited and Poplar Pty Ltd (jointly held) and 14,240,495 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: 54

#### Experience and expertise

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

Graham Twartz is the Group Managing Director 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.

#### 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. 118,926 Performance Rights and 100,000 options over ordinary shares in Hills Holdings Limited.

### Ian Elliot

FAICD  
Independent Non-Executive Director  
Age: 57

#### Experience and expertise

Appointed Director in August 2003.

Ian Elliot has spent 38 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 a director of Zenith Media Pty Ltd and Cordiant Communications Group and former Chairman of Allied Brands Limited, Promentum Limited and Artist & Entertainment Group Limited and Chairman and CEO of George Patterson Advertising.

#### 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.

### Roger Baden Flynn

BEng (Hons) MBA FIE (Aust) FAICD  
Independent Non-Executive Director  
Age: 61

#### Experience and expertise

Appointed Director in November 1999 (Lead independent Director).

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

Lead independent non executive Director.

#### Interests in shares and options at the date of this report

35,665 ordinary shares in Hills Holdings Limited. Nil options over ordinary shares in Hills Holdings Limited.



Peter Stancliffe



Fiona Bennett



David Spence

#### **Peter William Stancliffe**

BE (Civil) FAICD  
Independent Non-Executive Director  
Age: 63

#### **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 Audit and Compliance Committee, 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.

#### **Fiona Rosalyn Vivienne Bennett**

BE (Hons) FCA FAICD FAIM  
Independent Non-Executive Director  
Age: 55

#### **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 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.

#### **David Moray Spence**

B Com CA (SA)  
Independent Non-Executive Director  
Age: 59

#### **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 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.

#### **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 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.

#### **Geoffrey Guild Hill**

FCPA FAICD F.S.I BEc (Syd) MBA (NSW)  
Independent Non-Executive Director  
Age: 65

#### **Experience and expertise**

Appointed Director in February 1999, retired as Director on 24 April 2011.

Geoffrey Hill is a merchant banker, based in Hong Kong, with over 33 years experience in the securities industry. He has worked both in Europe and the United States and has managed merchant banks in Australia since 1989. Mr Hill specialises in mergers and acquisitions and corporate reconstructions and has been active in the merchant banking field since 1979. In addition to his listed company directorships he is the Chairman of International Pacific Securities (Group) Limited and Asian Property Investments Limited and was formerly the Chairman of Fielders Australia Pty Ltd. He was formerly a Director of Biron Apparel Limited and Pacific Strategic Investments Limited.

#### **Other current listed company directorships**

Chairman of Metals Finance Limited (Director since 2001) and Heritage Gold NZ Limited (Director since 1999).

#### **Former listed company directorships in last 3 years**

Former Director of Brickworks Investment Company Limited (from 2005 to 2009), Huntley Investment Company Limited (from 1998 to 2009), Centrex Metals Limited (from 2008 to December 2010) and Outback Metals Limited (until November 2010).

#### **Special responsibilities**

None.

#### **Interests in shares and options at the date of this report**

None.



L to R: Tony Sullivan, Grant Logan, Graham Twartz, David Lethbridge, Mike McKinstry, Steve Cope

# Senior Leadership Team

## **Graham Twartz**

BA (Adel) DipAcc (Flinders)  
Group Managing Director  
Age: 54

Graham is the Group Managing Director 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.

## **Mike McKinstry**

B Econ and Marketing (Strathclyde, UK)  
Chief Operating Officer  
Age: 49

Mike joined in the Group in May 2011 in his current role and is responsible for the businesses within the Building and Industrial and Lifestyle and Sustainability Divisions. Previously Mike was with the AMCOR group where over the past three years he held positions as Group General Manager of both the Beverage Cans and Closures and Corrugated Box divisions. He is a former Managing Director of Alcoa Australia Rolled Products, based in Geelong, Victoria, and has held senior executive and operational positions in Australia and the USA with the PBR International brake products manufacturing and supplies group. Prior to coming to Australia he was for many years with the Rover Group motor vehicle conglomerate in the UK, culminating in his appointment as Director, Sales and Marketing Operations.

## **Grant Logan**

B Commerce and Administration (VUW, NZ)  
Chief Financial Officer  
Age: 58

Grant joined the Group in August 2011 as Chief Financial Officer. Previously Grant was the Chief Financial Officer and an executive director of Corporate Express. He was also a CFO with leading corporations including ASX-listed foods group, Goodman Fielder, Philips Electronics Australia/NZ and Bayer Australia, and has held numerous directorships with public and private companies. Grant is a former Chairman of the Electrical Lamp Manufacturing Association Ltd, Radio Rentals (SA) Pty Ltd, Philips Electronics Australia, Philips Electronics NZ, Atos Origin Pty Ltd and Blue Sky Designs.

## **Steve Cope**

CEO – Electronics & Communications  
Age: 52

Steve joined the Company in April 2007 as Group General Manager, Electronics & Communications and is responsible for all of the diverse electronics businesses in the Hills portfolio. Steve has over 30 years experience in the management of large technology and contracting companies in Australia and overseas and has held various executive management positions. He has extensive experience in technology development and commercialisation strategy. He is a graduate of the University of Melbourne MBS LIB and MDP.

## **Tony Sullivan**

B. E. (Civil) (Auckland, NZ) MBA (Cranfield School of Management, UK)  
Group General Manager Strategy  
Age: 58

Tony joined the Group in October 2010 and is responsible for Group strategy, portfolio management including acquisitions and divestments. Previously Tony was General Manager Strategy & Business Development at Alesco Corporation Limited, the Group Planning and Development Manager for the OPSM Group Limited and has also held positions across a number of companies and industries in growth and development roles including private equity.

## **David Lethbridge**

LLB (Otago, NZ), Grad Dip ACG, FCIS, GAICD  
Company Secretary  
Age: 52

David was appointed to the position of Company Secretary in January 2010. David 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.

# Consolidated Income Statement

<b>For the year ended 30 June 2011</b>	Notes	<b>Consolidated</b>	
<i>In thousands of AUD</i>			
		<b>2011</b>	<b>2010</b>
<b>Revenue from continuing operations</b>	3	<b>1,095,845</b>	1,156,326
Other income		<b>1,156</b>	1,921
		<b>1,097,001</b>	1,158,247
Expenses excluding financing costs	4	<b>(1,171,464)</b>	(1,092,778)
(Loss)/profit before net finance expense and income tax		<b>(74,463)</b>	65,469
Finance income	4	<b>1,974</b>	4,166
Finance expenses	4	<b>(6,000)</b>	(7,575)
Net finance expense	4	<b>(4,026)</b>	(3,409)
<b>(Loss)/profit before income tax</b>		<b>(78,489)</b>	62,060
Income tax benefit/(expense)		<b>5,373</b>	(18,965)
<b>(Loss)/profit for the year</b>		<b>(73,116)</b>	43,095
<b>(Loss)/profit is attributable to:</b>			
Owner of Hills Holdings Limited		<b>(74,955)</b>	40,188
Non-controlling interests		<b>1,839</b>	2,907
<b>(Loss)/profit for the year</b>		<b>(73,116)</b>	43,095
<b>Earnings per share for (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company:</b>		<b>Cents</b>	Cents
Basic earnings per share	9	<b>(30.2)</b>	16.7
Diluted earnings per share	9	<b>(30.2)</b>	16.7

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

# Discussion and Analysis of the Consolidated Income Statement

## For the year ended 30 June 2011

The Group's total revenue (excluding financial revenues) for 2011 decreased by 5.2% to \$1,095.8 million. Group underlying profit after tax (profit before unusual/significant items) attributable to shareholders decreased by 37.1% to \$25.3 million (statutory loss attributable to shareholders of \$75.0 million (2010: statutory and underlying profit of \$40.2 million)). A reconciliation of the statutory loss to the underlying profit is provided in note 9 to the Concise Annual Report.

The after tax statutory loss for the year included unusual/significant items comprising impairment of Orrcon assets and goodwill \$79.0 million, restructuring and closure costs \$3.5 million and impairment of Team Poly assets and goodwill \$17.8 million. The EBIT results discussed below reflect underlying EBIT before unusual/significant items. For further information refer to note 4.

Earnings per share before unusual/significant items decreased from 16.7¢ to 10.2¢ and statutory earnings per share after unusual/significant items decreased from 16.7¢ to a statutory loss per share of 30.2¢.

Details of revenue and results by segment are set out in note 2. A brief summary of the performance of Hills key operating divisions for the year ended 30 June 2011 is as follows:

- Electronics and Communications revenue decreased by 9.2% to \$317.4 million. Profit before interest and tax (EBIT) of \$28.0 million was 13.8% lower than 2010. These results are attributable to:
  - Electronic Security – demand for the security products of Pacific Communications, Direct Alarm Supplies and Ultra High Speed remained at acceptable levels although with the strength of the Australian dollar, selling prices continued to decrease across the period. Although the level of large project work remained subdued, the business continued to release a range of new products and has delivered an improved result for the year despite a lower profit from UHS as a result of poor export sales to the UK;
  - Antenna and TV Systems - demand from the subscription television and free-to-air television markets was good and the business continued to look for and benefit from opportunities as a result of the Australian federal government's decision to progressively shut down the analogue television signal;
  - In the previous year the DGTEC range of consumer electronic products experienced good growth and contributed to profit. In the current year the appreciation in the Australian dollar, price deflation and fierce competition adversely affected DGTEC and the business produced a loss of \$3.4 million (before tax);
  - Access Television Services (ATS) and Techlife – demand from subscription television providers for ATS installation services was strong in the second half of the financial year and Techlife was successful in winning further contracts to provide installation services to non subscription television providers. Techlife concluded projects including the Mildura, regional South Australia and regional Victoria Federal Government funded project to install digital television solutions for certain qualifying customers and won installation contracts in rolling out fibre to the home networks, including stage 1 of the National Broadband Network in Tasmania;
  - Hills SVL's results for the Australian and New Zealand operations were good on the back of a range of new products launched, however key export markets of the USA and Europe were weak due to the strength of the Australian dollar and very weak demand as a result of poor economic conditions in those markets;
- OptiComm/Cygnus – OptiComm completed Stage 1 of the National Broadband Network's rollout in Tasmania, is operating the network operation centre for NBN Tasmania, signed a number of new greenfields estates to the OptiComm solution and completed the fibre network in the new Westfield Shopping Centre in Pitt Street, Sydney. Costs associated with the start up operations of OptiComm and the Group's other new 50% joint venture, Cygnus Satellite, which offers satellite bandwidth to rural and remote markets in Australia, have been expensed.
- Lifestyle and Sustainability revenue decreased by 8.8% to \$160.8 million while EBIT decreased by 5.3% to \$9.7 million. These results are attributable to:
  - Hills Branded Products continued its improvement in results as the business continued its focus on a smaller range of products and on achieving operational excellence in its supply chain and customer service. Margins were assisted by the rise in the Australian dollar;
  - The Hills Healthcare business achieved a small improvement in EBIT during the period as a result of some additional nursing home construction activity and also as a result of the high Australian dollar;
  - The LW Gemmell business made a solid contribution during the year;
  - The Hills Solar business suffered from changes to government subsidies and delays in its product launch programme;
  - Team Poly recorded lower sales volumes and an EBIT loss for the year because the level of activity in the water tank business remains at historically very low levels due to significant and widespread rainfall and a lack of government subsidies.
- Building and Industrial Products (including Korvest) revenue decreased by 2.0% to \$616.8 million while EBIT decreased by 88.0% to \$3.2 million. These results are attributable to:
  - Revenue was flat as a result of low demand in the commercial building sector and a lack of project related oil and gas work;
  - Demand for Orrcon Steel products fell significantly, due to the strengthening of the Australian dollar, which has led to very low priced imported product, contributing to a greater market share for imported tube. In addition, lower sales resulted from inventory reductions by Orrcon Steel customers and a decline in demand for steel tube. A number of pipeline projects were deferred or sourced with imported products, adversely affecting Orrcon's Pipeline and Infrastructure operation, which recorded losses of \$7.0 million (before tax);
  - Fielders sales to domestic customers remained strong throughout the year, however the level of commercial building activity remained low, affecting the overall result. Fielders national market share grew over the year but in a contracting market;
  - The Korvest business recorded increased revenue but reduced profit during the period.

# Consolidated Statement of Comprehensive Income

**For the year ended 30 June 2011**

Notes

**Consolidated**

*In thousands of AUD*

		<b>2011</b>	2010
<b>(Loss)/profit for the year</b>		<b>(73,116)</b>	43,095
<b>Other comprehensive income/(loss)</b>			
Gain on revaluation of land and buildings	7	<b>13,480</b>	–
Changes in the fair value of cash flow hedges	7	<b>(1,484)</b>	(707)
Exchange differences on translation of foreign operations	7	<b>(749)</b>	318
Income tax relating to components of other comprehensive income		<b>(3,512)</b>	212
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>7,735</b>	(177)
<b>Total comprehensive (loss)/income for the year</b>		<b>(65,381)</b>	42,918
<b>Total comprehensive (loss)/income for the year is attributable to:</b>			
Owners of Hills Holdings Limited		<b>(67,686)</b>	40,011
Non-controlling interests		<b>2,305</b>	2,907
<b>Total comprehensive (loss)/income for the year</b>		<b>(65,381)</b>	42,918

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

# Discussion and Analysis of the Consolidated Statement of Comprehensive Income

## **For the year ended 30 June 2011**

The Group's other comprehensive income for the year increased from a loss of \$0.2 million in 2010 to income of \$7.7 million in 2011 due to:

- Independent valuation of land and buildings increased property, plant and equipment by \$13.5 million. The after tax impact of \$9.4 million was recorded through other comprehensive income in the asset revaluation reserve;
- The effective portion of fair value changes in cash flow hedges of a loss of \$1.0 million (net of tax) was recorded through other comprehensive income in the cash flow hedging reserve;
- The increase in the Australian dollar against the New Zealand dollar resulted in a loss of \$0.7 million being recorded in other comprehensive income in relation to exchange differences on translation of the Group's New Zealand operations.

# Consolidated Statement of Financial Position

<b>As at 30 June 2011</b>	Notes	<b>Consolidated</b>	
<i>In thousands of AUD</i>		<b>2011</b>	2010
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	<b>7,158</b>	56,915
Trade and other receivables		<b>184,042</b>	186,002
Inventories		<b>167,999</b>	181,496
Derivative financial instruments		<b>–</b>	800
		<b>359,199</b>	425,213
Assets classified as held for sale		<b>2,702</b>	–
<b>Total Current Assets</b>		<b>361,901</b>	425,213
<b>Non-Current Assets</b>			
Investments		<b>2</b>	2
Property, plant and equipment		<b>197,040</b>	219,658
Deferred tax assets		<b>31,485</b>	23,771
Intangible assets		<b>49,213</b>	116,300
<b>Total Non-Current Assets</b>		<b>277,740</b>	359,731
<b>Total Assets</b>		<b>639,641</b>	784,944
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		<b>98,671</b>	128,048
Borrowings		<b>6,833</b>	1,384
Current tax liabilities		<b>242</b>	10,622
Provisions		<b>30,963</b>	33,445
Derivative financial instruments		<b>520</b>	262
<b>Total Current Liabilities</b>		<b>137,229</b>	173,761
<b>Non-Current Liabilities</b>			
Borrowings		<b>91,479</b>	105,684
Provisions		<b>6,570</b>	6,318
Derivative financial instruments		<b>2,056</b>	2,682
<b>Total Non-Current Liabilities</b>		<b>100,105</b>	114,684
<b>Total Liabilities</b>		<b>237,334</b>	288,445
<b>Net Assets</b>		<b>402,307</b>	496,499
<b>EQUITY</b>			
Contributed equity	6	<b>306,790</b>	306,595
Reserves	7	<b>57,245</b>	47,899
Retained earnings		<b>21,504</b>	126,107
<b>Capital and reserves attributable to owners of Hills Holdings Limited</b>		<b>385,539</b>	480,601
Non-controlling interests		<b>16,768</b>	15,898
<b>Total Equity</b>		<b>402,307</b>	496,499

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

# Discussion and Analysis of the Consolidated Statement of Financial Position

## As at 30 June 2011

During the year the Group's net assets decreased by \$94.2 million or 19.0% to \$402.3 million.

The decrease in the Group's total assets of \$145.3 million to \$639.6 million principally comprises:

- Decrease in cash of \$49.8 million as explained in the analysis and discussion on the consolidated statement of cash flows;
- A decrease in the value of inventories of \$13.5 million due to lower levels of activity in the second half of the financial year;
- A decrease in property, plant and equipment of \$22.6 million due to \$34.6 million impairment of Orrcon assets, \$1.7 million impairment of Team Poly assets, \$2.7 million reclassification of Orrcon assets as assets held for sale, offset by revaluation of land and buildings increasing asset values by \$13.5 million and capital expenditure of \$26.8 million;
- Deferred tax assets increased by \$7.7 million due to the impact of asset impairments of \$10.9 million, offset by the impact of the revaluation of land and buildings of \$4.0 million;
- Intangible assets decreased by \$67.1 million due to the impairment of Orrcon goodwill of \$49.6 million and the impairment of Team Poly goodwill of \$16.6 million. Further discussion on these items is included in note 4 to the concise Annual Report.

The decrease in the Group's total liabilities of \$51.1 million to \$237.3 million principally comprises:

- Decrease in trade and other payables of \$29.4 million due to changes in the timing of payments to creditors and lower levels of activity in the second half of the financial year;
- Decrease in total borrowings of \$8.8 million due to the retirement of debt;
- Decrease in current tax liabilities of \$10.4 million due to the reduction in tax expense and higher tax instalments paid.

For movement in the Group's equity balances refer to the analysis and discussion on the consolidated statement of changes in equity.

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2011

In thousands of AUD

Consolidated	Notes	Attributable to owners of Hills Holdings Limited					Total equity
		Contributed equity	Reserves	Retained earnings	Total	Non-controlling interests	
<b>Balance at 1 July 2009</b>		<b>248,598</b>	<b>46,495</b>	<b>107,442</b>	<b>402,535</b>	<b>25,985</b>	<b>428,520</b>
<b>Total comprehensive income for the year</b>		<b>–</b>	<b>(177)</b>	<b>40,188</b>	<b>40,011</b>	<b>2,907</b>	<b>42,918</b>
<b>Transactions with owners in their capacity as owners:</b>							
Contributions of equity, net of transaction costs and tax	6	57,997	–	–	57,997	–	57,997
Non-controlling interests in share capital issued by subsidiary		–	–	–	–	640	640
Change in non-controlling interest on acquisition of subsidiary		–	1,551	–	1,551	(11,551)	(10,000)
Dividends provided for or paid	8	–	–	(21,523)	(21,523)	–	(21,523)
Dividends paid to non-controlling interests in subsidiaries		–	–	–	–	(2,083)	(2,083)
Employee share options – value of employee services	7	–	30	–	30	–	30
<b>Balance at 30 June 2010</b>		<b>306,595</b>	<b>47,899</b>	<b>126,107</b>	<b>480,601</b>	<b>15,898</b>	<b>496,499</b>
<b>Balance at 1 July 2010</b>		<b>306,595</b>	<b>47,899</b>	<b>126,107</b>	<b>480,601</b>	<b>15,898</b>	<b>496,499</b>
<b>Total comprehensive income for the year</b>		<b>–</b>	<b>7,269</b>	<b>(74,955)</b>	<b>(67,686)</b>	<b>2,305</b>	<b>(65,381)</b>
<b>Transactions with owners in their capacity as owners:</b>							
Contributions of equity, net of transaction costs and tax	6	195	–	–	195	–	195
Non-controlling interests in share capital issued by subsidiary		–	–	–	–	750	750
Change in non-controlling interest on acquisition of subsidiary		–	(332)	–	(332)	(811)	(1,143)
Dividends provided for or paid	8	–	–	(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	7	–	34	–	34	5	39
Transfer to Reserves		–	2,375	(2,375)	–	–	–
<b>Balance at 30 June 2011</b>		<b>306,790</b>	<b>57,245</b>	<b>21,504</b>	<b>385,539</b>	<b>16,768</b>	<b>402,307</b>

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

## Discussion and Analysis of the Consolidated Statement of Changes in Equity

During the year the Group's total equity decreased by 19.0% to \$402.3 million.

- Reserves increased by \$9.3 million due to the increase in the valuation of land and buildings of \$9.4 million recorded in the asset revaluation reserve and changes in the fair value of cash flow hedges of a loss of \$1.0 million recorded in the cash flow hedge reserve;
- Retained profits decreased by \$104.6 million as set out in the discussion and analysis of the income statement and due to dividends paid during the financial year of \$27.3 million.

## Consolidated Statement of Cashflows

For the year ended 30 June 2011	Notes	Consolidated	
<i>In thousands of AUD</i>		2011	2010
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		1,204,824	1,281,583
Payments to suppliers and employees (inclusive of goods and services tax)		(1,170,304)	(1,160,308)
Cash generated from operations		34,520	121,275
Interest received		798	1,596
Interest paid		(5,960)	(7,575)
Income taxes paid		(16,378)	(13,748)
<b>Net cash inflow from operating activities</b>		<b>12,980</b>	<b>101,548</b>
<b>Cash flows from investing activities</b>			
Payment for acquisition of business operations, net of cash acquired	11	-	(3,953)
Payments to increase ownership interest in subsidiary		(1,143)	(10,064)
Payments for property, plant and equipment		(26,823)	(19,094)
Payments for patents, trademarks and intellectual property		(293)	(3,010)
Proceeds from sale of property, plant and equipment		832	4,138
Rent received		860	864
<b>Net cash (outflow) from investing activities</b>		<b>(26,567)</b>	<b>(31,119)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of shares		-	57,098
Proceeds from borrowings		-	374
Repayment of borrowings		(15,000)	(115,465)
Loans received from / (paid to) other entities		1,976	(1,058)
Proceeds from share issues to non-controlling interests in subsidiaries		300	640
Dividends paid to Company's shareholders	8	(27,273)	(21,523)
Dividends paid to non-controlling interests in subsidiaries		(1,379)	(2,630)
<b>Net cash (outflow) from financing activities</b>		<b>(41,376)</b>	<b>(82,564)</b>
<b>Net (decrease) in cash and cash equivalents</b>		<b>(54,963)</b>	<b>(12,135)</b>
Cash and cash equivalents at the beginning of the financial year		55,531	67,650
Effects of exchange rate changes on cash and cash equivalents		78	16
<b>Cash and cash equivalents at the end of the financial year</b>	5	<b>646</b>	<b>55,531</b>

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

## Discussion and Analysis of the Consolidated Statement of Cash Flows

Cash flows from operating activities reduced by \$88.6 million:

- Profit after adjusting for non cash items is \$34.4 million lower;
- Increase in working capital due to the reduction in trade and other creditors, which was due to changes in the timing of payments to creditors and lower activity in the second half of the financial year. In 2010 working capital reduced due to significant reductions in debtors and inventory;
- Income taxes paid were higher due to payments in relation to 2010 as well as the estimate of taxable income for 2011 being higher than the final result.

Cash outflows from investing activities decreased by \$4.6 million:

- There were no business acquisitions during 2011. In 2010 the Steelbarn business was acquired;
- In 2010 the remaining interest in Fielders Australia Pty Ltd was acquired (\$10 million). In 2011 the Group increased its interest in Korvest Ltd (\$1.1 million);
- Acquisitions of non current assets (property, plant and equipment and patents and trademarks) were \$5.0 million higher in 2011;
- Decrease in the proceeds on the sale of property, plant and equipment of \$3.3 million.

Cash outflows from financing activities decreased by \$41.2 million:

- The capital raising in 2010 resulted in proceeds of \$57.1 million, and this, together with cash generated from operations, was used to pay down debt of \$115.5 million;
- Dividends paid during the year increased from 9.0 cents in 2010 to 11.0 cents in 2011, resulting in an increase in dividends paid of \$5.8 million.

# Notes to the Consolidated Financial Statements

## 1. Summary of significant accounting policies

The concise financial report includes the financial statements for the consolidated entity consisting of 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

The concise financial report has been prepared in accordance with the *Corporations Act 2001* and Accounting Standard AASB 1039 *Concise Financial Reports* (AASB 1039). The financial statements and specific disclosures required by AASB 1039 have been derived from the Group's full Financial Report for the financial year. Other information included in the concise Financial Report is consistent with the Group's full Financial Report. The concise financial report does not, and cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full Financial Report.

A full description of the accounting policies adopted by the Group may be found in the Group's full Financial Report.

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

The Board of Directors approved the Concise Annual Report on 11 September 2011.

#### (i) 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 31 of the full Financial Report.

#### (ii) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

#### (iii) 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 11 - business combinations
- Note 13 of the full Financial Report - measurement of the recoverable amounts of cash generating units containing goodwill
- Note 26 of the full Financial Report - measurement of share based payments
- Note 10 and notes 19, 21 and 29 of the full Financial Report - provisions and contingencies
- Note 14 of the full Financial Report - financial instruments
- Notes 11 and 13 of the full Financial Report - measurement of the useful lives of property, plant and equipment and intangible assets (excluding goodwill).

#### (iv) Early adoption of standards

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

# Notes to the Consolidated Financial Statements

## 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 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, stainless steel products and plumbing products.

**Building and 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 business from a products and services perspective. The Electronics & Communications division is managed separately by a group general manager 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. These businesses are run by separate General Managers and the Group considers them 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.

# Notes to the Consolidated Financial Statements

## 2. Segment information (continued)

### (b) Segment information provided to the Group Managing Director

<i>In thousands of AUD</i>	<b>Electronics &amp; Communications</b>	<b>Lifestyle &amp; Sustainability</b>	<b>Building &amp; Industrial</b>	<b>Korvest Ltd</b>	<b>Total</b>
<b>2011</b>					
<b>Total segment revenue</b>	<b>340,675</b>	<b>161,440</b>	<b>553,242</b>	<b>67,383</b>	<b>1,122,740</b>
Inter-segment revenue	(23,296)	(680)	(3,622)	(157)	(27,755)
<b>Revenue from external customers</b>	<b>317,379</b>	<b>160,760</b>	<b>549,620</b>	<b>67,226</b>	<b>1,094,985</b>
<b>Segment EBIT</b>	<b>28,027</b>	<b>9,697</b>	<b>(2,402)</b>	<b>5,556</b>	<b>40,878</b>
Depreciation and amortisation	3,339	4,995	11,769	1,278	21,381
<b>Total segment assets</b>	<b>142,608</b>	<b>107,815</b>	<b>277,649</b>	<b>42,434</b>	<b>570,506</b>
Total assets include:					
Additions to non-current assets (other than financial assets and deferred tax)	5,175	4,396	11,215	2,040	22,826
<b>Total segment liabilities</b>	<b>37,846</b>	<b>19,900</b>	<b>57,047</b>	<b>8,974</b>	<b>123,767</b>
<b>2010</b>					
<b>Total segment revenue</b>	<b>368,901</b>	<b>177,444</b>	<b>578,061</b>	<b>55,775</b>	<b>1,180,181</b>
Inter-segment revenue	(19,395)	(1,133)	(3,695)	(496)	(24,719)
<b>Revenue from external customers</b>	<b>349,506</b>	<b>176,311</b>	<b>574,366</b>	<b>55,279</b>	<b>1,155,462</b>
<b>Segment EBIT</b>	<b>32,525</b>	<b>10,235</b>	<b>20,622</b>	<b>5,706</b>	<b>69,088</b>
Depreciation and amortisation	3,291	5,803	12,110	1,060	22,264
<b>Total segment assets</b>	<b>143,955</b>	<b>128,840</b>	<b>372,623</b>	<b>35,882</b>	<b>681,300</b>
Total assets include:					
Additions to non-current assets (other than financial assets and deferred tax)	2,956	2,128	13,068	2,362	20,514
<b>Segment liabilities</b>	<b>33,099</b>	<b>26,989</b>	<b>81,830</b>	<b>7,070</b>	<b>148,988</b>

### (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.

#### (ii) Segment revenue

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

<i>In thousands of AUD</i>	<b>Consolidated</b>	
	<b>2011</b>	2010
<b>Total segment revenue</b>	<b>1,122,740</b>	1,180,181
Intersegment eliminations	<b>(27,755)</b>	(24,719)
Other revenue	<b>860</b>	864
<b>Total revenue from continuing operations (note 3)</b>	<b>1,095,845</b>	1,156,326

The Group is domiciled in Australia. The amount of its revenue from external customers in Australia is \$1,050.138 million (2010: \$1,116.159 million), and the total of revenue from external customers in other countries is \$44.847 million (2010: \$39.303 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.

# Notes to the Consolidated Financial Statements

## 2. Segment information (continued)

### (iii) Segment EBIT

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

<i>In thousands of AUD</i>	<b>Consolidated</b>	
	<b>2011</b>	2010
<b>Segment EBIT</b>	<b>40,878</b>	69,088
Interest revenue	<b>798</b>	1,596
Interest expense	<b>(5,960)</b>	(7,575)
Fair value profit on interest rate swaps and forward exchange contracts	<b>1,136</b>	2,570
Goodwill impairment	<b>(66,182)</b>	-
Impairment of other assets	<b>(43,694)</b>	(1,680)
Closure costs	<b>(4,963)</b>	-
Other	<b>(502)</b>	(1,939)
<b>(Loss)/profit before income tax from continuing operations</b>	<b>(78,489)</b>	62,060

### (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:

<i>In thousands of AUD</i>	<b>Consolidated</b>	
	<b>2011</b>	2010
<b>Segment assets</b>	<b>570,506</b>	681,300
Cash	<b>7,158</b>	56,915
Deferred tax assets	<b>31,485</b>	23,771
Investments	<b>2</b>	2
Derivative financial instruments	<b>-</b>	800
Corporate assets	<b>30,490</b>	22,156
<b>Total assets as per the consolidated statement of financial position</b>	<b>639,641</b>	784,944

The total of non current assets other than financial instruments and deferred tax assets located in Australia is \$238.629 million (2010: \$327.890 million), and the total of these non current assets located in other countries is \$7.624 million (2010: \$8.070 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:

<i>In thousands of AUD</i>	<b>Consolidated</b>	
	<b>2011</b>	2010
<b>Segment liabilities</b>	<b>123,767</b>	148,988
Tax liabilities (including GST payable)	<b>4,916</b>	15,646
Borrowings	<b>98,312</b>	107,068
Derivative financial instruments	<b>2,576</b>	2,944
Corporate liabilities	<b>7,763</b>	13,799
<b>Total liabilities as per the consolidated statement of financial position</b>	<b>237,334</b>	288,445

# Notes to the Consolidated Financial Statements

## 3 Revenue

In thousands of AUD

	<b>Consolidated</b>	
	<b>2011</b>	2010
<b>From continuing operations</b>		
<b>Sales revenue</b>		
Sale of goods	<b>1,033,517</b>	1,094,540
Services	<b>61,468</b>	60,922
	<b>1,094,985</b>	1,155,462
<b>Other revenue</b>		
Rents and sub-lease rentals	<b>860</b>	864
	<b>1,095,845</b>	1,156,326

## 4 Expenses

In thousands of AUD

	<b>Consolidated</b>	
	<b>2011</b>	2010
<b>Classification of expenses by function</b>		
Cost of goods sold	<b>714,556</b>	756,558
Cost of services provided	<b>54,331</b>	53,143
Distribution expenses	<b>89,409</b>	87,337
Sales and marketing expenses	<b>135,022</b>	129,091
Administration expenses	<b>63,307</b>	64,486
Other expenses	<b>114,839</b>	2,163
	<b>1,171,464</b>	1,092,778
<b>(Loss)/profit before income tax includes the following specific expenses:</b>		
<i>Depreciation</i>		
Buildings	<b>1,769</b>	1,644
Plant and equipment	<b>20,112</b>	21,233
Total depreciation	<b>21,881</b>	22,877
<i>Amortisation</i>		
Patents and trademarks	<b>1,158</b>	996
Development costs	<b>40</b>	40
Total amortisation	<b>1,198</b>	1,036
Total depreciation and amortisation	<b>23,079</b>	23,913
<i>Personnel expenses</i>		
Wages and salaries	<b>192,454</b>	184,512
Defined contribution superannuation expense	<b>16,238</b>	15,383
Other employee benefits expense	<b>17,292</b>	18,556
Equity-settled share-based payment transactions	<b>479</b>	467
	<b>226,463</b>	218,918
<i>Finance expenses</i>		
Interest and finance charges paid/payable	<b>5,960</b>	7,575
Ineffective portion of changes in fair value of cash flow hedges	<b>40</b>	-
	<b>6,000</b>	7,575
<i>Finance income</i>		
Interest income	<b>(798)</b>	(1,596)
Fair value gains on derivatives	<b>(1,176)</b>	(2,504)
Ineffective portion of changes in fair value of cash flow hedges	<b>-</b>	(66)
	<b>(1,974)</b>	(4,166)
Net finance costs expensed	<b>4,026</b>	3,409

# Notes to the Consolidated Financial Statements

## 4 Expenses (continued)

In thousands of AUD

	<b>Consolidated</b>	
	<b>2011</b>	2010
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	<b>25,191</b>	22,625
<i>Research and development</i>	<b>446</b>	467
<i>Impairment of financial and other assets</i>		
Plant and equipment	<b>37,210</b>	1,680
Inventories	<b>3,783</b>	3,836
Receivables	<b>1,635</b>	3,336
Intangible assets	<b>66,182</b>	–
Total impairment losses - financial and other assets	<b>108,810</b>	8,852
<b>(Loss)/profit after tax for the year includes the following items that are unusual because of their nature and size:</b>		
(a) Impairment of Orrcon plant and equipment (recognised within Other expenses)	<b>34,622</b>	–
Less: Applicable income tax benefit	<b>(10,387)</b>	–
	<b>24,235</b>	–
(b) Impairment of Orrcon inventory (recognised within Other expenses)	<b>7,324</b>	–
Less: Applicable income tax benefit	<b>(2,197)</b>	–
	<b>5,127</b>	–
(c) Impairment of Orrcon goodwill (recognised within Other expenses)	<b>49,590</b>	–
Less: Applicable income tax benefit	–	–
	<b>49,590</b>	–
(d) Impairment of Team Poly plant and equipment (recognised within Other expenses)	<b>1,748</b>	–
Less: Applicable income tax benefit	<b>(524)</b>	–
	<b>1,224</b>	–
(e) Impairment of Team Poly goodwill (recognised within Other expenses)	<b>16,592</b>	–
Less: Applicable income tax benefit	–	–
	<b>16,592</b>	–
(f) Closure costs (recognised within Other Expenses)	<b>4,963</b>	–
Less: Applicable income tax benefit	<b>(1,489)</b>	–
	<b>3,474</b>	–

As a result of poor trading conditions during the year at Orrcon and Team Poly and the decision to close Orrcon's Unanderra operations, the Group has undertaken a comprehensive review of the carrying values of the assets including the goodwill of Orrcon and Team Poly. This has 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 is \$96.768 million.

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.

As part of the restructuring of Orrcon, in May 2011 the Directors decided to close certain operations and assets previously used in manufacturing have been classified as held for sale. An active programme of marketing and selling the assets is underway. There are interested parties and the sales are expected to be completed during the financial year. The assets are 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 are presented within "impairment of property, plant and equipment in note 4 and disclosed within note 11 of the full Financial Report.

# Notes to the Consolidated Financial Statements

## 4 Expenses (continued)

The recoverable amount of the Orrcon cash generating unit was then 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% (2010: 14.17%). Cash flow projections have been based on 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. The Orrcon cash generating unit recoverable amount is sensitive to a possible change in EBIT. The Orrcon business is forecasting annualised EBIT growth of 2% – 3% per annum over the five year model period. A terminal value has been determined at the end of the five year strategic plan using a growth rate of 2.5% (2010: 3%), which is no greater than the long term average growth rate for the market to which the assets are dedicated. Based on this assessment assets are impaired by \$49.590 million and in accordance with Accounting Standards the impairment was allocated against goodwill.

The decision to close Orrcon's Unanderra operations was announced and communicated to affected parties in May 2011. Costs associated with the closure totalling \$4.963 million have been recognised in the financial statements at 30 June 2011. The after tax impact of these costs is \$3.474 million.

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 Team Poly cash generating unit was then 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% (2010: 14.77%). Cash flow projections have been based on 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. The Team Poly cash generating unit recoverable amount is sensitive to a possible change in EBIT. The Team Poly business is forecasting average annualised EBIT growth of 3% – 3.5% per annum over the five year model period. A terminal value has been determined at the end of the five year strategic plan using a growth rate of 3% (2010: 3%), which is no greater than the long term average growth rate for the market to which the assets are dedicated. Based on this assessment assets are impaired by \$16.592 million and in accordance with Accounting Standards the impairment was allocated against goodwill.

## 5 Current assets Cash and cash equivalents

In thousands of AUD

	Consolidated	
	2011	2010
Cash at bank and in hand	6,396	10,610
Deposits at call	762	46,305
	<b>7,158</b>	56,915

### (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:

In thousands of AUD

	Consolidated	
	2011	2010
Balances as above	7,158	56,915
Bank overdrafts	(1,512)	(1,384)
Borrowing - at call	(5,000)	-
Balances per consolidated statement of cash flows	<b>646</b>	55,531

## 6 Contributed equity

	2011	2010	2011	2010
	Shares '000	Shares '000	\$'000	\$'000
(a) Share capital				
Ordinary shares fully paid	248,636	247,697	306,790	306,595

# Notes to the Consolidated Financial Statements

## 6 Contributed equity (continued)

### (b) Movements in ordinary share capital:

Date	Details	Numbers of shares '000	\$'000
1 July 2009	Opening balance	204,601	248,598
	Issued under the capital raising	29,185	40,859
	Issued under the Share Purchase Plan	11,956	16,738
	Issued under the Dividend Investment Plan	674	1,255
	Issued under the Share Investment Plan	382	-
	Issued under the Employee Share Bonus Plan	899	373
	Less: Transaction costs arising on share issue	-	(1,228)
30 June 2010	Balance	247,697	306,595
1 July 2010	Opening balance	247,697	306,595
	Issued under the Employee Share Bonus Plan	939	375
	Less: Movement in deferred tax asset relating to transaction costs arising on share issue	-	(180)
30 June 2011	Balance	248,636	306,790

### (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.

### (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 26 of the full Financial Report.

### (g) 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 equity. Net debt is calculated as total borrowings as shown in the statement of financial position less cash and cash equivalents. Total equity is equity as shown in the statement of financial position (including non controlling interests).

During 2011, the Group's strategy, which was unchanged from 2010, was to maintain a target gearing ratio less than 45%.

The gearing ratios at 30 June 2011 and 30 June 2010 were as follows:

*In thousands of AUD*

	Consolidated	
	2011	2010
Total borrowings	98,312	107,068
Less: cash and cash equivalents	(7,158)	(56,915)
Net debt	91,154	50,153
Total equity	402,307	496,499
<b>Gearing ratio</b>	<b>22.7%</b>	10.1%

The increase in the gearing ratio during 2011 resulted primarily from lower levels of cash generated from operations and the decrease in total equity, due to the impairment of assets recorded.

# Notes to the Consolidated Financial Statements

## 7 Reserves

In thousands of AUD

	<b>Consolidated</b>	
	<b>2011</b>	2010
<b>(a) Reserves</b>		
Asset revaluation reserve	<b>47,041</b>	35,634
Hedging reserve – cash flow hedges	<b>(1,304)</b>	(265)
Asset realisation reserve	<b>11,854</b>	12,019
Foreign currency translation reserve	<b>(2,212)</b>	(1,653)
Equity compensation reserve	<b>647</b>	613
Non-controlling interests acquisition reserve	<b>1,219</b>	1,551
	<b>57,245</b>	47,899
<b>Movements:</b>		
<i>Asset revaluation reserve</i>		
Balance 1 July	<b>35,634</b>	44,828
Revaluation – gross	<b>12,814</b>	-
Deferred tax	<b>(3,757)</b>	-
Transfer (to)/from retained earnings	<b>2,350</b>	-
Transfer to asset realisation reserve	-	(9,194)
Balance 30 June	<b>47,041</b>	35,634
<i>Hedging reserve – cash flow hedges</i>		
Balance 1 July	<b>(265)</b>	230
Revaluation – gross	<b>(1,484)</b>	(707)
Deferred tax	<b>445</b>	212
Balance 30 June	<b>(1,304)</b>	(265)
<i>Asset realisation reserve</i>		
Balance 1 July	<b>12,019</b>	2,825
Transfer from asset revaluation reserve	-	9,194
Transfer (to)/from retained earnings	<b>(165)</b>	-
Balance 30 June	<b>11,854</b>	12,019
<i>Foreign currency translation reserve</i>		
Balance 1 July	<b>(1,653)</b>	(1,971)
Currency translation differences arising during the year	<b>(722)</b>	269
Disposal of foreign subsidiary	<b>(27)</b>	49
Transfer (to)/from retained earnings	<b>190</b>	-
Balance 30 June	<b>(2,212)</b>	(1,653)
<i>Equity compensation reserve</i>		
Balance 1 July	<b>613</b>	583
Long Term Incentive Share Plan and Executive Share Option Plan expense	<b>34</b>	30
Balance 30 June	<b>647</b>	613
<i>Non-controlling interests acquisition reserve</i>		
Balance 1 July	<b>1,551</b>	-
Adjustment to non-controlling interest upon increase in Group shareholding	<b>(332)</b>	1,551
Balance 30 June	<b>1,219</b>	1,551

# Notes to the Consolidated Financial Statements

## 7 Reserves (continued)

### (b) Nature and purpose of reserves

#### (i) Asset revaluation reserve

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

#### (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 of the full Financial Report. 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.

#### (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 of the full Financial Report 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.

## 8 Dividends

In thousands of AUD

	<b>Consolidated</b>	
	<b>2011</b>	2010
<b>(a) Ordinary shares</b>		
Final dividend for the year ended 30 June 2010 of 5.5 cents (year ended 30 June 2009: 2.0 cents) per fully paid share paid on 27 September 2010 (year ended 30 June 2009: 23 November 2009)		
Fully franked based on tax paid @ 30%	<b>13,623</b>	4,917
Final dividend foregone for Share Investment Plan	-	(713)
	<b>13,623</b>	4,204
Interim dividend for the year ended 30 June 2011 of 5.5 cents (2010: 7.0 cents) per fully paid share paid on 21 March 2011 (2010: 3 March 2010)		
Fully franked based on tax paid @ 30%	<b>13,650</b>	17,319
Total dividends provided for or paid	<b>27,273</b>	21,523

### (b) Dividends and share reinvestment plan

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

# Notes to the Consolidated Financial Statements

## 8 Dividends (continued)

In thousands of AUD

	<b>Consolidated</b>	
	<b>2011</b>	2010
<b>(c) Dividends not recognised at the end of the reporting period</b>		
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 4.5 cents per fully paid ordinary share (2010: 5.5 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 26 September 2011 out of retained profits at 30 June 2011, but not recognised as a liability at year end, is	<b>11,189</b>	13,623

## (d) Franked dividends

The franked portions of the final dividends recommended after 30 June 2011 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 2012.

In thousands of AUD

	<b>Consolidated</b>	
	<b>2011</b>	2010
Franking credits available for subsequent financial years based on a tax rate of 30% (2010: 30%)	<b>32,713</b>	41,240

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 \$4,795,000 (2010: \$5,838,000).

## 9 Earnings per share

In cents

	<b>Consolidated</b>	
	<b>2011</b>	2010
<b>(a) Basic earnings per share</b>		
From (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	<b>(30.2)</b>	16.7
From profit from continuing operations before unusual/significant items attributable to the ordinary equity holders of the Company	<b>10.2</b>	16.7
<b>(b) Diluted earnings per share</b>		
From (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	<b>(30.2)</b>	16.7
From profit before unusual/significant items attributable to the ordinary equity holders of the Company	<b>10.2</b>	16.7

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

In thousands of AUD

	<b>Consolidated</b>	
	<b>2011</b>	2010
<i>Basic earnings per share</i>		
(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	<b>(74,955)</b>	40,188
<i>Diluted earnings per share</i>		
(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	<b>(74,955)</b>	40,188

# Notes to the Consolidated Financial Statements

## 9 Earnings per share (continued)

	Consolidated	
	2011	2010
<i>In thousands of AUD</i>		
<i>Basic earnings per share before unusual / significant items</i>		
(Loss) / profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	<b>(74,955)</b>	40,188
Adjusted for unusual / significant items:		
Impairment of Orrcon plant and equipment	<b>24,235</b>	-
Impairment of Orrcon inventory	<b>5,127</b>	-
Impairment of Orrcon goodwill	<b>49,590</b>	-
Impairment of Team Poly plant and equipment	<b>1,224</b>	-
Impairment of Team Poly goodwill	<b>16,592</b>	-
Closure costs	<b>3,474</b>	-
Profit attributable to the ordinary equity holders of the Company before unusual / significant items used in calculating basic earnings per share	<b>25,287</b>	40,188

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

	Consolidated	
	2011 Number '000	2010 Number '000
<i>In thousands of shares</i>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<b>248,171</b>	240,481
Adjustments for calculation of diluted earnings per share:		
Effect of share options on issue	-	523
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<b>248,171</b>	241,004

## 10 Contingent liabilities

### (a) Contingent liabilities

The Group had contingent liabilities at 30 June 2011 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 is unknown and no provision has been made.

#### (ii) Guarantees

(a) Letters of credit established in favour of suppliers / creditors amounting to \$10,439,000 (2010: \$6,831,000).

(b) Bank guarantees in favour of customers and suppliers amounting to \$19,302,000 (2010: \$18,557,000).

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

## 11 Business combination

### Current period

There were no acquisitions of subsidiaries or business operations in the current reporting period.

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.

# Notes to the Consolidated Financial Statements

## 11 Business combination (continued)

### Prior period

#### (a) Summary of acquisition

On 31 May 2010 the Group acquired certain assets of the operations of The Steel Barn Pty Ltd in Queensland.

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

*In thousands of AUD*

Purchase consideration	
Cash paid	3,558
Total purchase consideration	3,558
Fair value of net identifiable assets acquired (refer to (b) below)	3,558
Goodwill	-

#### (b) Assets and liabilities acquired

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

*In thousands of AUD*

	<b>Fair value</b>
Inventories	2,359
Property, plant and equipment	1,463
Other assets	12
Provision for employee benefits	(276)
Net identifiable assets acquired	3,558
Add: goodwill	-
Net assets acquired	3,558

#### (c) Purchase consideration – cash outflow

*In thousands of AUD*

	<b>Consolidated</b>	
	<b>2011</b>	2010
Outflow of cash to acquire business operation:		
Cash consideration	-	3,558
Direct costs relating to acquisition	-	395
Outflow of cash – investing activities	-	3,953

#### *Acquisition related costs*

Acquisition related costs of \$395,000 are included in expenses in profit or loss and in investing cash flows in the statement of cash flows.

## 12 Events occurring after the reporting period

On 23 August 2011 the Company announced an on-market buy-back which will give Hills the option to acquire up to 10% of its issued ordinary shares. The buy-back is for ongoing capital management purposes and will take place over the 12 months from the date of the announcement.

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

# 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 2011, 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
- Ian Elliot
- Roger Baden Flynn
- Peter William Stancliffe
- Fiona Rosalyn Vivienne Bennett

David Moray Spence was appointed as a Director on 1 September 2010 and continues in office at the date of this report.

Geoffrey Guild Hill was a Director from the beginning of the financial year until his retirement on 24 April 2011.

## Review of operations

Refer Operating and Financial Review on pages 2 to 9.

## Company Secretary

David Lethbridge, LLB (Otago, NZ), Grad Dip ACG, FCIS, GAICD was appointed to the position of Company Secretary in January 2010. 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 2011, and the numbers of meetings attended by each Director were:

Director	Meetings of committees							
	Full meetings of Directors		Audit & Compliance		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Jennifer Helen Hill-Ling	18	18	-	-	3	3	4	4
Graham Lloyd Twartz *	18	18	-	-	-	-	-	-
Ian Elliot	16	18	-	-	3	3	4	4
Roger Baden Flynn	16	18	3	3	-	-	-	-
Geoffrey Guild Hill ^	13	14	1	3	-	-	3	3
Peter William Stancliffe	18	18	7	7	2	3	-	-
Fiona Rosalyn Vivienne Bennett	18	18	4	4	-	-	-	-
David Moray Spence	12	15	4	4	-	-	1	1

A = Number of meetings attended

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

\* = An executive Director

^ = Retired 24 April 2011

## Remuneration report – audited

The Directors of Hills Holdings Limited present this Remuneration report for the Group for the year ended 30 June 2011. 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 2011.

## Directors and executives 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. They include the five highest remunerated executives of the Group and the Company during the reporting period.

The key management personnel of the Group includes the Directors as per pages 10 to 11 above 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 10 to 11 above.</i>	
<i>Other key management personnel</i>	
L Andrewartha	Managing Director – Orrcon Operations Pty Ltd
S Cope	CEO – Electronics and Communications Division
D Edgecombe	General Manager – Business Development (until 31 October 2010)
R Gros	Group General Manager – Lifestyle and Sustainability Division (until 4 March 2011)
A Kachellek	Managing Director – Korvest Ltd
D Lethbridge	Company Secretary
M McKinstry	Chief Operating Officer (from 6 June 2011)
K Middleton	CEO – Fielders Australia Pty Ltd
A Muir	Chief Financial Officer
T Sullivan	Group General Manager Strategy (from 11 October 2010)
<i>In addition, the following persons are among the 5 highest remunerated Group and/or Company executives:</i>	
G Daher	General Manager – Direct Alarm Supplies
R Meacham	General Manager – Pacific Communications
A Oliver	General Manager – Antenna and TV Systems

## Changes since the end of the reporting period

Since the end of the reporting period Mr A Muir resigned from the position of Chief Financial Officer on 7 July 2011 and Mr G Logan was appointed Chief Financial Officer for the Group on 7 July 2011 with effect from 8 August 2011.

## 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](http://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.

## Remuneration report – audited (continued)

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

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.

### **(b) 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.

### **(c) 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 short term 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 typically between 60%-70% fixed remuneration, 20%-25% short term incentives and 10% long term incentives. The weightings are calculated on the basis that the "at risk" components (STI and LTI) are at their maximum.

#### *(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 the ASX 200 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.

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. Typically, the STI plan is weighted 75% to financial metrics and 25% to individual metrics.

# Directors' Report

## Remuneration report audited (continued)

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

Features of all executive's STI plans for FY 2011 are as follows:

<b>Frequency and timing</b>	Participation is determined on an annual basis with performance measured over the financial year ending 30 June.
<b>Financial measures used</b>	<p>A principal focus of Hills is earnings before interest and tax (EBIT) and returns on funds employed (ROFE) which measures effective utilisation of assets and earnings per share (EPS).</p> <p>The measures used in the STI plan are:</p> <ul style="list-style-type: none"><li>• for senior executive roles with corporate responsibility: EPS;</li><li>• for senior executives with divisional responsibility: EBIT and ROFE; and</li><li>• for the Managing Director: ROFE and EPS.</li></ul>
<b>Non financial measures</b>	<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"><li>• Safety;</li><li>• Strategic outcomes;</li><li>• Operational improvements;</li><li>• Succession planning;</li><li>• Restructuring and rationalisation; and</li><li>• Other discretionary performance targets.</li></ul>
<b>Assessment of performance</b>	<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>
<b>Service condition</b>	<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>
<b>STI awarded in FY 2011</b>	<p>In terms of the targets set by the Board for FY 2011, the annual STI awarded to the Senior Executives reflected the following:</p> <ul style="list-style-type: none"><li>• The overall financial performance for the Group did not meet the financial targets set;</li><li>• The overall financial performance for the Electronics and Communications division met or exceeded the financial targets set;</li><li>• The Building and Industrial and Lifestyle and Sustainability divisions did not meet the financial targets set;</li><li>• Certain strategy and succession planning targets were met; and</li><li>• The Group's safety targets were exceeded.</li></ul>

## 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 dependant 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 although this is not currently proposed;
- 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' 2010 Annual General Meeting, shareholder approval was obtained for the Managing Director to be issued with 118,926 Performance Rights under the LTIP.

Following the approval given at the 2010 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 this table and the table set out on page 44 of this Report.

<b>Participation</b>	Executive participation is determined by the Board.
<b>Performance Conditions</b>	The performance conditions attaching to the Performance Rights will be measured over a 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.
<b>Performance Measures</b>	<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 Hill's 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> <ol style="list-style-type: none"> <li>the EPS hurdle – a compound annual growth rate in Hills' EPS which is applicable to 50% of the Performance Rights;</li> <li>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.</li> </ol>
<b>Performance Testing</b>	The performance hurdles will be tested at 30 June 2013. No further testing will occur.
<b>Vesting Schedule</b>	<p>EPS Hurdle:</p> <ul style="list-style-type: none"> <li>• EPS compound annual growth rate of less than 15% – 0% vested</li> <li>• EPS compound annual growth rate of 15% or more – 25% vested</li> <li>• EPS compound annual growth rate of 20% or more – 50% vested</li> </ul> <p>TSR Hurdle:</p> <ul style="list-style-type: none"> <li>• Hills TSR less than Index – 0% vested</li> <li>• Hills TSR outperforms Index – 25% vested</li> <li>• Hills TSR outperforms Index by 15% or more – 25% vested</li> </ul>
<b>Trading Restrictions</b>	There are no restrictions on trading the Performance Shares once issued.

# Directors' Report

## Remuneration report audited (continued)

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

#### (b) Prior long term Incentive Plans

Long term incentives have been provided in previous years 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 entitles 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.

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 relation to the financial year ended 30 June 2010, the Board suspended the long term incentive bonus scheme and accordingly no long term incentive bonus was allocated to the Managing Director or senior executives.

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.

#### 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.

#### 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 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, operational improvements, restructuring and rationalisation and other discretionary performance targets.

In the financial year ended 30 June 2011 the Group performance declined on the prior year, with EBIT (before unusual/significant items) decreasing 38% to \$40.376 million and net profit after tax (before unusual/significant items) decreasing 37% to \$27.126 million.

In difficult trading conditions, some of the businesses within the Electronics and Communications and Lifestyle and Sustainability divisions achieved their budget EBIT results. However, the Building and Industrial division businesses of Orrcon and Fielders did not meet the EBIT thresholds set by the Board. Accordingly, the executives of those businesses (Messrs Andrewartha and Middleton) did not qualify for a financial STI payment. As a consequence, STI payments related to financial measures were overall lower than the previous year.

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 19.8, a 43% improvement on the prior year. Accordingly, all executives achieved the safety component of their non-financial STI's.

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

Key financials	FY11	FY10	FY09	FY08	FY07
Earnings before interest and tax (EBIT) (\$'000) before unusual/significant items	40,376	65,469	59,978	87,772	82,273
Shareholders' funds (\$'000)	402,307	496,499	428,520	429,517	348,764
Return on funds employed (ROFE) based on year end Funds Employed	8.2%	12.0%	10.3%	14.2%	16.6%
Net profit before unusual/significant items (\$'000)	27,126	43,095	34,201	53,589	52,042
Net profit after unusual/significant items (\$'000)	(73,116)	43,095	15,655	52,360	52,042
Basic earnings per share before unusual/significant items (cents)	10.2	16.7	14.6	27.3	27.6
Dividends (cents)	10.0	12.5	10.0	27.5	27.5
Share price (\$)	1.20	2.15	1.57	3.34	5.33
Safety (TRIFR)	19.8	34.7	41.4	65.1	71.6

# Directors' Report

## Remuneration report audited (continued)

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

### *(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

At Hills' 2010 Annual General meeting shareholders approved an increase in the aggregate amount of remuneration paid to non-executive Directors to \$1,200,000. This increase was considered necessary in order to pay the retirement benefit to Mr G Hill and to allow Hills to continue to pay fees to non-executive Directors at an appropriate market rate in the future.

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 two years.

The following fees have applied:

	<b>Current fees</b>
<b>Base fees</b>	
Chairman	\$200,000
Other non-executive Directors	\$100,000
<b>Additional fees</b>	
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.

With the retirement of Mr G Hill on 24 April 2011, Ms J Hill-Ling is the remaining 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.

Upon retirement, Mr G Hill was paid \$187,000 in accordance with the retirement scheme. This benefit was fully provided for in previous years financial statements and the benefit for Ms J Hill-Ling is also fully provided for in the financial statements.

## Details of remuneration

### Amounts of remuneration

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

# Directors' Report

## Remuneration report audited (continued)

### Details of remuneration (continued)

Amounts of remuneration (continued)

#### Key management personnel of the Group and other executives of the Company and the Group

	Short-term employee benefits			Other	Post-employment benefits	Long term benefits	Share-based payments (B)		Total
	Cash salary and fees	Cash bonus (A)	Non-monetary benefits		Super-annuation benefits	Long service leave	Performance Rights & options	Shares	
2011	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive Directors</b>									
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
<b>Sub-total non-executive Directors</b>	<b>780,734</b>	<b>–</b>	<b>–</b>	<b>5,600</b>	<b>70,267</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>856,601</b>
<b>Executive Director</b>									
G Twartz	779,816	75,000	–	65,508	70,183	19,495	13,277	–	1,023,279
<b>Other key management personnel (Group)</b>									
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
D Lethbridge	211,009	25,000	–	4,058	18,991	–	1,117	–	260,175
A Kachellek^	240,005	87,039	–	350	29,944	–	5,635	–	362,973
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
<b>Total key management personnel compensation</b>	<b>3,864,694</b>	<b>330,629</b>	<b>–</b>	<b>140,222</b>	<b>345,549</b>	<b>74,082</b>	<b>32,000</b>	<b>5,194</b>	<b>4,792,370</b>
<b>Other Company and Group executives</b>									
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

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

(B) 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 expire three years after the grant date and each option entitles the holder to purchase one ordinary share in the Company. The ability to exercise the Performance Rights and options is conditional on the Group achieving certain performance hurdles. For all options granted prior to 2008, once the option is exercised, the holder was restricted from selling the shares for a period of three years.

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. The fair value of options granted to executive Directors and senior executives

included above is calculated at the grant date using the valuation methodology set out in Division 13A of the *Income Tax Assessment Act, 1936*. This method has been adopted, as other methods do not reflect the number of conditions that must be met under the plan, including those applying after the shares have been allocated. Further details of Performance Rights granted during the year are set out below.

^ denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

# denotes one of the 5 highest paid executives of the Company, as required to be disclosed under the *Corporations Act 2001*.

\* P Stancliffe remuneration includes Board fees from Korvest Ltd and G Hill remuneration in the previous financial year included Board fees from Fielders Australia Pty Ltd (Chairman until April 2010).

+ J Hill-Ling remuneration includes a dividend of \$5,600 (2010: \$5,600) paid as a shareholder of Hills Associates Limited.

# Directors' Report

## Remuneration report audited (continued)

### Details of remuneration (continued)

Amounts of remuneration (continued)

	Short-term employee benefits			Post-employment benefits	Long term benefits	Share-based payments (B)		Total	
	Cash salary and fees	Cash bonus (A)	Non-monetary benefits	Other	Super-annuation benefits	Long service leave	Performance Rights & options		Shares
2010	\$	\$	\$	\$	\$	\$	\$	\$	
<b>Non-executive Directors</b>									
J Hill–Ling+	192,661	–	–	5,600	17,339	–	–	–	215,600
I Elliot	100,917	–	–	–	9,083	–	–	–	110,000
R Flynn	91,743	–	–	–	8,257	–	–	–	100,000
G Hill*	199,743	–	–	–	8,257	–	–	–	208,000
P Stancliffe*	150,917	–	–	–	13,583	–	–	–	164,500
F Bennett	8,009	–	–	–	721	–	–	–	8,730
<b>Sub-total non-executive Directors</b>	<b>743,990</b>	<b>–</b>	<b>–</b>	<b>5,600</b>	<b>57,240</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>806,830</b>
<b>Executive Director</b>									
G Twartz	724,943	211,795	13,113	16,009	72,215	18,349	3,399	999	1,060,822
<b>Other key management personnel (Group)</b>									
L Andrewartha^	335,079	48,223	–	1,400	33,356	–	3,399	999	422,456
S Cope#^	299,393	60,516	–	1,400	33,399	–	1,976	999	397,683
D Edgecombe	239,061	4,497	–	350	21,468	–	–	999	266,375
R Gros#^	285,539	57,289	–	1,400	30,183	–	1,976	999	377,386
D Lethbridge	103,598	–	–	–	8,650	–	–	–	112,248
A Kachellek	221,129	67,114	–	350	25,587	–	5,635	998	320,813
K Middleton^	326,903	45,608	–	700	33,413	–	659	999	408,282
A Muir#	293,578	24,497	–	1,400	29,369	–	1,060	999	350,903
<b>Total key management personnel compensation (Group)</b>	<b>3,573,213</b>	<b>519,539</b>	<b>13,113</b>	<b>28,609</b>	<b>344,880</b>	<b>18,349</b>	<b>18,104</b>	<b>7,991</b>	<b>4,523,798</b>
<b>Other Company and Group executives</b>									
G Daher#	197,693	73,843	–	3,150	23,733	3,269	659	999	303,346
A Oliver#	227,581	111,150	–	15,849	28,295	3,640	1,890	999	389,404

The relative proportions of remuneration for the year ended 30 June 2011 (30 June 2010) as set out above that are linked to performance and that are fixed are as follows:

	Paid/Payable Fixed remuneration %		Paid/Payable At risk – STI %		Value of Performance Rights/options as proportion of remuneration %	
	2011	2010	2011	2010	2011	2010
<b>Executive Directors of Hills Holdings Limited</b>						
G Twartz	91%	80%	9%	20%	1.51%	0.33%
<b>Other key management personnel of Group</b>						
L Andrewartha	97%	89%	3%	11%	0.81%	0.81%
S Cope	85%	85%	15%	15%	0.77%	0.50%
D Edgecombe	100%	98%	– %	2%	– %	– %
R Gros	89%	85%	11%	15%	0.33%	0.53%
D Lethbridge	90%	100%	10%	– %	0.43%	– %
A Kachellek	74%	79%	26%	21%	1.55%	1.76%
M McKinstry	100%	– %	– %	– %	– %	– %
K Middleton	97%	89%	3%	11%	0.66%	0.16%
A Muir	95%	93%	5%	7%	0.10%	0.30%
T Sullivan	95%	– %	5%	– %	0.67%	– %
<b>Other Company and Group executives</b>						
G Daher	76%	76%	24%	24%	0.10%	0.22%
R Meacham	72%	– %	28%	– %	0.12%	– %
A Oliver	80%	71%	20%	29%	0.12%	0.49%

## Remuneration report audited (continued)

### 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 one 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; and
- If an executive is retrenched, the executive is not entitled to contractual termination payments other than those generally applicable to all staff.

#### 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:

<b>Term</b>	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.
<b>Fixed remuneration</b>	The Managing Director has received an annual base salary, inclusive of superannuation, for the year ended 30 June 2011 of \$850,000.
<b>Short term incentive</b>	An annual maximum STI opportunity of \$375,000.  The performance of the Managing Director against performance measures is assessed and the payment determined by the Board.

## 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 and vested	Expiry date	Exercise price	Value per option/right grant date	Performance achieved	% vested
Options 28/2/08	31/1/11	31/1/31	\$5.49	\$0.19	No	0%
Options 4/2/09	31/1/12	31/1/32	\$3.01	\$	n/a	n/a
<b>Performance Rights</b>						
30/4/11	30/6/13	30/6/13	\$ -	\$0.905	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 hurdle in the Performance Rights was:

- EPS hurdle: \$1.19
- TSR hurdle: \$0.62

Monte Carlo simulation was used to determine the value of the Performance Rights granted. Details of the assumptions underlying the valuation are set out in Note 26 to the full Financial Report.

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 and options expire on the earlier of their expiry date or termination of the individual's employment. The Performance Rights will vest on 30 June 2013 and the options are exercisable three years from grant date for the options issued from 2008 onwards, or two years from grant date for options issued prior to 2008. In addition to a continuing employment service condition, the ability for Performance Rights to vest or to exercise options is conditional on the Group achieving certain performance hurdles. Details of the performance criteria are included in the long term incentives discussion above.

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.

Details of Performance Rights and options over ordinary shares in the Company provided as remuneration to each Director of Hills Holdings Limited and each of the key management personnel of the Company and the Group are set out below. When vested or exercisable, each Performance Right or option is convertible into one ordinary share of Hills Holdings Limited. Further information on the options is set out above and in note 26 to the full Financial Report.

No performance rights or options vested during the financial year.

## Remuneration report audited (continued)

### Share based compensation (continued)

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 \$2.31237*	Number of Performance Rights/options lapsed/forfeited during the year	Value at lapse/forfeit date
<b>Directors of Hills Holdings Limited</b>					
G Twartz	118,926	\$107,628	\$275,000	60,000	\$ -
<b>Other key management personnel of the Group</b>					
L Andrewartha	21,623	\$19,569	\$50,000	60,000	\$ -
S Cope	21,623	\$19,569	\$50,000	60,000	\$ -
D Edgecombe	-	\$ -	\$ -	25,000	\$ -
R Gros	-	\$ -	\$ -	120,000	\$ -
A Kachellek	-	\$ -	\$ -	-	\$ -
D Lethbridge	10,811	\$9,784	\$25,000	-	\$ -
K Middleton	21,623	\$19,569	\$50,000	20,000	\$ -
M McKinstry	-	\$ -	\$ -	-	\$ -
A Muir	-	\$ -	\$ -	25,000	\$ -
T Sullivan	15,134	\$13,696	\$35,000	-	\$ -
<b>Other Group and Company executives</b>					
G Daher	-	\$ -	-	20,000	\$ -
R Meacham	-	\$ -	-	25,000	\$ -
A Oliver	-	\$ -	-	25,000	\$ -

\*The share price used to calculate the number of Performance Rights issued to the Managing Director and Senior Executives was \$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 2010.

### 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 cash bonus and grant of rights included in the tables on pages 41–42 and 43–44, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonus is payable in future years. The Performance Rights/options vest after three years, provided the vesting conditions are met (see page 38–39 and 43 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 % of options forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest level performance criteria not being met as well as options that have lapsed due to termination of employment.

The bonus percentages comprise the percentage of the available bonus that was paid/payable in relation to the financial year, and the percentage that was forfeited because the person did not meet the performance criteria.

# Directors' Report

## Remuneration report audited (continued)

### Share based compensation (continued)

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

Name	STI		Share based compensation benefits (Rights/options)					
	Paid / Payable 2011	Forfeited 2011	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	20%	80%	2008	-	100	2011	-	-
			2009	-	-	2012	-	-
			2011	-	-	2013	-	95,339
L Andrewartha	7%	93%	2008	-	100	2011	-	-
			2009	-	-	2012	-	-
			2011	-	-	2013	-	17,334
S Cope	46%	54%	2008	-	100	2011	-	-
			2009	-	-	2012	-	-
			2011	-	-	2013	-	17,334
D Edgecombe*	- %	- %	2009	-	100	2012	-	-
R Gros	25%	75%	2008	-	100	2011	-	-
			2009	-	100	2012	-	-
A Kachellek	100%	- %	-	-	-	-	-	-
D Lethbridge	45%	55%	2011	-	-	2013	-	8,667
K Middleton	10%	90%	2008	-	100	2011	-	-
			2009	-	-	2012	-	-
			2011	-	-	2013	-	17,334
A Muir	20%	80%	2008	-	100	2011	-	-
			2009	-	-	2012	-	-
T Sullivan	14%	86%	2011	-	-	2013	-	12,132
G Daher	100%	- %	2008	-	100	2011	-	-
			2009	-	-	2012	-	-
R Meacham	100%	- %	2008	-	100	2011	-	-
			2009	-	-	2012	-	-
A Oliver	100%	- %	2008	-	100	2011	-	-
			2009	-	-	2012	-	-

\*D Edgecombe's total remuneration did not include an STI component.

## Remuneration report audited (continued)

### Share based compensation (continued)

#### Share based compensation: Performance Rights/Options

The movement during the reporting period, by value, of Performance Rights/options over ordinary shares in the Company held by each key management person, and each of the five named Company executives and Group executives is detailed below.

	Value of options		
	A Performance Rights value at grant date \$	B Value at exercise date \$	C Options value at lapse/forfeit date \$
G Twartz	107,628	–	111,600
L Andrewartha	19,569	–	111,600
S Cope	19,569	–	111,600
D Edgecombe	–	–	46,500
R Gros	–	–	223,200
A Kachellek	–	–	–
D Lethbridge	9,784	–	–
K Middleton	19,569	–	37,200
M McKinsty	–	–	–
A Muir	–	–	46,500
T Sullivan	13,696	–	–
G Daher	–	–	–
R Meacham	–	–	–
A Oliver	–	–	–

A = The value at grant date calculated in accordance with AASB 2 *Share based Payment* of rights granted during the year as part of remuneration.

B = The value at exercise date of Performance Rights/options that were granted as part of remuneration and were exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the Performance Rights/options were exercised after deducting the price paid to exercise the option. No Performance Rights/options were exercised in the current year.

C = The value at lapse date of Performance Rights/options that were granted as part of remuneration and that 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. The value of the Performance Rights/options that lapsed/forfeited during the year represents the benefit forgone and is calculated at the date the Performance Rights/options lapsed using the method described in B above assuming the performance criteria had been achieved. The 2008 options lapsed during the year. There were no Performance Rights/options that lapsed during the year.

#### Principal activities

The principal activities of the Group during the course of the year are outlined within the Operating and Financial Review 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 2011 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 – Hills Holdings Limited

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

	2011 \$'000	2010 \$'000
Final ordinary dividend for the year ended 30 June 2010 of 5.5 cents (year ended 30 June 2009: 2.0 cents) per fully paid share paid on 27 September 2010 (year ended 30 June 2009: 23 November 2009)	13,623	4,917
Final dividend foregone for Share Investment Plan	–	(713)
Interim ordinary dividend for the year ended 30 June 2011 of 5.5 cents (2010: 7.0 cents) per fully paid share paid on 21 March 2011 (2010: 3 March 2010)	13,650	17,319
Total Amount	27,273	21,523

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 \$11,189,000 (4.5 cents per fully paid share) to be paid on 26 September 2011 out of retained profits at 30 June 2011. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2011 and will be recognised in subsequent financial periods. For more information regarding dividends please refer to note 8.

### 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 Operating and Financial Review section of the Directors' report.

### Matters subsequent to the end of the financial year

On 23 August 2011 the Company announced an on-market buy-back which will give Hills the option to acquire up to 10% of its issued ordinary shares. The buy-back is for ongoing capital management purposes and will take place over the twelve months from the date of the announcement.

Apart from the matter 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.

# Directors' Report

## Likely developments and expected results of operations

For likely developments please refer to the Operating and Financial Review 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 financial report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

## Environmental regulation

### Manufacturing

The Group holds or is in the process of obtaining or renewing all required environmental licences for its manufacturing sites around Australia.

## Greenhouse gas and energy data reporting requirements

The Group is subject to the reporting requirements of the *National Greenhouse and Energy Reporting Act 2007*.

The *National Greenhouse and Energy Reporting Act 2007* requires the Group to report its annual greenhouse gas emissions and energy use. Hills has implemented systems and processes for the collection and calculation of the data required. Hills triggered the corporate energy consumption threshold legislated under the *National Greenhouse and Energy Reporting Act 2007* for the year ended 30 June 2011 and will submit its initial report to the Greenhouse and Energy Data Officer in October 2011.

## National Packaging Covenant

During September 2010, Hills became 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 effects of packaging. Hills is working towards key performance indicators set in a five year action plan aimed at optimising packaging design, recovery, recycling and product stewardship.

## Share Rights/options granted to Directors and the most highly remunerated officers

	Performance Rights granted
<b>Directors</b>	
G Twarz, Group Managing Director	118,926
	<b>118,926</b>
<b>Other Executives of Hills Holdings Limited</b>	
S Cope, CEO – Electronics & Communications	21,623
D Lethbridge – Company Secretary	10,811
T Sullivan – Group General Manager Strategy	15,134
	<b>47,568</b>
<b>Other Executives of the Group</b>	
L Andrewartha, Managing Director – Orrcon Operations Pty Ltd	21,623
K Middleton, CEO – Fielders Australia Pty Ltd	21,623
	<b>43,246</b>

No Performance Rights have been granted since the end of the financial year.

## Shares under Rights/options

Date options granted	Expiry date	Exercise price of shares	Number under Rights/options
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	125,000
February 2005	January 2027	\$4.16	195,000
February 2009	January 2032	\$3.01	415,000
April 2011	June 2013	\$ –	209,740
			<b>1,127,740</b>

No Rights/options 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 Rights/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.

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 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 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:

	<b>Consolidated</b>	
	<b>2011</b>	2010
<b>Audit services:</b>		
KPMG Australia: Audit and review of financial reports	<b>488,500</b>	450,000
Overseas KPMG firms: Audit and review of financial reports	<b>31,768</b>	31,905
<b>Total remuneration for audit services</b>	<b>520,268</b>	481,905
<b>Non-audit services</b>		
<b>Taxation services</b>		
KPMG Australia: Taxation and other services	<b>113,838</b>	126,354
Overseas KPMG firms: Taxation services	<b>26,824</b>	10,542
<b>Total remuneration for taxation services</b>	<b>140,662</b>	136,896

## 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 57.

## 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.



G Twartz  
Director

J Hill-Ling  
Director

**Dated at Adelaide this 11th day of September 2011**

# 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 2011.

Hills and the Board are 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) Principles of Good Corporate Governance Principles and Best Practice 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 ASXCGC Corporate Governance Principles and Recommendations.

*Full details of the location of the references in this statement which specifically sets out how Hills applies each ASXCGC Principle and Recommendation are contained in the corporate governance section within the Hills website which can be found at [www.hillsholdings.com.au](http://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 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.

The Board's role is to provide the overall strategic direction for Hills, ensure that Hills' activities comply with its constitution and with all legal and regulatory requirements, and define 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; 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 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 and expertise 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.

# Corporate Governance Statement

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

### 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 "Board of Directors" on pages 10–11. 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.

### 2.5 Chairman and Managing Director

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 the 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 18 Board meetings and an additional corporate strategy workshop during the year. Seven of these meetings were held at operational sites of Hills 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 2011 and the number of meetings attended by each Director is disclosed on page 35 of the Annual Report.

### 2.9 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.

### 2.10 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 2010.

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

### 2.11 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 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.

# Corporate Governance Statement

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

### 2.12 Nomination committee

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

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

Details of these Directors' attendance at Nomination Committee meetings are set out in the Directors' Report on page 35 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 is also aware of the advantages of Board renewal and succession planning.

Notices of meetings for the election of directors comply with the ASX Corporate Governance Council's best practice 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.

### 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 "black out 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 has developed a diversity policy, a copy of which can be found on Hills' 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 3 years as positions become vacant and appropriately skilled candidates are available.

	Objective		Actual	
	Number	%	Number	%
Number of women in senior management positions	95	20	68	14.4
Number of women in sales and marketing positions	191	25	137	17.9
Number of women employees in the whole organisation	552	20	461	16.7

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

# Corporate Governance Statement

## 4 Principle 4: Safeguard integrity in financial reporting

### 4.1 Audit and Compliance Committee

The Audit and Compliance Committee consists of the following non-executive Directors:

- F Bennett (Chair)
- D Spence
- P Stancliffe

Details of these Directors' qualifications and attendance at Audit and Compliance Committee meetings are set out in the Directors' report on pages 10–11 and 35 of the Annual Report.

All members of the Audit and Compliance Committee are financially literate and have an appropriate understanding of the industries in which Hills operates.

The Audit and Compliance Committee operates in accordance with its 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 Chair of the Audit and Compliance Committee or the Chair 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 37 to the full Financial Report. It is the policy of the external auditors to provide an annual declaration of their independence to the Board and the Audit 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 Principles 5 and 6: Make timely and balanced disclosures and respect the rights of shareholders

### 5.1 Continuous disclosure and shareholder communication

Hills has a Communications and Market Disclosure Policy that 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. This policy also includes the arrangements Hills has in place to promote communication with shareholders and encourage effective participation at general meetings.

The Company Secretary's role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules. All information disclosed to the ASX is posted on Hills' website as soon as it is disclosed to the ASX. The website also enables users to provide feedback and has an option for shareholders to register their email address for direct email updates on Company matters.

## 6 Principle 7: Recognise and manage risk

### 6.1 Recognise and manage risk

The Board, through the Audit 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 report to both relevant business unit management and the Audit 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 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 and Compliance Committee have received reports from the Risk Committee and management as to the effectiveness of 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 the enterprise risks.

# Corporate Governance Statement

## 6 Principle 7: Recognise and manage risk (continued)

### 6.2 Corporate reporting

In complying with ASXCGC Recommendation 7.3, the Board has received a declaration from the Managing Director, who for the purposes of Section 295A of the *Corporations Act 2001*, has performed the chief executive function and for the period from 8 July 2011, the chief financial officer function, 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.

## 7 Principle 8: Remunerate fairly and responsibly

### 7.1 Remuneration committee

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

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

Details of these Directors' attendance at Remuneration Committee meetings are set out in the Directors' Report on page 35 of the Annual Report.

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 however given the role the Chairman of the Board has in developing and the 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 recommendation to the Board on remuneration 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". 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.

## 8 ASX Corporate Governance Council Recommendations Checklist

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

	ASX Corporate Governance Council Recommendations	Reference	Comply
<b>Principle 1:</b>	<b>Lay solid foundations for management and oversight</b>		
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
<b>Principle 2:</b>	<b>Structure the Board to add value</b>		
2.1	A majority of the Board should be independent Directors.	2.1, 2.2	Y
2.2	The chair should be an independent Director.	2.5	N
2.3	The roles of chair 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

# Corporate Governance Statement

	<b>ASX Corporate Governance Council Recommendations</b>	<b>Reference</b>	<b>Comply</b>
<b>Principle 3:</b>	<b>Promote ethical and responsible decision-making</b>		
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"> <li>the practices necessary to maintain confidence in the company's integrity;</li> <li>the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	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 positions 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
<b>Principle 4:</b>	<b>Safeguard integrity in financial reporting</b>		
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"> <li>consists only of non-executive Directors;</li> <li>consists of a majority of independent Directors;</li> <li>is chaired by an independent chair, who is not chair of the Board;</li> <li>has at least three members.</li> </ul>	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
<b>Principle 5:</b>	<b>Make timely and balanced disclosure</b>		
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
<b>Principle 6:</b>	<b>Respect the rights of shareholders</b>		
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.	5.1	Y
6.2	Companies should provide the information indicated in Guide to Reporting on Principle 6.	5.1	Y

# Corporate Governance Statement

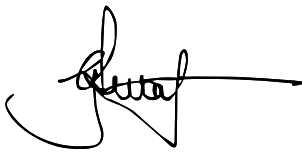
	<b>ASX Corporate Governance Council Recommendations</b>	<b>Reference</b>	<b>Comply</b>
<b>Principle 7:</b>	<b>Recognise and manage risk</b>		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	6.1	Y
7.2	The Board 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.	6.1	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.	6.2	Y
7.4	Companies should provide the information indicated in Guide to Reporting on Principle 7.	6.1, 6.2	Y
<b>Principle 8:</b>	<b>Remunerate fairly and responsibly</b>		
8.1	The Board should establish a remuneration committee.	7.1	Y
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent Directors;</li> <li>• is chaired by an independent chair; and</li> <li>• has at least three members.</li> </ul>	7.1	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.	7.1, Remuneration report	Y

## Director's Declaration

In the opinion of the Directors' of Hills Holdings Limited the accompanying concise financial report of the Group, comprising Hills Holdings Limited and the entities it controlled for the financial year ended 30 June 2011 set out on pages 14–34:

- a) has been derived from or is consistent with the full Financial Report for the financial year; and
- b) complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

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

A handwritten signature in black ink, appearing to read 'G Twartz', with a long horizontal stroke extending to the right.

G Twartz  
Director

**Dated at Adelaide this 11th day of September 2011**

# Lead Auditor's Independence Declaration

## **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 2011 there have been:

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

*KPMG*

KPMG



N Faulkner  
Partner

**Dated at Adelaide this 11th day of September 2011**

# Independent Auditor's Report to the Members of Hills Holdings Limited

## Report on the concise financial report

We have audited the accompanying concise financial report of Hills Holdings Limited, the Group comprising Hills Holdings Limited (the 'Company') and its controlled entities which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and related Notes 1 to 12 derived from the audited financial report of Hills Holdings Limited for the year ended 30 June 2011 and the discussion and analysis. The concise financial report does not contain all the disclosures required by Australian Accounting Standards and accordingly, reading the concise financial report is not a substitute for reading the audited financial report.

## Directors' responsibility for the concise financial report

The Directors of the Company are responsible for the preparation and presentation of the concise financial report in accordance with Australian Accounting Standard AASB 1039 *Concise Financial Reports* and the *Corporations Act 2001* and for such internal controls as the Directors determine are necessary to enable the preparation of the concise financial report.

## Auditor's responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Standards*. We have conducted an independent audit in accordance with Australian Auditing Standards, of the financial report of Hills Holdings Limited for the year ended 30 June 2011. We expressed an unmodified audit opinion on the financial report in our report dated 11 September 2011. The Australian 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 for the year is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor's judgement, including the risk of material misstatement of the concise 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 concise financial report in order to design 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. Our procedures included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports* and whether the discussion and analysis complies with the requirements laid down in Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

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, the concise financial report, including the discussion and analysis, of Hills Holdings Limited and its controlled entities for the year ended 30 June 2011 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

## Report on the Remuneration report

The following paragraphs are copied from our Report on the remuneration report for the period ended 30 June 2011.

We have audited the remuneration report included in pages 35 to 46 of the Directors' report for the year ended 30 June 2011. 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 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

N Faulkner  
Partner

**Dated at Adelaide this 11th day of September 2011**



The shareholder information set out below was applicable as at 25 August 2011.

## 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	4,902	–
1,001 – 5,000	9,122	–
5,001 – 10,000	4,525	–
10,001 – 100,000	3,402	6
100,001 and over	80	1
	<b>22,031</b>	<b>7</b>

There were 2,411 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 Dexia Investor Services Australia Nominees Pty Limited (PIPOOLED A/C)	22,581,156	9.06
Poplar Pty Limited	20,286,335	8.14
Hills Associates Limited	13,445,689	5.40
JP Morgan Nominees Australia Limited	9,774,212	3.92
National Nominees Limited	7,510,239	3.01
Jacaranda Pastoral Pty Ltd	5,968,699	2.40
HSBC Custody Nominees (Australia) Limited	5,308,789	2.13
UBS Nominees Pty Ltd	4,671,979	1.88
Citicorp Nominees Pty Limited	3,577,667	1.44
Cogent Nominees Pty Limited	2,658,851	1.07
Milton Corporation Ltd	2,520,299	1.01
Queensland Investment Corporation	2,313,056	0.93
Donald Cant Pty Ltd	1,979,060	0.79
Colleen Sims Nominees Pty Ltd	1,694,798	0.68
Gwynvill Trading Pty Ltd	1,400,000	0.56
RBC Dexia Investor Services Australia Nominees Pty Limited (PIIC A/C)	1,297,293	0.53
Hills Associates Limited & Poplar Pty Ltd	1,188,918	0.48
Warbont Nominees Pty Ltd (Accumulation Entrepot A/C)	1,103,958	0.44
JP Morgan Nominees Australia Limited (Cash Income A/C)	1,088,099	0.44
AMP Life Limited	932,871	0.37
	<b>111,311,968</b>	<b>44.68</b>

## C. Substantial Shareholders

Substantial holders in the Company are set out below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
RBC Dexia Investor Services Australia Nominees Pty Limited (PIPOOLED A/C)	22,581,156	9.06%
Poplar Pty Limited	20,286,335	8.14%
Hills Associates Limited	13,455,689	5.40%

# Shareholder Information

## **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.

### *Options*

No voting rights.

## **E. On market buy back**

An on-market buy-back was announced on 23 August 2011, as discussed in note 12 of the Concise Annual Report.

## **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**

Mr David Lethbridge

### **Registered Office**

159 Port Road Hindmarsh SA 5007

Telephone: (08) 8301 3200

Facsimile: (08) 8301 3290

Web: [www.hillsholdings.com.au](http://www.hillsholdings.com.au)

### **Location of Share Registry**

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](http://www.computershare.com)



Hills Holdings Limited  
Registered Office  
159 Port Road  
Hindmarsh SA 5007  
Telephone: (08) 8301 3200  
Facsimile: (08) 8301 3290  
Email: [info@hillsholdings.com.au](mailto:info@hillsholdings.com.au)  
ABN 35 007 573 417

[www.hillsholdings.com.au](http://www.hillsholdings.com.au)

