Hills Limited
(formerly Hills Holdings Limited)

ABN 35 007 573 417

Interim Financial Report
for the half year ended 31 December 2013

Hills Limited
ASX Half year information - 31 December 2013

Lodged with the ASX under Listing Rule 4.2A.
This information should be read in conjunction with the
30 June 2013 Annual report

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This Interim Financial Report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2013 and any public announcements made by Hills Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

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

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

Hills Limited
159 Port Road
Hindmarsh SA 5007

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

The Interim Financial Report was authorised for issue by the Directors on 18 February 2014. The Company has the power to amend and reissue the Interim Financial Report.

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

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

Results for Announcement to the Market
31 December 2013

				A$'000
Revenue from continuing operations	down	8.9%	to	225,703
Profit / (loss) after tax attributable to owners	up	$87.681 million	to	14,076
Underlying profit after tax attributable to owners [1]	up	97.9%	to	16,193
Basic earnings per share (cents per share)	up	35.7 c/share	to	5.8
Basic earnings per share using underlying profit (cents per share) [1]	up	103.0%	to	6.7

Dividends	**Amount per security (cents)**	**Franked amount per security (cents)**
Final dividend *(Prior year)*	0.0	0.0
Interim dividends [2]		
- *current reporting period (paid 27 September 2013)*	3.25	3.25
- *current reporting period (to be paid 31 March 2014)*	3.4	3.4
- *previous corresponding period* [2]	0.0	0.0

Record date for determining entitlements to interim dividend: 17 March 2014

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

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

This Interim Financial Report should be read in conjunction with the 2013 Annual Financial Report.

[1] The report includes the following non-IFRS measures:

- Underlying profit after tax attributable to owners of $16.193 million (half year ended 31 December 2012: $8.181 million) is a non-IFRS measure which has been calculated as: profit / (loss) for the half year of $14.076 million (half year ended 31 December 2012: $73.605 million) adjusted for business combination acquisition transaction costs in the current half year of $2.117 million (half year ended 31 December 2012: restructure and impairment costs of $81.786 million). Reconciliation is provided in Note 9(c).

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

[2] An interim dividend was not proposed in respect of the previous reporting period.

Directors' report

The Directors present their report on the consolidated entity (referred to hereafter as the "Group" or "Hills") consisting of Hills Limited (the "Company") and the entities it controlled at the end of, or during, the half year ended 31 December 2013 and the independent auditor's review report thereon.

Directors

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

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

Consolidated result

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

	31 December 2013 $'000	31 December 2012 $'000
Underlying profit for the half year attributable to the owners of the Company	**16,193**	8,181
(Loss) for the half year from business combination acquisition transaction costs (refer Note 4 and Note 9(c))	**(2,117)**	-
(Loss) for the half year from CGU impairment, restructure and closure costs and other associated impairments (refer Note 4 and Note 9(c))	**-**	(81,786)
Profit / (loss) for the half year attributable to the owners of the Company	**14,076**	(73,605)

Review of operations

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

	Segment revenues		**Segment results [1]**	
	31 December 2013 $'000	31 December 2012 $'000	**31 December 2013 $'000**	31 December 2012 $'000
Electronics and Communications	**186,838**	181,843	**19,143**	11,844
Lifestyle and Sustainability	**38,194**	65,552	**1,610**	629
Building and Industrial (discontinued)	**220,560**	270,833	**3,810**	347
Korvest Ltd (discontinued)	**-**	32,593	**-**	3,163
Total segment revenues / segment results	**445,592**	550,821	**24,563**	15,983

[1] Segment results are adjusted operating earnings before interest and tax, which is the measure of segment result that is reported to the Group Managing Director to assess the performance of the operating segments. For a reconciliation to profit / (loss) before tax refer to Note 2.

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

Healthcare, Baileys, Solar, LW Gemmell, and ATS were closed or sold during the current or prior comparative periods covered by the Segment Note and detailed in the table above. These businesses were either not separate operating segments or were not a major separate line of business that would allow for reclassification as discontinued operations in the financial statements (with corresponding adjustments to comparatives). Making this reclassification enhances comparability of the continuing businesses by segment. While this reclassification is a departure from IFRS and is not subject to audit or review, this is used internally by Hills' Management to assess and comment on the actual underlying performance of its continuing businesses in light of its change program. Reconciliations back to the Segment Note are provided in the comments below:

(a) ***Electronics and Communications (E&C)***

Revenue from continuing E&C businesses of $179.1M (prior period: $152.8M) was up $26.3M or 17.2% in the half.

EBIT from continuing E&C businesses of $17.9M (prior period: $11.8M) was up $6.1M or 51.7% in the half.

The E&C segment is the core of the Hills business going forward. These positive comparable results reflect the success of Hills' change program to date.

Reconciliation to the Segment Note

Revenue from discontinuing E&C businesses was $7.7M (prior period: $29.0M) in conjunction with the above reconciles to total E&C Revenue per the Segment Note of $186.8M (prior period: $181.8M).

EBIT from discontinuing E&C businesses was $1.2M (prior period: $0.0M) in conjunction with the above reconciles to total E&C EBIT per the Segment Note of $19.1M (prior period: $11.8M).

(b) ***Lifestyle and Sustainability (L&S)***

Revenue from continuing L&S businesses of $35.4M (prior period: $26.5M) was up $8.9M or 33.6% in the half.

EBIT from continuing L&S businesses of $1.1M (prior period: loss of $0.6M) was up $1.7M or 283.3% in the half.

These comparable results for the half year show the L&S segment turning around a loss of (0.6M) in the prior comparable period. These positive results reflect the success of Hills' change program to date including the closure of loss-making or non-performing business units in this segment.

Reconciliation to the Segment Note

Revenue from discontinuing L&S businesses was $2.8M (prior period: $39.1M) in conjunction with the above reconciles to total L&S Revenue per the Segment Note of $38.2M (prior period: $65.6M).

EBIT from discontinuing L&S businesses was $0.5M (prior period: $1.2M) in conjunction with the above reconciles to total L&S EBIT per the Segment Note of $1.6M (prior period: $0.6M).

(c) ***Building and Industrial (B&I)- all discontinuing***

B&I is a discontinuing segment in its entirety.

B&I Revenue of $220.6M (prior period: $303.4M) was down $82.8 or down 27.3% in the half.

B&I EBIT of $3.8M (prior period: $3.5M) was up $0.3M or up 8.6%% in the half.

While revenues have decreased significantly, EBIT has increased by 8.6% also reflecting positive results of Hills' change program to date and the closure of loss-making or non-performing operations within the segment.

(d) ***Korvest Ltd***

The Group sold its interest in Korvest Ltd in February 2013.

(e) ***Funding***

Hills has total debt and funding facilities of $202.7M. Net debt at the end of the period was $67.9M. This included major outflows in the period totalling $77.1M including on-market share buybacks ($18.1M); Acquisitions ($40.4M); Dividends ($8.0M) and Restructure provision payments ($10.6M).

Net cash proceeds from the steel divestments of approximately $80.0M are expected in the 3rd quarter of FY2014 which will place the Group in a surplus net cash position. There is capacity for further acquisitions and or buy backs in line with the Group's strategic and financial objectives.

Net tangible asset (NTA) backing

	31 December 2013 $	31 December 2012 $
Net tangible assets per ordinary share	**0.55**	0.80

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

Dividends

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

	31 December 2013 $'000	31 December 2012 $'000
Interim ordinary dividend for the year ending 30 June 2014 of 3.25 cents per fully paid share paid on 27 September 2013 (half year ended 31 December 2012: final ordinary dividend for the year ended 30 June 2012 of 5.0 cents per fully paid ordinary share paid on 26 September 2012)	**8,000**	12,307

The Directors have announced a fully franked dividend of 3.4 cents per share. The Directors have determined not to offer the Dividend Reinvestment Plan or the Share Investment Plan in respect to this interim dividend. The Record Date for the dividend will be 17 March 2014 and the dividend will be paid on 31 March 2014.

Matters subsequent to the end of the financial half year

On 2 January 2014 the Group acquired the remaining 49% of the issued shares of UHS Systems Pty Ltd for $5 million. This business remains classified as held for sale at 31 December 2013 on the basis that management is seeking to sell its 100% interest.

The Group announced on 19 August 2013 that it had signed interdependent agreements to sell its steel assets, Fielders and Orrcon, to Bluescope Steel Limited for $87.5 million before costs. The transactions have been subject to customary terms and conditions precedent including ACCC approval. ACCC approval for the sale of Orrcon was given on 5 December 2013 and for the sale of Fielders was given on 30 January 2014. The sale is expected to be completed during the third quarter of the financial year.

On 14 February 2014, the Group agreed to sell all of its interest in OptiComm Co Pty Ltd (OptiComm) under the terms of its existing shareholder agreement. The sale is expected to be completed during the third quarter of the financial year subject to customary terms and conditions precedent. OptiComm is included as a business held for sale in the Interim Financial Report as at 31 December 2013. The transaction will result in the carrying value of this business being recovered through sale. The impact of this sale on the Group's results and net assets is not material.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

Rounding of amounts

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

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

JH Hill-Ling

Director

EN Pretty

Director

Sydney
18 February 2014

KPMG

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

To: the directors of Hills Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2013 there have been:

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

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

KPMG

KPMG

S.A. Fleming

Scott Fleming
Partner

Adelaide

18 February 2014

Hills Limited
Consolidated income statement
For the half year ended 31 December 2013

	Notes	**31 December 2013 $'000**	Restated * 31 December 2012 $'000
Continuing operations			
Revenue	3	**225,703**	247,855
Other income		**1,215**	829
		226,918	248,684
Expenses excluding net finance expenses	4	**(207,579)**	(278,217)
Profit / (loss) before net finance expense and income tax		**19,339**	(29,533)
Finance income		**554**	378
Finance expenses		**(2,357)**	(2,712)
Net finance expenses	4	**(1,803)**	(2,334)
Profit / (loss) before income tax		**17,536**	(31,867)
Income tax (expense) / benefit from continuing operations		**(5,080)**	7,143
Profit / (loss) from continuing operations for the half year		**12,456**	(24,724)
Profit / (loss) from discontinued operations (net of tax)	11	**2,601**	(47,270)
Profit / (loss) for the half year		**15,057**	(71,994)
Profit / (loss) is attributable to:			
Owners of Hills Limited		**14,076**	(73,605)
Non-controlling interests		**981**	1,611
		15,057	(71,994)
		Cents	Cents
Earnings per share for profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	9	**4.7**	(10.2)
Diluted earnings per share	9	**4.7**	(10.2)
Earnings per share for profit / (loss) attributable to the ordinary equity holders of the Company:			
Basic earnings per share	9	**5.8**	(29.9)
Diluted earnings per share	9	**5.8**	(29.9)

* See Note 11. Restated to present discontinued operations.

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

Hills Limited
Consolidated statement of comprehensive income
For the half year ended 31 December 2013

	Notes	31 December 2013 $'000	Restated * 31 December 2012 $'000
Profit / (loss) for the half year		**15,057**	(71,994)
Other comprehensive income / (loss)			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges		**1,220**	256
Exchange differences on translation of foreign operations		**1,057**	165
Income tax relating to components of other comprehensive income		**(366)**	(77)
Other comprehensive income for the half year that may be reclassified to profit or loss, net of tax		**1,911**	344
Items that will not be reclassified to profit or loss			
(Loss) on revaluation of land and buildings	6	**-**	(7,959)
Income tax relating to components of other comprehensive income		**-**	2,529
Other comprehensive (loss) for the half year that will not be reclassified to profit or loss, net of tax		**-**	(5,430)
Other comprehensive income / (loss) for the half year, net of tax		**1,911**	(5,086)
Total comprehensive income / (loss) for the half year		**16,968**	(77,080)
Total comprehensive income / (loss) for the half year is attributable to:			
Owners of Hills Limited		**15,987**	(78,691)
Non-controlling interests		**981**	1,611
		16,968	(77,080)
Total comprehensive income / (loss) for the half year attributable to owners of Hills Limited arises from:			
Continuing operations		**13,386**	(30,258)
Discontinued operations		**2,601**	(48,433)
		15,987	(78,691)

* See Note 11. Restated to present discontinued operations.

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

	Notes	31 December 2013 $'000	30 June 2013 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	**14,869**	61,480
Trade and other receivables		**91,041**	84,694
Inventories		**50,709**	42,470
Derivative financial instruments		**1,044**	703
Current tax receivables		**-**	6
		157,663	189,353
Assets classified as held for sale	11	**149,188**	146,075
Total current assets		**306,851**	335,428
Non-current assets			
Investments		**2**	2
Property, plant and equipment		**69,347**	78,748
Intangible assets		**79,526**	44,784
Deferred tax assets		**52,487**	60,395
Total non-current assets		**201,362**	183,929
Total assets		**508,213**	519,357
LIABILITIES			
Current liabilities			
Trade and other payables		**62,113**	56,818
Borrowings		**2,220**	141
Current tax liability		**1,933**	-
Provisions		**39,176**	34,611
Derivative financial instruments		**666**	631
		106,108	92,201
Liabilities directly associated with assets classified as held for sale	11	**51,138**	75,854
Total current liabilities		**157,246**	168,055
Non-current liabilities			
Borrowings		**80,550**	65,321
Provisions		**7,214**	12,514
Derivative financial instruments		**1,445**	2,449
Total non-current liabilities		**89,209**	80,284
Total liabilities		**246,455**	248,339
Net assets		**261,758**	271,018
EQUITY			
Contributed equity	7	**285,744**	303,890
Reserves		**40,576**	32,589
(Accumulated losses)		**(66,359)**	(66,359)
Capital and reserves attributable to owners of Hills Limited		**259,961**	270,120
Non-controlling interests		**1,797**	898
Total equity		**261,758**	271,018

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

Hills Limited
Consolidated statement of changes in equity
For the half year ended 31 December 2013

	Notes	Attributable to owners of Hills Limited: Contributed equity $'000	Reserves $'000	(Accumulated losses) / Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2012		**303,805**	**43,203**	**35,896**	**382,904**	**18,059**	**400,963**
Total comprehensive income for the half year		**-**	**(5,086)**	**(73,605)**	**(78,691)**	**1,611**	**(77,080)**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs and tax		(729)	-	-	(729)	-	(729)
Non-controlling interests in share capital issued by subsidiary		-	-	-	-	27	27
Transactions with non-controlling interests		-	(9)	-	(9)	9	-
Dividends provided for or paid	8	-	-	(12,307)	(12,307)	-	(12,307)
Dividends paid to non-controlling interests in subsidiaries		-	-	-	-	(1,342)	(1,342)
Employee share options - value of employee services		-	37	-	37	33	70
Balance at 31 December 2012		**303,076**	**38,145**	**(50,016)**	**291,205**	**18,397**	**309,602**
Balance at 1 July 2013		**303,890**	**32,589**	**(66,359)**	**270,120**	**898**	**271,018**
Total comprehensive income for the half year		**-**	**1,911**	**14,076**	**15,987**	**981**	**16,968**
Transactions with owners in their capacity as owners:							
Share buy-back, net of transaction costs and tax		(18,146)	-	-	(18,146)	-	(18,146)
Dividends provided for or paid	8	-	-	(8,000)	(8,000)	-	(8,000)
Dividends paid to non-controlling interests in subsidiaries		-	-	-	-	(82)	(82)
Transfer current period profit to profits reserve		-	6,076	(6,076)	-	-	-
Balance at 31 December 2013		**285,744**	**40,576**	**(66,359)**	**259,961**	**1,797**	**261,758**

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

Hills Limited
Consolidated statement of cash flows
For the half year ended 31 December 2013

	Notes	31 December 2013 $'000	31 December 2012 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**488,719**	606,063
Payments to suppliers and employees (inclusive of goods and services tax)		**(496,558)**	(574,852)
		(7,839)	31,211
Net finance costs paid		**(1,553)**	(2,325)
Net income taxes received / (paid)		**(508)**	2,830
Net cash (outflow) / inflow from operating activities		**(9,900)**	31,716
Cash flows from investing activities			
Payments for acquisition of subsidiary / business operations, net of cash acquired	10	**(38,267)**	(4,949)
Payments for property, plant and equipment		**(6,569)**	(6,073)
Payments for intangible assets		**(1,653)**	(6,087)
Proceeds from sale of business operations		**8,149**	-
Proceeds from sale of property, plant and equipment		**9,699**	477
Rent received		**671**	460
Net cash (outflow) from investing activities		**(27,970)**	(16,172)
Cash flows from financing activities			
Proceeds from issues of shares		**-**	25
Proceeds from borrowings		**17,250**	-
Payments for shares bought back, inclusive of transaction costs		**(18,146)**	-
Repayment of borrowings		**(141)**	(10,206)
Dividends paid to the Company's shareholders		**(8,000)**	(12,307)
Dividends paid to non-controlling interests in subsidiaries		**(82)**	(1,342)
Net cash (outflow) from financing activities		**(9,119)**	(23,830)
Net (decrease) in cash and cash equivalents		**(46,989)**	(8,286)
Cash and cash equivalents at the beginning of the half year		**61,480**	23,305
Effects of exchange rate changes on cash and cash equivalents		**378**	(13)
Cash and cash equivalents at end of the half year	5	**14,869**	15,006

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

1 Basis of preparation of Interim Financial Statements

(a) Basis of preparation

These general purpose Interim Financial Statements for the half year reporting period ended 31 December 2013 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

These Interim Financial Statements do not include all the notes of the type normally included in the Annual Financial Statements. Accordingly, this report is to be read in conjunction with the Annual Financial Statements for the year ended 30 June 2013 and any public announcements made by Hills Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

These consolidated Interim Financial Statements were approved by the Board of Directors on 18 February 2014.

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

(b) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time in its annual reporting period commencing 1 July 2013:

- AASB 10 *Consolidated Financial Statements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 127 *Separate Financial Statements* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*
- AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and other Amendments*, which provides an exemption from the requirement to disclose the impact of the change in accounting policy in the current period
- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*
- AASB 119 *Employee Benefits (September 2011)* and AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)*
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*

The nature and effect of the changes are further explained below:

(i) Subsidiaries

As a result of AASB 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, AASB 10 requires the Group to consolidate investees that it controls on the basis of de facto circumstances.

In accordance with the transitional provisions of AASB 10, the Group reassessed the control conclusion for its investees at 1 July 2013. No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

1 Basis of preparation of Interim Financial Report (continued)

(b) New and amended standards adopted by the Group (continued)

(ii) Fair value measurement

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other AASBs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Group has included additional disclosures in this regard (see Note 13).

In accordance with the transitional provisions of AASB 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures.

Previously the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant. As a result of this change the fair value of derivative liabilities has changed on transition to AASB 13, mainly due to incorporating credit risk into the valuation. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

(iii) Employee benefits

AASB 119 now requires that if the Group does not expect all annual leave to be taken within 12 months of the respective service being provided, annual leave obligations are to be measured as long term benefits. This change has had no significant impact on the Group's measurement of its annual leave obligations.

(c) Critical accounting estimates

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

In preparing this consolidated Interim Financial Report, the judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2013. These comprised:

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

(d) Rounding of amounts

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

2 Segment information

(a) Description of segments

The Group currently has three reportable segments, based upon reports reviewed by the CEO and 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, health technology solutions and subscription TV installation services.

Lifestyle & Sustainability

Includes indoor and outdoor clothes driers, ironing boards, laundry trolleys, security doors, garden sprayers, and other rotationally moulded products. In the previous financial half year this segment also included ladders, rehabilitation and mobility products, water tanks, solar hot water products, and plumbing products.

Building & Industrial

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

Korvest

Comprised the business of Korvest Ltd (until sale of the Group's interest in Korvest Ltd on 19 February 2013) and included electrical and cable support systems, pipe support systems, walkway systems, steel fabrication, associated metal treatment and galvanising services.

The Group principally considers the businesses from a products and services perspective. The Electronics & Communications division is managed by the Director of Hills Technologies and the Director of Hills Communications and the Lifestyle & Sustainability division is managed by the Executive Director HHL.

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 comprised the operations of Orrcon, Fielders and Korvest. The Group considered these businesses to be separate operating segments. 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 did not meet the aggregation criteria, and as a consequence was reported separately.

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

Australia

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

Overseas

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

2 Segment information (continued)

(b) Information about reportable segments

	Electronics & Communications		Lifestyle & Sustainability		Building & Industrial (Discontinued)*		Korvest (Discontinued)*		Total	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**
External revenues	**186,838**	181,843	**38,194**	65,552	**221,084**	271,569	**-**	32,685	**446,116**	551,649
Inter-segment revenue	**-**	-	**-**	-	**(524)**	(736)	**-**	(92)	**(524)**	(828)
Revenue from external customers	**186,838**	181,843	**38,194**	65,552	**220,560**	270,833	**-**	32,593	**445,592**	550,821
Segment EBIT	**19,143**	11,844	**1,610**	629	**3,810**	347	**-**	3,163	**24,563**	15,983
Segment Assets	**203,826**	162,340	**42,688**	83,747	**127,928**	192,765	**-**	38,357	**374,442**	477,209
Segment Liabilities	**59,156**	61,489	**25,207**	23,134	**49,624**	61,392	**-**	6,921	**133,987**	152,936

* See Note 11

2 Segment information (continued)

(c) Other segment information

(i) Segment revenue

Sales between segments are priced on a "cost plus" basis and are eliminated on consolidation. The revenue from external parties reported to the CEO and Group Managing Director is measured in a manner consistent with that in the consolidated income statement.

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

	31 December 2013 $'000	31 December 2012 $'000
Total segment revenue	**446,116**	551,649
Intersegment eliminations	**(524)**	(828)
Other revenue	**671**	460
Less discontinued operations revenue	**(220,560)**	(303,426)
Total revenue from continuing operations	**225,703**	247,855

(ii) Segment EBIT

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

	31 December 2013 $'000	31 December 2012 $'000
Segment EBIT	**24,563**	15,983
Finance income	**458**	387
Finance expenses	**(2,357)**	(2,712)
Fair value gain on derivatives	**101**	80
Restructure and impairment costs	**-**	(110,283)
Other	**(1,414)**	(330)
Less discontinued operations profit before tax and restructuring costs	**(3,815)**	(3,510)
Add back restructuring and impairment costs relating to discontinued operations	**-**	68,518
Profit / (loss) before income tax from continuing operations	**17,536**	(31,867)

(iii) Segment assets

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

	31 December 2013 $’000	31 December 2012 $’000
Segment assets	**374,442**	477,209
Unallocated assets:		
Deferred tax assets	**52,487**	49,761
Current tax assets	**-**	1,570
Cash assets	**14,869**	15,006
Derivative financial instruments	**1,044**	-
Investments	**2**	2
Corporate assets	**65,369**	42,619
Total assets as per the consolidated statement of financial position	**508,213**	586,167

2 Segment information (continued)

(c) Other segment information (continued)

(iv) Segment liabilities

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

	31 December 2013 $'000	31 December 2012 $'000
Segment liabilities	**133,987**	152,936
Unallocated liabilities:		
Tax liabilities (including GST payable)	**7,645**	5,529
Current borrowings	**2,220**	-
Non-current borrowings	**80,550**	105,470
Derivative financial instruments	**2,111**	4,521
Corporate liabilities	**19,942**	8,109
Total liabilities as per the consolidated statement of financial position	**246,455**	276,565

3 Revenue

	31 December 2013 $'000	31 December 2012 $'000
Revenue from continuing operations		
Sales revenue		
Sale of goods	**202,655**	213,176
Services	**22,377**	34,219
	225,032	247,395
Other revenue		
Rents and sub-lease rentals	**671**	460
Total revenue from continuing operations	**225,703**	247,855
Revenue from discontinued continuing operations		
Sales revenue – sale of goods	**220,560**	303,426
Total revenue	**446,263**	551,281

4 Profit for the half year

	31 December 2013 $'000	31 December 2012 $'000
Classification of expenses by function		
Cost of goods sold	**130,333**	132,975
Cost of services provided	**11,688**	28,536
Other expenses from ordinary activities:		
Sales and marketing expenses	**35,689**	40,880
Distribution expenses	**9,381**	14,242
Administration expenses	**18,303**	19,906
Other expenses	**2,185**	41,678
	207,579	278,217

Profit / (loss) before income tax includes the following specific expenses:

	31 December 2013 $'000	31 December 2012 $'000
Depreciation		
Buildings	**314**	942
Plant and equipment	**2,678**	8,894
Total depreciation	**2,992**	9,836
Amortisation		
Patents and trademarks	**327**	672
Research and development	**174**	65
Software	**589**	9
Total amortisation	**1,090**	746
Total depreciation and amortisation	**4,082**	10,582
Finance expenses		
Interest and finance charges paid/payable	**(2,014)**	(2,712)
Wind-back of discount on provisions	**(343)**	-
	(2,357)	(2,712)
Finance income		
Interest income	**453**	298
Fair value gains on derivatives	**51**	61
Ineffectiveness in fair value of cash flow hedges	**50**	19
	554	378
Finance costs expensed	**(1,803)**	(2,334)

4 Profit for the half year (continued)

Profit / (loss) after tax includes the following items that were significant because of their nature or size:

Acquisition costs totalling $2.185 million before tax ($2.117 million after tax) were included within other expenses at 31 December 2013.

Asset impairment, restructuring and closure costs totalling $110.283 million before tax ($81.786 million after tax) were included within Other Expenses at 31 December 2012. There were no asset impairment and restructuring provisions recorded in the current half year ended 31 December 2013. Disclosure of the expenses recorded in the previous period are included in the Group's 30 June 2013 Annual Financial Statements and the 31 December 2012 Half Year Financial Statements.

5 Reconciliation of Cash and cash equivalents

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

	31 December 2013 $'000	31 December 2012 $'000
Cash at bank and in hand	**13,868**	3,042
Deposits at call	**1,001**	11,964
	14,869	15,006

6 Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2013, the Group acquired assets with a cost of $6.569 million (six months ended 31 December 2012: $6.073 million). Assets with a net book value of $9.614 million were disposed of during the six months ended 31 December 2013 (six months ended 31 December 2012: $0.246 million), resulting in a gain on disposal of $0.085 million (six months ended 31 December 2012: gain of $0.231 million).

Revaluation of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. Valuations were undertaken in the previous half year period – refer disclosures in the 30 June 2013 Annual Report and the 31 December 2012 Half Year Report.

Capital commitments

Commitments for the purchase of plant and equipment yet to be delivered as at 31 December 2013 were $5.952 million (as at 31 December 2012: $4.832 million).

7 Contributed equity

	31 December 2013 Shares '000	30 June 2013 Shares '000	**31 December 2013 $'000**	30 June 2013 $'000
(a) Share capital				
Ordinary shares – fully paid	**236,339**	246,220	**285,744**	303,890

(b) Ordinary shares

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

8 Dividends

	31 December 2013 $'000	31 December 2012 $'000
(a) Ordinary shares		
Interim dividend for the year ending 30 June 2014 of 3.25 cents per fully paid share paid on 27 September 2013 (Previous half year: final dividend for the year ended 30 June 2012 of 5.0 cents per fully paid share paid on 26 September 2012) Fully franked based on tax paid @ 30%	**8,000**	12,307
(b) Dividends not recognised at the end of the half year		
Following the end of the half year, the Directors recommended the payment of an interim dividend of 3.4 cents per fully paid ordinary share fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend to be paid on 31 March 2014 out of current year profits at 31 December 2013, but not recognised as a liability at the end of the half year, was $8.036 million. In the previous financial half year period the Directors did not recommend the payment of an interim dividend.	**8,036**	-

9 Earnings per share

	31 December 2013 Cents	Restated * 31 December 2012 Cents
(a) Basic earnings per share		
Basic earnings per share from continuing operations attributable to the ordinary equity holders of the Company	**4.7**	(10.2)
Basic earnings per share from discontinued operations attributable to the ordinary equity holders of the Company	**1.1**	(19.7)
Basic earnings per share attributable to the ordinary equity holders of the Company	**5.8**	(29.9)
Basic earnings per share from underlying profit attributable to the ordinary equity holders of the Company [1]	**6.7**	3.3

9 Earnings per share (continued)

(b) Diluted earnings per share

	31 December 2013 Cents	Restated * 31 December 2012 Cents
Diluted earnings per share from continuing operations attributable to the ordinary equity holders of the Company	**4.7**	(10.2)
Diluted earnings per share from discontinued operations attributable to the ordinary equity holders of the Company	**1.1**	(19.7)
Diluted earnings per share attributable to the ordinary equity holders of the Company	**5.8**	(29.9)
Diluted earnings per share from underlying profit attributable to the ordinary equity holders of the Company [1]	**6.7**	3.3

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

	31 December 2013 $'000	Restated * 31 December 2012 $'000
Profit / (loss) used in basic earnings per share		
Profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**11,475**	(25,172)
From discontinued operations	**2,601**	(48,433)
	14,076	(73,605)
Profit / (loss) used in diluted earnings per share		
Profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**11,475**	(25,172)
From discontinued operations	**2,601**	(48,433)
	14,076	(73,605)
Underlying profit / (loss) used in basic and diluted earnings per share [1]		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	**14,076**	(73,605)
CGU impairment, restructure and closure costs and other associated impairments [1]	**-**	81,786
Business combination acquisition transaction costs [1]	**2,117**	-
Underlying profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share [1]	**16,193**	8,181

[1] Underlying profit has been calculated after adjusting profit / (loss) attributable to the ordinary equity holders of the Company for business combination acquisition transaction costs in the current half year and CGU impairment, restructure and closure costs and other associated impairments in the previous half year. Underlying profit is a non IFRS measure used by the Company which is relevant because it is consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business in light of its change program. The non IFRS measure has not been subject to audit or review.

* See Note 11. Restated to present discontinued operations.

10 Business combination

(a) Current half year – HTR and Merlon

Summary of acquisition

On 4 September 2013 the Group announced the acquisition of two healthcare technology businesses. 100% of the issued shares in New Tone Pty Ltd (including TV Rentals Pty Ltd) ("HTR") were acquired with an effective date of 1 September 2013 and the assets and business of Merlon Technology NSW Pty Limited, Merlon Healthcare Communications Pty Limited and Statewide Communications Australia Pty Limited, (collectively known as "Merlon Technologies") were acquired with an effective date of 1 October 2013. The acquisitions continue the development of interactive patient care solutions, including to hospitals, aged care, retirement living and home care.

The acquired businesses contributed revenues of $6.1 million and net profit of $0.8 million from the dates of acquisition. If the acquisitions had occurred on 1 July 2013, consolidated revenue and consolidated profit for the half year ended 31 December 2013 would have been $450.663 million and $15.557 million respectively.

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

	$'000
Purchase consideration	
Cash paid	**33,321**
Contingent consideration	**3,519**
Total purchase consideration	**36,840**
Fair value of net identifiable assets acquired (refer below)	**11,189**
Goodwill (refer below)	**25,651**

The goodwill is attributable to the future non-contracted growth opportunities, the assembled workforce and synergies (both revenue and cost) applicable within the Hills Technologies division.

Assets and liabilities acquired

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

	Fair value $'000
Cash	**(95)**
Trade and other receivables	**1,676**
Inventories	**2,657**
Plant and equipment	**3,476**
Intangible assets: software	**101**
Intangible assets: customer contracts / relationships	**7,685**
Intangible assets: brand name	**613**
Intangible assets: intellectual property	**708**
Trade creditors and other liabilities	**(1,181)**
Provision for income tax	**(1,239)**
Deferred tax liability (net)	**(2,457)**
Provision for employee benefits	**(755)**
Net identifiable assets acquired	**11,189**
Add: Goodwill	**25,651**
Net assets acquired	**36,840**

10 Business combination (continued)

(a) Current half year – HTR and Merlon (continued)

Contingent consideration

Contingent consideration is payable to the former owners of HTR if certain EBITDA results are achieved for the year ending 30 June 2014. Contingent consideration recorded has been determined using latest available forecasts. Contingent consideration is payable to the former owners of Merlon if agreements with key hospitals are successfully entered into prior to 30 June 2014 and those agreements meet minimum gross profit levels. Contingent consideration recorded has been determined on the basis of the probability of the contracts being entered into.

Acquisition related costs

Acquisition-related costs of $2.0 million are included in other expenses in profit or loss and in operating cash flows in the consolidated statement of cash flows.

(b) Previous half year – Lan 1 Pty Ltd

In the previous half year ended 31 December 2012 the Group acquired 100% of the issued shares in Lan 1 Pty Ltd. Full disclosure of this acquisition is included in the 30 June 2013 Annual Financial Statements and the 31 December 2012 Half Year Financial Statements. Contingent consideration of $4.851 million was paid in the half year ended 31 December 2013.

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

(a) Assets classified as held for sale

The significant operations of Fielders Australia Pty Ltd (Fielders) and Orrcon Operations Pty Ltd (Orrcon) were presented as disposal groups held for sale and discontinued operations at 30 June 2013 and continue to be so classified at 31 December 2013. The Group announced on 19 August 2013 that it had signed interdependent agreements to sell Fielders and Orrcon to Bluescope Steel Limited. The transactions are subject to customary terms and conditions precedent including ACCC approval, which was granted on 30 January 2014.

The operations of LW Gemmell and UHS were presented as disposal groups held for sale at 30 June 2013. The LW Gemmell business was sold on 31 August 2013. The operation of OptiComm Co Pty Ltd is also presented as a disposal group held for sale at 31 December 2013. Efforts to sell the disposal groups have commenced and sales are expected to be completed within the next twelve months.

In note 2, the assets of Fielders and Orrcon are presented within the total assets of the Building and Industrial segment. The assets of LW Gemmell were presented within the total assets of the Lifestyle and Sustainability segment. The assets of UHS and OptiComm are presented within the total assets of the Electronics and Communications segment.

Certain land and buildings were classified as held for sale at 30 June 2013 and remain held for sale at 31 December 2013. These assets are being actively marketed for sale and the sales are expected to be completed within the next twelve months.

	31 December 2013 $'000	30 June 2013 $'000
Disposal groups held for sale		
Trade and other receivables	**70,026**	70,827
Inventories	**56,398**	56,771
Property, plant and equipment	**1,123**	234
Goodwill	**4,230**	6,875
Total assets of disposal groups held for sale	**131,777**	134,707
Non-current assets held for sale		
Land and buildings	**17,411**	11,368
Total assets classified as held for sale	**149,188**	146,075

11 Assets and liabilities classified as held for sale, discontinued operations and disposal of businesses (continued)

(b) Liabilities directly associated with assets classified as held for sale

	31 December 2013 $'000	30 June 2013 $'000
Disposal groups held for sale		
Trade and other payables	**38,975**	49,911
Provisions	**12,163**	25,943
Total liabilities directly associated with disposal groups held for sale	**51,138**	75,854

(c) Discontinued operations

(i) Description

Korvest Ltd

On 19 February 2013 the Group announced that it had sold its shares in Korvest Ltd. Comparative information on Korvest Ltd is reported in these financial statements as a discontinued operation. Financial information relating to the discontinued operation for the previous financial half year is set out below.

Fielders and Orrcon

As set out in (a) above, the Group has signed interdependent agreements to sell Fielders and Orrcon to Bluescope Steel Limited. Accordingly they are reported in these financial statements as discontinued operations. Financial information relating to the discontinued operations for the previous financial half year and the current financial half year is set out below.

(ii) Financial performance and cash flow information

Korvest, Fielders and Orrcon were not discontinued operations as at 31 December 2012 and the comparative consolidated income statement and consolidated statement of comprehensive income has been re-presented to show the discontinued operations separately from continuing operations.

	31 December 2013 $'000	31 December 2012 $'000
Revenue (note 3)	**220,560**	303,426
Expenses	**(216,939)**	(368,603)
Other income	**189**	80
Finance income	**5**	89
Profit / (loss) before income tax	**3,815**	(65,008)
Income tax (expense) / benefit	**(1,214)**	17,738
Profit / (loss) after income tax of discontinued operation	**2,601**	(47,270)
Profit / (loss) attributable to owners of Hills Limited	**2,601**	(49,528)
Net cash (outflow) / inflow from operating activities	**(12,814)**	16,056
Net cash (outflow) from investing activities	**(704)**	(1,774)
Net cash (outflow) from financing activities	**(6,000)**	(4,084)
Net (decrease) / increase in cash generated by the discontinued operations	**(19,518)**	10,198

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

11 Assets and liabilities classified as held for sale, discontinued operations and disposal of businesses (continued)

(d) Disposal of businesses

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

12 Contingencies

There have been no material changes in contingent liabilities or contingent assets since 30 June 2013.

13 Financial instruments

(a) Carrying amounts versus fair values

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

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2013.

(b) Financial instruments carried at fair value

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

- Derivative financial instruments
- Contingent consideration payable

(i) Fair value hierarchy

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

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

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2013.

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

13 Financial instruments (continued)

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

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

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

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

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

A discussion on the unobservable inputs is included within Note 10.

14 Related party transactions

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 30 June 2013 Annual Financial Statements.

15 Events occurring after the reporting period

On 2 January 2014 the Group acquired the remaining 49% of the issued shares of UHS Systems Pty Ltd for $5 million. This business remains classified as held for sale at 31 December 2013 on the basis that management is seeking to sell its 100% interest.

The Group announced on 19 August 2013 that it had signed interdependent agreements to sell its steel assets, Fielders and Orrcon, to Bluescope Steel Limited for $87.5 million before costs. The transactions have been subject to customary terms and conditions precedent including ACCC approval. ACCC approval for the sale of Orrcon was given on 5 December 2013 and for the sale of Fielders was given on 30 January 2014. The sale is expected to be completed during the third quarter of the financial year.

On 14 February 2014, the Group agreed to sell all of its interest in OptiComm Co Pty Ltd (OptiComm) under the terms of its existing shareholder agreement. The sale is expected to be completed during the third quarter of the financial year subject to customary terms and conditions precedent. OptiComm is included as a business held for sale in the Interim Financial Report as at 31 December 2013. The transaction will result in the carrying value of this business being recovered through sale. The impact of this sale on the Group’s results and net assets is not material.

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

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

(a) the consolidated financial statements and notes set out on pages 8 to 27 are in accordance with the *Corporations Act 2001,* including:

  (i) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half year ended on that date, and

  (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001;* and

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

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

JH Hill-Ling

Director

EN Pretty

Director

Sydney

18 February 2014

KPMG

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

We have reviewed the accompanying interim financial report of Hills Limited, which comprises the interim consolidated statement of financial position as at 31 December 2013, interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the half-year ended on that date, notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Hills Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Scott Fleming
Partner

Adelaide

18 February 2014