



**Hills Industries Limited**

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09/09/2003

International Accounting Standards Board  
30 Cannon Street  
LONDON EC4M 6XH  
United Kingdom

Email: [commentletters@iasb.org.uk](mailto:commentletters@iasb.org.uk)

Dear Sir

**RE: AASB ED 108/ IASB ED2 – SHARED BASED PAYMENT**

Hills Industries Limited is an Australian based publicly listed company established in 1946. Hills became a listed company in 1953 and today has 2,500 employees predominantly based in Australia.

Ever since becoming publicly listed, the Board of Hills Industries has encouraged employee share ownership schemes. These have worked very well for us in the past aligning the interests of employees and the corporation. Our schemes over the years have varied from the complex to the very simple. Today we have a universal scheme on offer to every employee of the Hills Industries Group with more than 12 months service.

When Division 13A of the ITAA was enacted in 1995 we reviewed our then very complex scheme. When the Tax Exemption in relation to employee share ownership schemes was increased from \$500 to \$1,000 in the Howard Government's first term, we decided to adopt a scheme which would have the key elements of encouraging employees to accumulate shares in Hills and be simple in terms of its operation.

Shortly thereafter we implemented a scheme whereby we issued shares to employees of Hills Industries with more than one year's service up to a maximum value of \$1,000 (by reference to market price) but free of charge to the employee. The issue of these shares has always been subject to improvement in the company's performance and profitability and is now universally regarded by the staff who have been involved.

An employee who has participated in all issues of shares under this scheme has now been issued with 3,089 shares which at today's market price of \$4.00 would be worth \$12,356. We have always said to our employees that the share ownership scheme is not a get rich quick scheme, rather it is one that rewards length of service and encourages long term accumulation.

To bring home a point here, I provide you with the following statistics:

The average accumulated balance in our superannuation scheme for individuals between the ages of 40-49 years is \$40,000

The average superannuation balance in our superannuation scheme for individuals between the ages of 50-59 years is \$70,000

The average annual earnings for a skilled production worker across Hills' Australian operations is \$33,000.

You can see from the above data that the accumulation of Hills' shares in the time since the scheme has been implemented has resulted in a significant savings increase for the individuals concerned.

Given the above, we are particularly concerned with the implications on our business flowing from AASB ED 108/IASB ED 2. As we understand it, should the Exposure Drafts be implemented we will be required to expense the "value" of the shares issued to employees and therefore reflect the "cost" in our Profit and Loss account. In our case this could lead to an impact on our reported profit before tax of AUD2M. It is my Board's view that if this is the case, we will discontinue the employee share ownership scheme.

This would be a poor result for Hills but more importantly a very poor result for the employees concerned as they have universally come to embrace the scheme and have come to understand the value of accumulating wealth.

We understand that your position is that standards should reflect correct accounting practice without making judgements on the merit or otherwise of employee share ownership schemes.

My suggestion is that there should be an exemption under the proposed changes to the accounting standards so that universal employee share ownership schemes operating in accordance with Government legislated tax concessions are excluded from the proposed treatment.

We would be very keen to discuss this issue with you further and to provide you with any further information you should require.

Yours sincerely

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