

26 September 2014

The Manager, Listings
Australian Securities Exchange Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Via electronic lodgement

Dear Sir / Madam

Shareholder Letter

In accordance with ASX Listing Rule 3.17, please see attached communication that was sent to shareholders today.

Yours faithfully



Gai Stephens
Company Secretary
Hills Limited



Hills Limited

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Dear Shareholder

Financial Year 2014 (FY14) has been a year of solid performance for Hills and we have appreciated your support during this period.

During the year we made significant progress on our strategy as we completed our restructuring and transformation and undertook major non-core asset sales. We invested some of the sale proceeds into new growth businesses. Hills is now firmly focused on innovation and the provision of integrated solutions mainly in the technology and communications sectors including security, health, automation, access control, lighting and audio visual, audio and networking.

Results

The Hills Group of companies recorded a statutory net profit after tax attributable to owners of \$24.8M for the year ended 30 June 2014. This profit reflects our results post the after tax impact of any adjustments including costs of acquisitions and other associated gains or losses on the disposal of businesses which we previously advised to the market.

The Company's underlying FY14 result was a profit of \$27.3M before adjustments and other costs (note that this is a non IFRS measure and is not subject to audit or review but is reconciled to the equivalent IFRS measure at note 22(c) in the Annual Report which can also be viewed online at hills.com.au/investors). The Company's underlying EPS was up 46% against last year.

We completed the financial year with a net cash surplus (i.e. no debt) of \$8.5M at 30 June 2014. Net debt as at the August results was c\$20M.

Review of year

At our Annual General Meeting in November 2013 we advised that during FY14 Hills would focus on completing the projects we started in FY13. This included continuing to improve the existing technology and communications businesses which underpin our core earnings, build out our Hills brand and product and service positioning, seek to acquire new businesses in key growth sectors such as healthcare, education, public safety, security, communications and technology services and deliver solid returns to our shareholders. We are pleased to report we met these objectives.

During the year we completed the purchase of HTR (Hospital Television Rentals) and Merlon. In February 2014 we completed the divestment of our Fielders and Orrcon steel businesses to BlueScope, in March the sale of UHS Systems to UTC and in April the sale of OptiComm to our joint venture partner. Consistent with our new strategy, between March and June we acquired Open Platform Systems, Intek Security and the majority of the assets of Questek. These acquisitions will strengthen our core business. Since 30 June 2014 we have completed the acquisition of Audio Products Group.

The impact of the Federal election, the first Coalition budget and the strong Australian dollar and modest levels of construction activity made for mixed market conditions across our continuing businesses during the year. However we are pleased to report that our results displayed strong revenue growth and steady returns.

We continued to make improvements in operational performance and undertook cost reductions to ensure a stronger balance sheet, low debt and solid cash flow. This was achieved with strong continuing cash flows from operations and zero gearing.

New strategy

At the beginning of FY14 the Board confirmed our aspirational settings to be achieved by FY16 including:

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

We are well on the way to meeting these targets. In particular in FY14:

- We achieved a return on funds employed (ROFE) in excess of 20% in the period; and
- Our revenues from technology and communications were greater than 75%.

Strategic update

Hills continues to be a company with a brand that attracts market attention. During FY14 we focused on building on this trust.

The strategy of the Company remains based on creating value by being focused on delivering technology based solutions into trusted government, enterprise, business and residential markets. This includes supplying access control and video security, automation and control, audio visual and lighting solutions, and nurse call and communications into hospitals, aged care facilities, schools, universities, banks, retailers, public transport and private logistic providers.

We have a high conviction that security, well-being and health have strong domestic growth potential. Our recent acquisitions in security and healthcare have been well received, further reflecting the trust and faith placed in us.

The Board continues with management to fine tune our strategy and objectives and we intend to provide an update at the Annual General Meeting in October this year.

Hills is now well positioned for growth with the proceeds from asset sales and divestments providing a very strong balance sheet. Our strategic objective for FY15 is to make a transformational acquisition in the health or security sectors.

Innovation

In May 2014 we opened two new innovation centres, jointly funded by Hills and the South Australian State Government. The Lance Hill Design Centre and Hills D-Shop have been created in collaboration with UniSA, Flinders University and the University of Adelaide to drive innovation as well as support and foster start-ups.

Brand

Hills (Hills Hoist) was also recognised by the Reader's Digest Survey, for the second consecutive year, as the Most Trusted Iconic Brand. It is our objective that this applies to all Hills technology based products into the future.

Dividend payments

The Board declared a fully franked dividend of 3.6 cents per share to registered shareholders as at 12 September 2014. This represents a year on year increase in dividend per share of 40%.

Accordingly, we are pleased to enclose your dividend cheque or direct deposit notification advice for the final dividend.

The Board has an intention, subject to acquisitions and working capital requirements, to target on an annual basis a dividend payout ratio of 50%-75% of underlying profits attributable to owners franked to the maximum extent possible. Future dividends are likely to be unfranked in the short to medium term due to carry forward tax losses.

Given our strong balance sheet, we continued to suspend our Dividend Reinvestment Plan and Share Investment Plans.

On-market buyback

During FY14 the Company acquired 12.3M shares for a total consideration of \$22.3M (an average price of \$1.81). This equates to 5% of the issued capital being bought back in FY14.

Your Board remains of the opinion that the current share price does not necessarily reflect the underlying value of our assets, our business capability and our strong capital position. On 15 August 2014 we announced our intention to refresh our ability to undertake an on-market buyback. Any decision to proceed with the buyback will be subject to cash required for acquisitions and dividends. It is our intention to build for sustainable earnings growth for the medium to longer term.

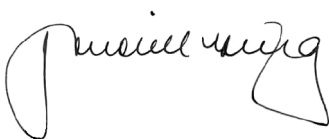
Outlook

We have entered FY15 with a very strong balance sheet, reduced structural and operating complexity and a lower operating risk profile.

We have ample capacity for further acquisitions and our strategic objective for FY15 is to make a transformational acquisition in the health or security sectors. Hills remains well positioned for the year ahead.

On behalf of the Board and management we thank you for your support during the year and assure you of our dedication to position the Company for growth and the delivery of superior returns and performance.

Yours sincerely



Jennifer Hill-Ling
Chairman



Ted Pretty
Group Managing Director and Chief Executive Officer