



Grow with Hills

HILLS INDUSTRIES LIMITED 2006 FULL ANNUAL REPORT

06

HILLS FULL
ANNUAL REPORT



Hills Industries Limited
Full Annual Report 2006

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Email: web.queries@computershare.com.au
Internet address: www.computershare.com

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

ABN 35 007 573 417

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2006 Overview

Hills Group achieves 14th consecutive record profit

The Directors present their report together with the financial report of Hills Industries Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2006 and the auditor's report thereon.

The Hills Industries Group achieved a group profit after tax attributable to shareholders of \$43.261 million. This was an increase of 21.8% over the previous year and represents the 14th consecutive year of record profits.

Overview

The focus of this year was the continuing evolution of Hills into market segments exhibiting attractive growth potential. The year saw the full year effect of the acquisition programme undertaken in the previous year, as well as some smaller complementary acquisitions to existing businesses. The sale of our investment in Hills UK was completed early in the year.

Our operating businesses continued to generate good cash flows, our balance sheet remains conservative and within our target gearing levels. The Company has the capacity to fund further acquisitions and growth initiatives.

Group Strategy

Our strategy is to develop competitive businesses in three main industry segments being Electronic Security and Entertainment, Building and Industrial Products and Home and Hardware Products. We aim to achieve a sensible level of diversification within each industry segment to minimise the impact of short-term changes to markets and economies. We aim to be product innovators and market leaders.

Our objective overall is to grow revenue and earnings through a combination of organic growth and acquisitions. We aim to be good corporate citizens in all aspects of our business dealings.

Trading Conditions

Trading conditions in the year under review were generally favourable in the markets in which we operate. Non-residential building activity and consumer confidence were strong which translated into good results in our Home and Hardware Products and Electronic Security and Entertainment divisions.

Further information on each division is contained later in this report.

Dividends

Our current policy is that we will pay 100% of our after tax profits to shareholders as dividends.

As a result of this policy shareholders have received a total of 26 cents per share fully franked dividends in respect of the year ended June 2006. Earnings per share for the same period were 26 cents. At balance date the debt to equity ratio stood at 36.7%.

Hills People

We encourage our Managers to direct and operate their businesses with a high degree of autonomy. We find that employees react well in this environment and consistently initiate change and improvements to our great advantage.

Shareholders

The number of shareholders in the Company continued to grow during the year from around 20,000 to in excess of 21,000.

We continue to offer our dividend reinvestment plans to shareholders at discount levels that the Directors feel are attractive for reinvestment. We also continued our practice of ensuring that the maximum number of employees participate in our employee share scheme. We believe that widespread share ownership by our employees has many positive benefits for the employees, the Company and you as shareholders.

Likely Developments

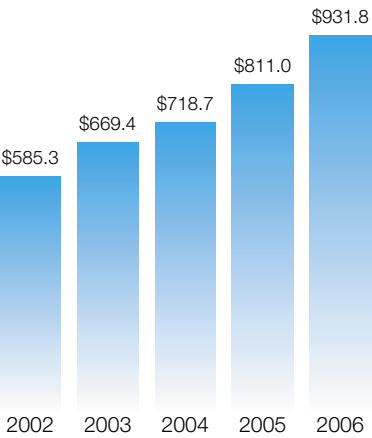
The Australian and New Zealand economies have experienced strong growth over the past few years. Generally it is felt that economic conditions will remain favourable over the next year notwithstanding some slow down in domestic building activity in Australia and recent interest rate increases.

The advantage of Hills' strategy of diversification is that changes in a single economic variable such as exchange rates, commodity prices or interest rates do not influence all of our divisions in the same way at the same time.

We are expecting some volatility in commodity prices and some slow down in the economy related to interest rate increases. However, overall your Directors anticipate an acceptable improved profit result for the year ended 30th June 2007.



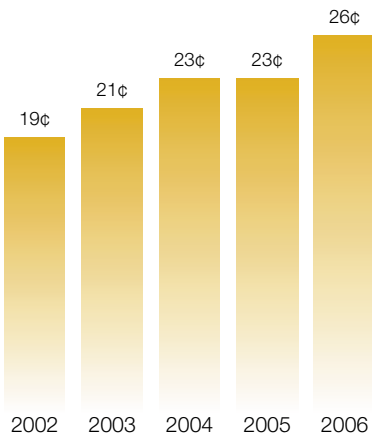
5 Year Summary



Total revenue
Amount in \$ millions



Net profit attributable to members
Amount in \$ millions



Earnings per share
Amount in cents

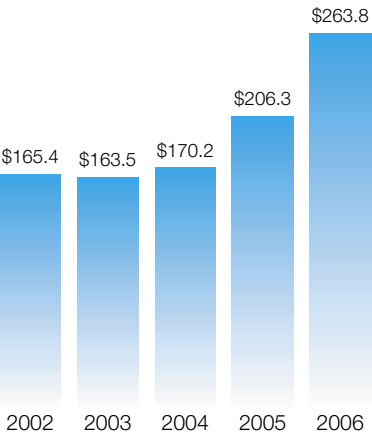
<i>In thousands of AUD</i>	2002	2003	2004	2005	2006
Total revenue	585,308	669,410	718,666	811,046	931,799
Net profit attributable to members	23,864	27,315	31,260	35,510	43,261
Net profit after tax and before minority interest	26,433	31,988	38,232	41,720	48,210
Depreciation, impairment and amortisation	13,727	18,042	19,723	20,585	17,566
Net borrowing costs	4,291	4,348	4,539	3,308	5,880
Shareholders' equity	136,100	175,869	199,516	292,528	309,952
Operating profit attributable to members					
—as a % of shareholders' equity	17.5%	15.5%	15.7%	12.1%	14.0%
Net profit after tax and before minority interest					
—as a % of total revenue	4.5%	4.8%	5.3%	5.1%	5.2%
Earnings per share (cents)	19	21	23	23	26
Dividends per share (cents)	20	21	23	24	26
Employees at year end	2,314	2,420	2,666	2,694	2,956
Shareholders at year end	9,915	14,263	17,125	20,270	21,748

2006 and 2005 are in compliance with AIFRS while prior years are in accordance with GAAP.

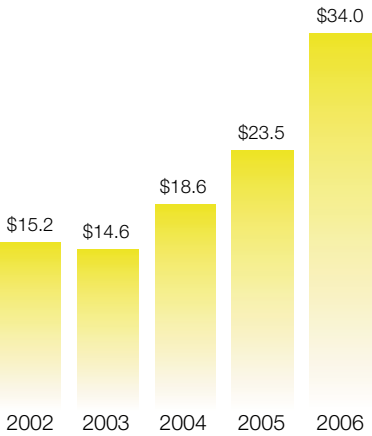
Group Profile

Electronic Security and Entertainment

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



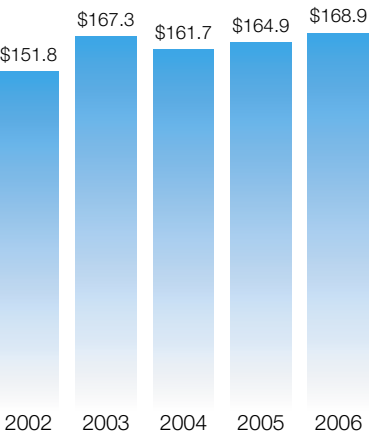
Revenue
Amount in \$ millions



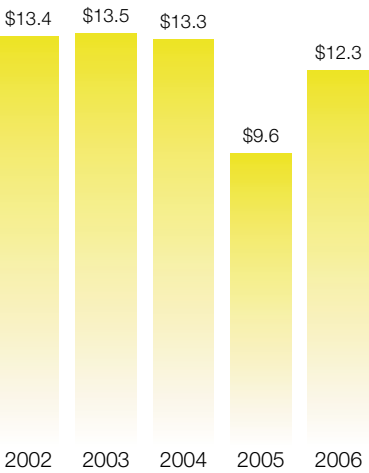
EBIT*
Amount in \$ millions

Home and Hardware

- Ladders
- Ironing boards
- Laundry trolleys
- Outdoor clothes dryers
- Security doors
- Playtime equipment
- Garden sprayers
- Wheelbarrows
- Rehabilitation and mobility products
- Water storage solutions
- Access equipment



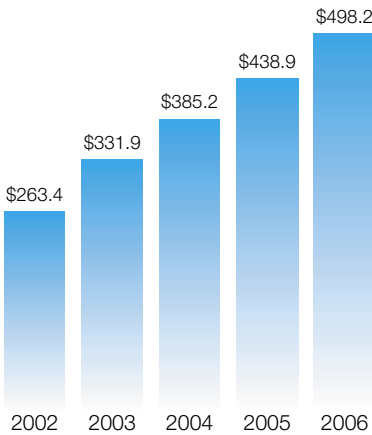
Revenue
Amount in \$ millions



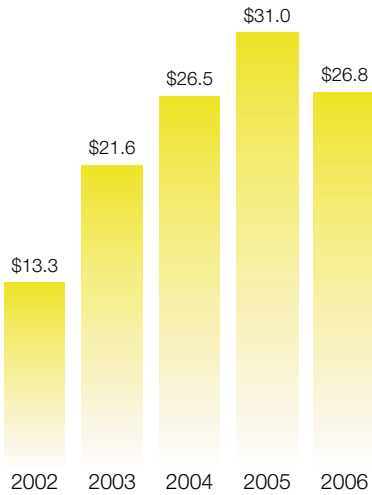
EBIT*
Amount in \$ millions

Building and Industrial

- Structural, precision and large steel tubing
- API accredited tubing
- Metal roofing, flooring and fencing
- Carports and shed systems
- Cable and pipe support systems
- Stainless steel products
- Steel door frames
- Hot-dip galvanising
- Precision metal cabinets



Revenue
Amount in \$ millions



EBIT*
Amount in \$ millions

*EBIT – Earnings before interest and tax
2006 and 2005 are in compliance with AIFRS while prior years are in accordance with GAAP.



Geoffery Guild Hill
FCPA FAICD F.S.I BEc(Syd) MBA(NSW)
Independent Non-Executive Director

David James Simmons
BA(Accountancy) FCPA
Managing Director

Ian Elliott
GAICD
Independent Non-Executive Director

Jennifer Helen Hill-Ling
LLB(Adel) Chairman
Non-Independent Non-Executive Director

Peter William Stancliffe
BE(Civil) FAICD
Independent Non-Executive Director

Roger Baden Flynn
BEng(Hons) MBA FIE(Aust)
Independent Non-Executive Director

Graham Lloyd Twartz
BA(Adel) DipAcc(Flinders)
Finance Director

Electronic Security and Entertainment

Revenue of \$263.8 million, EBIT of \$34.0 million

The Electronic Security and Entertainment segment comprises Hills Electronic Security, Hills Antenna & TV Systems, Audio Telex Communications, Crestron Control Solutions, Australian Audio Supplies and Access Television Services. Revenue of \$263.8 million was 27.9% higher than the previous year. EBIT of \$34.0 million was 44.5% higher than 2005.

Hills Electronic Security

This business unit markets an extensive range of electronic security products ranging from simple domestic alarms to complex integrated surveillance and access control systems. We represent a number of the world's leading security companies and have achieved a market leading position on the base of superior customer service, convenient locations and a constant flow of new products.

Enhanced security requirements across a number of market segments and in particular the Government and Commercial markets saw our security division successful in securing a number of large contracts during the year. Our position as the leading supplier of domestic alarm panels continued during the year although this market continues to exhibit limited growth.

The Hills Technology Solutions Group aims to bring together all of the Hills products as a single bundled offer to architects, engineers, builders and developers of properties. This group was instrumental in securing a number of important projects during the year spanning products from different business units within Hills.

Audio Telex and Crestron Control Solutions

Audio Telex and Australian Audio Supplies are leaders in the professional audio market in Australia and New Zealand. Crestron Control Solutions is one of the region's leading distributors of advanced control and automation systems for integration and control of audio, video, data and the internet. These businesses were acquired late in the year ended June 2005 and as such this year saw the first full year of operation as part of the Hills Group. The performance of these businesses was above our expectations at the time we acquired them. We were delighted during the year to complete the acquisition of Australian Audio Supplies.

Our intention is to broaden the business into Video and Lighting solutions under the Hills SVL banner.

Hills Antenna & TV Systems

This business unit provides a full range of reception and distribution equipment for subscription television, free to air television and wireless voice and data markets.

This division had an excellent 12 months on the back of increased and sustained demand from the subscription television industry and the completion of the Air Services Australia contract to provide remote surveillance at regional airports.

More and more of this division's business is generated from major project work and the expansion of our product range under the Hills Audio Visual banner.

Access Television Services

Access Television Services is the major supplier of installation services to Austar Entertainment, the leading provider of subscription TV in rural and regional Australia.

The sustained improved demand for the Austar service from its customers saw increased volumes of work for ATS during the year. We were pleased with the contribution that ATS made to our results this year.



Home and Hardware

Revenue of \$168.9 million, EBIT of \$12.3 million

The Home and Hardware segment comprises our branded Consumer Products operations in Australia and New Zealand as well as the K•Care and Kerry Rehabilitation and Mobility businesses together with Team Poly. During the year revenue increased by 2.4% to \$168.9 million while EBIT increased by 28.9% to \$12.3 million.

Branded Products

This business unit manufactures and distributes a range of predominantly metal based branded hardware products to consumers, trade customers and government utilities. Our market leading brands include Hills, Bailey, Oldfields Ladders and Kelso.

The restructuring of the Consumer Products business continued during the period. We are now sourcing more of our products from China and we are progressing a controlled downsizing of our manufacturing facilities at Edwardstown in Adelaide. Notwithstanding the downsizing in our manufacturing operations we will continue to invest in research and development resources where we believe we have a long-term competitive advantage and a market leading position.

Bailey is a leading supplier of access equipment including ladders and scaffolding to the hardware, building and construction industries. In January 2006 we acquired the Alquip business based in Toowoomba, Queensland. Alquip is a supplier of access equipment including aluminium scaffolding, trestles, planks and stairway access systems. Changes in occupational, health and safety laws throughout Australia, particularly in the area of working at heights, has resulted in a switch in the market from ladder products to more complex access and scaffolding systems. A key initiative for Alquip is to increase the footprint of their operations around Australia and this is well underway.

Hills United Kingdom

On the 1st July we completed the sale of the remaining 50% of this business to our partner.

Team Poly

Team Poly is involved in the manufacture of water storage tanks, chemical storage tanks, as well as SmartBar vehicle frontal protection systems. In April 2005 Hills acquired a 75% interest in this business and acquired the remaining 25% in April 2006.

Cost input pressures resulted in Team Poly's performance being a little below expectation; however, we have embarked on initiatives to expand the product range and to further vertically integrate the business. Specifically we have installed a powder compounding and grinding plant, which allows us to produce our own plastic material for further processing.

The key initiative in the upcoming year is to develop the larger Hills Eco segment of which Team Poly will form a part. Hills Eco will focus on water conservation, re-use and building sustainability.

K•Care and Kerry Equipment

This business unit manufactures a range of mobility, rehabilitation and aged care products for domestic and overseas markets. The range includes hospital equipment and nursing home products such as patient lifters. K•Care and Kerry Equipment both performed well during the period on the back of the development and release of a number of new innovative products.

This business unit operates in markets with growth profiles slightly above the general economy and with the opportunity to add additional products to the range we are expecting continuing good results.

Building and Industrial

Revenue of \$498.2 million, EBIT of \$26.8 million

The Building and Industrial segment consists of Orrcon, Korvest, Fielders and Woodroffe Equipment. Revenues improved by 13.5% to \$498.2 million; however EBIT decreased by 13.7% to \$26.8 million.

Orrcon

This business unit manufactures and distributes a comprehensive range of steel tube and piping. With manufacturing plants in South Australia, Queensland and in New South Wales we are able to service all market segments nationally.

This business unit had a difficult year with significant margin pressures being experienced. The market is extremely competitive and the last 12 months were influenced by aggressive pricing from importers. As a result of this a dumping action initiated by all pipe and tube manufacturers in Australia against a large number of overseas manufacturers was re-initiated during the last six months.

Whilst Orrcon did not perform to expectations during the period we have a number of business initiatives and profit improvement initiatives in place and we expect to see significantly improved results in the next year.

Fielders

Fielders manufactures and distributes a range of rollformed metal building products (roof and gutter material, downpipes, steel flooring systems, carports, sheds and purlins) for the commercial and domestic building markets throughout Australia.

The acquisition of Brisbane Sheet Metal in December 2005 enabled Fielders to complete its national network and access the very important Queensland market. Fielders strategy is to continually develop unique product solutions in markets which are not characterised by product innovation. Fielders have been the first to market with innovations such as mobile rollforming. During the year the launch of Fielders angle cut (pre-cut roof sheeting) was undertaken as well as the development of the complete range of steel flooring systems.

The continuing development of Brisbane Sheet Metal as well as the effect of these new products is expected to see good results for Fielders in the current year.

Korvest

Korvest is a publicly listed Company involved in the manufacture of cable support systems and galvanising.

Hills holds 46.4% of the shares in Korvest. The Korvest results for the year were excellent. The performance of the EzyStrut business was particularly pleasing. A number of new product introductions and the efficiencies we expect to generate from plant improvements undertaken during the year should see Korvest continue to produce good results.

Woodroffe Equipment

This business unit manufactures and distributes a range of metal products specialising in stainless steel fabrication. It also operates in the food services equipment market. Woodroffe continues to grow its profit and revenue on the back of an ever-increasing range of products in the food service industry including some sourced from China.



Directors' Report

2. Directors

The Directors of the Company at any time during or since the end of the financial year are:

Jennifer Helen Hill-Ling

LLB(Adel)
Chairman Non-Independent Non-Executive Director
Age: 44

Appointed Director in August 1985. Appointed Deputy Chairman in June 2004. Appointed Chairman 28 October 2005. Member of the Nomination Committee and Chairman of the Remuneration Committee. Former Director of Tower Trust Ltd.

Jennifer Hill-Ling has extensive experience in corporate and commercial law. She specialises in corporate and business structuring, mergers and acquisitions, joint ventures and related commercial transactions. She has practiced in the law for some 22 years and is currently a consultant to Sydney law firm Blessington Judd.

David James Simmons

BA(Accountancy) FCPA
Managing Director
Age: 52

Joined the Company in 1984. Appointed Finance Director in July 1987. Appointed Managing Director in December 1992.

Chairman of Korvest Ltd and Fielders Australia Pty Ltd. David Simmons is the Group Managing Director and is responsible for group operations, including business strategy and acquisitions. Mr Simmons has extensive financial and general management experience and is Chairman of the SA Government Economic Development Board.

Ian Elliot

GAICD
Independent Non-Executive Director
Age: 52

Appointed Director in August 2003. Member of the Remuneration Committee and Chairman of the Nomination Committee. Chairman of Promentum Limited. Former Chairman Zenith Media Pty Ltd, Allied Brands Limited and Artist & Entertainment Group Limited. Former Director of Salmat Limited.

Ian Elliot has spent 32 years in marketing. His speciality is brand building, with extensive involvement in a number of icon brands. Mr Elliot is a fellow of the AICD and graduate of the Harvard Business School Advanced Management Program.

Roger Baden Flynn

BEng(Hons) MBA FIE(Aust)
Independent Non-Executive Director
Age: 56

Appointed Director in November 1999. Member of the Audit and Compliance Committee. Non-Executive Director of Coventry Group Limited. Previously Managing Director of ION Limited, Non-Executive Director of Watty! Limited and Director of Longreach Group Limited.

Roger Flynn has 39 years experience working in a range of technical and commercial roles in manufacturing and distribution industries in Australia and the United States, as well as over 30 Board years experience in ASX listed companies.

Geoffrey Guild Hill

FCPA FAICD F.S.I BEc(Syd) MBA(NSW)
Independent Non-Executive Director
Age: 60

Member of the Audit and Compliance, Remuneration and Nomination Committees. Principal of Pitt Capital Partners Limited. Chairman International Pacific Securities (Group) Limited. Director Brickworks Investments Limited, Huntley Investments Limited and Heritage Gold (NZ) Limited. Former Director of Biron Corporation Limited and Pacific Strategic Investments Limited.

Geoffrey Hill is a merchant banker, based in Hong Kong, with over 32 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 South Australian corporate field since 1979. Mr Hill is a Director of Adelaide based Rundle Capital Ltd.

Peter William Stancliffe

BE(Civil) FAICD
Independent Non-Executive Director
Age: 58

Appointed Director in August 2003. Chairman of the Audit and Compliance Committee and member of the Remuneration Committee. Non-Executive Director of Automotive Holdings Group Limited and Chairman of View Resources Limited. Former Chairman of Deck Guardrail Australia Pty Ltd, Victorian Regional Executives Group and Xtract Technologies Limited.

Peter Stancliffe has over 36 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.

Graham Lloyd Twartz

BA(Adel) DipAcc(Flinders)
Finance Director
Age: 49

Joined the Company in 1993. Appointed Director in July 1993. Director of Korvest Ltd and Fielders Australia Pty Ltd.

Graham Twartz is the Finance Director and Company Secretary and has over 22 years experience in his field. Mr Twartz held senior management positions in diversified companies before joining Hills in 1993.

Robert Donald Hill-Ling

AO FIE(Aust) FAICD CPEng
Chairman Non-Independent Non-Executive Director
Age: 73

Resigned 28 October 2005. Joined the Company in 1952. Director since June 1958. Managing Director November 1965 to December 1992. Appointed Chairman in December 1966. Chairman of the Remuneration and Nomination Committees and member of the Audit and Compliance Committee.

Directors' Report

3. Company Secretary

Graham Twartz was appointed to the position of Company Secretary in 1994.

4. Officers who were previously partners of the audit firm

There were no officers of the Company during the financial year who were previously partners of the current audit firm, KPMG.

5. Directors' Meetings

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Audit & Compliance Remuneration Nomination							
	Board		Committee		Committee		Committee	
	Meetings		Meetings		Meetings		Meetings	
	A	B	A	B	A	B	A	B
R D Hill-Ling	6	7	3	3	3	3	–	–
J H Hill-Ling	13	13	–	–	1	1	1	1
D J Simmons	13	13	–	–	–	–	–	–
I Elliot	13	13	–	–	–	–	1	1
R B Flynn	13	13	5	5	–	–	–	–
G G Hill	10	13	3	6	3	4	1	1
P W Stancliffe	13	13	6	6	4	4	–	–
G L Twartz	12	13	–	–	–	–	–	–
A – Number of meetings attended								
B – Number of meetings held during the time the Director held office during the year								

6. Corporate Governance Statement

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

6.1 Board of Directors

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for Directors and Senior Executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems.

It is also responsible for approving and monitoring financial and other reporting. Details of the Board's charter are located on the Company's website www.hills.com.au.

The Board has delegated responsibility for operation and administration of the Company to the Managing Director and Executive Management. Responsibilities are delineated by formal authority delegations.

Board Processes

To assist in the execution of its responsibilities, the Board has established a number of Board Committees including a Nomination Committee, a Remuneration Committee and an Audit and Compliance Committee. These Committees have written mandates and operating procedures, which are reviewed on a regular basis. The Board has also established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds thirteen scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, Managing Director and Finance Director. Standing items include the Managing Director's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and Directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

Director Education

The consolidated entity has a formal process to educate new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of Directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Directors' Report

Independent professional advice and access to Company information

Each Director has the right of access to all relevant Company information and to the Company's Executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. The Director must consult with an adviser suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the Director is made available to all other members of the Board.

Composition of the Board

The names of the Directors of the Company in office at the date of this report are set out in section 2 of the Directors' Report. The composition of the Board is determined using the following principles:

- a broad range of expertise both nationally and internationally
- a majority of independent Non-Executive Directors
- a majority of Directors having extensive knowledge of the Company's industries, and those which do not, have extensive expertise in management of large companies
- a Non-Executive Non-Independent Director as Chairman. The Chairman is not independent which is not in accordance with ASX recommendation 2.2 but is considered appropriate given:
 - The Hill-Ling family's interest in Hills;
 - Ms Hill-Ling's considerable experience within Hills and in the various industries in which Hills operates; and
 - The various positions and activities engaged in outside Hills, which are considered invaluable in her role as Chairman.
- enough Directors to serve on various Committees without overburdening the Directors or making it difficult for them to fully discharge their responsibilities.

An independent Director is a Director who is not a member of Management (a Non-Executive Director) and who:

- holds less than five per cent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five per cent of the voting shares of the Company
- has not within the last three years been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment
- within the last three years has not been a principal or employee of a material* professional adviser or a material* consultant to the Company or another group member
- is not a material* supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material* supplier or customer
- has no material* contractual relationship with the Company or another group member other than as a Director of the Company
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially* interfere with the Director's ability to act in the best interests of the Company.

* the Board considers, 'material', in this context, to be where any Director-related business relationship has represented, or is likely in future to represent the lesser of at least 10 per cent of the relevant segment's or the Director-related business's revenue. The Board considered the nature of the relevant industries' competition and the size and nature of each Director-related business relationship, in arriving at this threshold.

6.2 Nomination Committee

The Nomination Committee oversees the appointment and induction process for Directors and committee members, and the selection, appointment and succession planning process of the Company's Managing Director. The Committee makes recommendations to the Board on the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the Committee in consultation with the Board determines the selection criteria based on the skills deemed necessary. The Committee identifies potential candidates with advice from an external consultant. The Board then appoints the most suitable candidate. A Director appointed to fill a casual vacancy must stand for election at the next Annual General Meeting. One third of the Directors, excluding the Managing Director, must retire at each Annual General Meeting, being those longest in office since the last election. Those Directors are eligible for re-election at that meeting.

The Nomination Committee also annually reviews the effectiveness of the Board, its Committees, individual Directors, and Senior Executives. The other Directors have an opportunity to contribute to the review process. The performance criteria take into account each Director's contribution to setting the direction, strategy and financial objectives of the group, and monitoring compliance with regulatory requirements and ethical standards.

The Committee generates recommendations to the Board, which votes on them. The Committee's nomination of existing Directors for reappointment is not automatic and is contingent on their past performance, contribution to the Company and the current and future needs of the Board and the Company. Directors displaying unsatisfactory performance are required to retire.

The Nomination Committee comprised the following members during the year, all of whom were non executive Directors:

- R D Hill-Ling (Chairman)—Non-Independent Non-Executive (resigned October 2005)
- I Elliot (Chairman)—Independent Non-Executive
- G G Hill—Independent Non-Executive
- J H Hill-Ling—Non-Independent Non-Executive

The Nomination Committee meets annually unless otherwise required. The terms and conditions of the appointment and retirement of Non-Executive Directors are set out in a letter of appointment, including expectations of attendance and preparation for all Board Meetings, minimum hourly commitment, appointments to other Boards, the procedures for dealing with conflicts of interest, and the availability of independent professional advice.

The Nomination Committee also conducts an annual review of the performance of the Managing Director and the Senior Executives reporting directly to him and the results are discussed at a Board Meeting.

Directors' Report

6.3 Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the executive officers and Directors themselves of the Company and of other group executives for the consolidated entity. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

- The members of the Remuneration Committee during the year were:
- R D Hill-Ling (Chairman)—Non-Independent Non-Executive (resigned October 2005)
 - J H Hill-Ling (Chairman)—Non-Independent Non-Executive
 - G G Hill—Independent Non-Executive
 - P W Stancliffe—Independent Non-Executive (resigned November 2005)
 - I Elliot—Independent Non-Executive

The Board policy is that the Remuneration Committee will comprise entirely Non-Executive Directors. The Managing Director, D J Simmons, is invited to Remuneration Committee meetings, as required, to discuss Senior Executives' performance and remuneration packages but does not attend meetings involving matters pertaining to him.

The Remuneration Committee meets once a year and as required. The Committee met four times during the year and Committee Members' attendance record is disclosed in the table of Directors' Meetings.

The Remuneration Committee's charter is available on the Company's website.

6.4 Remuneration Report

6.4.1 Principles of compensation - audited

Remuneration is referred to as compensation throughout this report. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, including Directors of the Company and other executives.

Compensation levels for key management personnel of the Company, and relevant key management personnel of the consolidated entity are competitively set to attract and retain appropriately qualified and experienced Directors and Executives. The Remuneration Committee obtains independent advice on market remuneration trends in comparative companies both locally and internationally.

- The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:
- the capability and experience of the key management personnel
 - the key management personnel's ability to control the relevant segment/s' performance
 - the consolidated entity's performance including:
 - the consolidated entity's earnings
 - the growth in share price and delivering constant returns on shareholder wealth
 - the amount of incentives within each key management person's compensation.

In addition to their salaries, the consolidated entity also provides non-cash benefits to some of its key management personnel, and contributes to a superannuation fund on their behalf.

Directors receive their statutory superannuation entitlements. In addition, certain Non-Executive Directors are entitled to receive benefits on retirement under a scheme which has now been discontinued.

Under the scheme, Directors are entitled to a maximum retirement benefit of twice their annual Directors' fees (calculated as an average of their 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 for existing Directors (up to a maximum of two times fees) remains fixed.

These benefits have been fully provided for in the financial statements.

Directors' Report

Fixed Compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Remuneration Committee through a process that considers individual, segment and overall performance of the consolidated entity. In addition external consultants provide data to ensure the Directors' and Senior Executives' compensation is competitive in the market place. A Senior Executive's compensation is also reviewed on promotion.

Performance-linked compensation

Performance-linked compensation includes short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash. A long-term incentive plan is also provided as options over ordinary shares of the Company under the rules of the Executive Share Option Plan.

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the key management personnel. The broad Remuneration Policy is to ensure that Remuneration Packaging properly reflects the person's duties and responsibilities, level of performance and is competitive in attracting, retaining and motivating people of the highest quality.

Key management personnel may receive bonuses based on the achievement of agreed outcomes relating to the performance of the consolidated entity (including operational results). Bonuses earned are measured on a number of factors, the most common of which is based on the achievement of the EBIT results of the relevant business. EBIT is the chosen determinant upon which to measure bonus payments, as it is indicative of the businesses financial achievement, which has a direct correlation to shareholder value and successful operational business performance.

Shares issued to key management personnel are a result of the Employee Share Bonus Plan under which shares are issued to all employees with more than a nominated period of service. Options issued to key management personnel are a result of the Executive Share Plan. Non-Executive Directors do not receive any performance related remuneration.

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced Directors and Senior Executives. The Remuneration Committee obtains independent advice on market remuneration packages in comparative companies both locally and internationally. Remuneration packages include a mix of fixed remuneration, performance-based remuneration and equity-based remuneration, except for Non-Executive Directors who only received fixed remuneration.

- The remuneration structures take into account:
- the overall level of remuneration for each key management personnel;
 - the executive's ability to control performance; and
 - the amount of incentives within each executive's remuneration.

The key management personnel receive performance-based remuneration. M I Canny, A R Oliver and P J Mellino receive bonus incentives based on a percentage of divisional EBIT. The bonuses received by D J Simmons and G L Twartz are discretionary, decided by the Remuneration Committee annually and based on a wide range of factors including the financial performance of the Company.

The key management personnel are not currently entitled to contractual termination payments other than those generally applicable to all staff, with the exception of the Managing Director who is entitled to six months notice of termination other than in the event of serious and wilful misconduct.

Options are issued under the Executive Share Plan, to executive Directors, made in accordance with thresholds approved by shareholders at the AGM. The plan provides for 24 Executives (17 Executives in 2005) to receive options over ordinary shares for no consideration. The ability to exercise the options is conditional on the Company achieving certain performance outcomes. Non-Executive Directors do not receive any options.

Key management personnel who acquire shares through the exercise of options are provided with 20-year interest free loans by the Company in accordance with the rules of the Executive Share 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.

A small number of shares are issued to Executive Directors and specified Executives as a result of the Employee Share Bonus Plan under which shares are issued to all employees with more than a nominated period of service.

The Board considers that the above performance-linked remuneration structure is generating the desired outcome. The evidence for this is fourteen successive years of record profits.

Directors' Report

6.4 Remuneration Report (continued)

6.4.2 Directors' and Executive Officers' Remuneration (Company and Consolidated) - audited

Details of the nature and amount of each major element of remuneration of each Director of the Company and each of the five named Company Executives relevant Group Executives who receive the highest remuneration and other Key management personnel are:

			Short-term		Post-employment		Share-based payments		Total	S300A (1)(e)(i) Proportion of remuneration related %	S300A (1)(e)(vi) Value of options as proportion of remuneration %	
			Salary and fees	STI cash bonus	Non-monetary benefits	Other short-term benefits	Super-annuation benefits	Termination benefits				Options
Directors		\$	\$(A)	\$	\$	\$	\$	\$(B)	\$	\$		
Non Executive Directors												
R D Hill-Ling <i>Chairman **</i> <i>Resigned 28 October 2005</i>	2006	45,000	–	–	–	4,050	180,000	–	–	229,050	–	–
	2005	88,334	–	–	–	7,950	–	–	–	96,284	–	–
J H Hill-Ling <i>Chairman **</i>	2006	93,333	–	–	–	8,400	–	–	–	101,733	–	–
	2005	66,666	–	–	–	6,000	–	–	–	72,666	–	–
I Elliot <i>**</i>	2006	62,916	–	–	–	5,662	–	–	–	68,578	–	–
	2005	58,332	–	–	–	5,250	–	–	–	63,582	–	–
R B Flynn <i>**</i>	2006	62,729	–	–	–	5,646	–	–	–	68,375	–	–
	2005	64,491	–	–	–	–	–	–	–	64,491	–	–
G G Hill <i>**</i>	2006	62,916	–	–	–	5,662	–	–	–	68,578	–	–
	2005	58,332	–	–	–	5,250	–	–	–	63,582	–	–
P W Stancliffe <i>**</i>	2006	71,875	–	–	–	6,469	–	–	–	78,344	–	–
	2005	64,583	–	–	–	5,812	–	–	–	70,395	–	–
Executive Directors												
D J Simmons <i>**</i> <i>Managing Director</i>	2006	393,628	100,000	17,447	9,535	33,249	–	44,824	1,000	599,683	16.7%	7.5%
	2005	278,950	173,800	17,447	–	31,312	–	18,968	1,000	521,477	33.3%	3.6%
G L Twartz <i>**</i> <i>Finance Director</i>	2006	314,985	4,667	32,895	6,766	28,348	–	33,618	1,000	422,279	1.1%	8.0%
	2005	262,665	26,000	32,895	–	29,977	–	14,226	1,000	366,763	7.1%	3.9%

Directors' Report

		Short-term				Post-employment		Share-based payments			S300A (1)(e)(i) Proportion of remuneration related	S300A (1)(e)(vi) Value of options as proportion of remuneration
		Salary and fees	STI cash bonus	Non-monetary benefits	Other short-term benefits	Super-annuation benefits	Termination benefits	Options	Shares	Total	%	%
Executives		\$	\$(A)	\$	\$	\$	\$	\$(B)	\$	\$		
M I Canny **												
Group General Manager – Home and Hardware Products	2006	173,247	107,312	10,800	8,618	13,336	–	33,618	–	347,931	30.8%	9.7%
	2005	165,602	67,824	10,800	–	20,794	–	14,226	–	280,246	24.2%	5.1%
A R Oliver **												
Group General Manager – Antenna & TV Systems	2006	187,968	122,170	21,500	12,581	16,938	–	25,214	1,000	387,371	31.5%	6.5%
	2005	174,462	151,568	21,500	–	25,663	–	10,670	1,000	384,863	39.4%	2.8%
P J Mellino **												
Group General Manager – Hills Electronic Security	2006	126,745	147,342	–	–	11,407	–	11,206	1,000	297,700	49.5%	3.8%
	2005	123,902	127,130	–	–	11,151	–	4,742	1,000	267,925	47.4%	1.8%
J Easling												
Managing Director – Fielders	2006	258,482	–	–	–	22,996	–	16,809	1,000	299,287	0.0%	5.6%
	2005	241,527	–	–	–	21,450	–	5,928	1,000	269,905	0.0%	2.2%
L Andrewatha												
Managing Director – Orrcon Group	2006	320,000	–	–	–	28,800	–	33,618	–	382,418	0.0%	8.8%
	2005	47,590	–	–	–	4,283	–	14,226	–	66,099	0.0%	21.5%
A Muir **												
Business Development Manager	2006	203,823	–	–	–	18,344	–	14,008	1,000	237,175	0.0%	5.9%
	2005	189,355	–	–	–	17,042	–	2,371	1,000	209,768	0.0%	1.1%
D M Salvaterra												
General Manager – Ezy Strut	2006	110,674	222,224	–	–	27,749	–	–	1,000	361,647	61.4%	0.0%
	2005	110,105	257,519	–	–	25,121	–	–	1,000	393,745	65.4%	0.0%
R Meachem												
General Manager – DAS	2005	140,375	74,273	–	–	9,437	–	2,371	1,000	227,456	32.7%	1.0%
A Colicchia												
General Manager – Pacific Communications	2005	137,442	68,140	–	–	18,503	–	2,371	1,000	227,456	30.0%	1.0%
S P Pradella												
Managing Director – Orrcon	2005	192,195	17,452	25,510	–	18,868	109,391	–	–	363,416	4.8%	0.0%
Former												
P Brodribb												
Executive – Korvest Ltd	2005	97,924	31,910	9,625	–	8,813	253,225	–	500	401,997	7.9%	0.0%
Total compensation: Key Management Personnel (consolidated)												
	2006	2,377,647	481,491	82,642	37,500	209,307	180,000	212,915	7,000	3,588,502		
	2005	1,884,791	546,322	82,642	–	191,934	–	85,357	7,000	2,798,046		
Total compensation: Key Management Personnel (company) **												
	2006	1,804,326	481,491	82,642	37,500	152,350	180,000	162,488	6,000	2,906,797		
	2005	1,595,674	546,322	82,642	–	166,201	–	65,203	6,000	2,462,042		

Directors' Report

6.4 Remuneration Report (continued)

Notes in relation to the table of Directors' and Executive Officers Remuneration - audited

A The short-term incentive bonus is for performance during the 30 June 2006 financial year using the criteria set out previously.

B The options granted during the year expire on 31 January 2008 and each option entitles the holder to purchase one ordinary share in the Company. The ability to exercise the options is conditional on the consolidated entity achieving certain performance hurdles. Once exercised, the holder is restricted from selling the shares for a period of three years.

The 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 options granted during the year are set out under “Options” below.

Details of Performance Related Remuneration

Details of the consolidated entity’s policy in relation to the proportion of remuneration that is performance related are discussed earlier in this Remuneration Report.

6.4.3 Analysis of Bonuses Included in Remuneration - unaudited

Short-term benefits are based on a percentage of the relevant business unit earnings before interest and tax. Short-term incentive cash bonuses awarded as remuneration to each Director of the Company and each of the five named Company Executives and relevant Group Executives are detailed in the remuneration table above. No amounts were forfeited and were fully vested in the current year.

6.4.4 Equity Instruments

All options refer to options over ordinary shares of Hills Industries Limited, which are exercisable on a one-for-one basis under the Executive Share Option Plan.

6.4.4.1 Options and rights over equity instruments granted as compensation - audited

Details on options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that were vested during the reporting period are as follows:

	No. of options granted during 2006	Grant date	No. of options vested during 2006	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date
Directors						
D J Simmons	80,000	Feb 2006	80,000	0.5603	4.83	31/01/28
G L Twartz	60,000	Feb 2006	60,000	0.5603	4.83	31/01/28
Executives						
M I Canny	60,000	Feb 2006	60,000	0.5603	4.83	31/01/28
A R Oliver	45,000	Feb 2006	45,000	0.5603	4.83	31/01/28
P J Mellino	20,000	Feb 2006	20,000	0.5603	4.83	31/01/28
L Andrewatha	60,000	Feb 2006	–	0.5603	4.83	31/01/28
J Easling	30,000	Feb 2006	15,000	0.5603	4.83	31/01/28
A Muir	25,000	Feb 2006	10,000	0.5603	4.83	31/01/28

	No. of options granted during 2005	Grant date	No. of options vested during 2005	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date
Directors						
D J Simmons	80,000	Feb 2005	80,000	0.4826	4.16	31/01/27
G L Twartz	60,000	Feb 2005	40,000	0.4826	4.16	31/01/27
Executives						
M I Canny	60,000	Feb 2005	40,000	0.4826	4.16	31/01/27
A R Oliver	45,000	Feb 2005	40,000	0.4826	4.16	31/01/27
P J Mellino	20,000	Feb 2005	20,000	0.4826	4.16	31/01/27
L Andrewatha	60,000	Feb 2005	–	0.4826	4.16	31/01/27
J Easling	25,000	Feb 2005	–	0.4826	4.16	31/01/27
A Muir	10,000	Feb 2005	–	0.4826	4.16	31/01/27

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

All options expire on the earlier of their expiry date or termination of the individual's employment. The options are exercisable on an annual basis two years from grant date. In addition to a continuing employment service condition, the ability to exercise options is conditional on the consolidated entity achieving certain performance hurdles.

Further details, including grant dates and exercise dates regarding options granted to executives under the Executive Share Option Plan are in the notes to the financial statements.

Directors' Report

6.4.4.2 Modification of terms of equity-settled share-based payment transactions - audited

No terms of equity-settled share-based payment transactions have been altered or modified by the issuing entity during the reporting period.

6.4.4.3 Exercise of options granted as compensation - audited

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

6.4.4.4 Analysis of options and rights over equity instruments granted as compensation - unaudited

Details of vesting profile of the options granted as remuneration to each Director of the Company and each of the five named Company executives and relevant group executives is detailed below.

	Options granted		% vested in year	Financial years in which grant vests
Directors	Number	Date		
D J Simmons	80,000	Feb 2004	100%	1 July 2005
	80,000	Feb 2005	–	1 July 2006
	80,000	Feb 2006	–	1 July 2007
G L Twartz	60,000	Feb 2004	100%	1 July 2005
	60,000	Feb 2005	–	1 July 2006
	60,000	Feb 2006	–	1 July 2007

Consolidated Entity Executives				
M I Canny	60,000	Feb 2004	100%	1 July 2005
	60,000	Feb 2005	–	1 July 2006
	60,000	Feb 2006	–	1 July 2007
A R Oliver	45,000	Feb 2004	100%	1 July 2005
	45,000	Feb 2005	–	1 July 2006
	45,000	Feb 2006	–	1 July 2007
P J Mellino	20,000	Feb 2004	100%	1 July 2005
	20,000	Feb 2005	–	1 July 2006
	20,000	Feb 2006	–	1 July 2007
L Andrewatha	60,000	Feb 2005	–	1 July 2006
	60,000	Feb 2006	–	1 July 2007
D M Salvaterra	–	–	–	–

No options were forfeited in the current year.

The minimum value of options yet to vest is nil as the performance criteria may not be met and consequently the option may not vest.

The maximum value of options yet to vest is not determinable as it depends on the market price of shares of the Company on the Australian Stock Exchange at the date the option is exercised.

6.4.4.5 Analysis of movements in options - unaudited

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company Director and each of the five named Company executives and relevant group executives is detailed below.

	Granted in a year (\$) A	Value of options exercised in a year \$ (B)	Total option value in year (\$)
D J Simmons	44,824	–	44,824
G L Twartz	33,618	–	33,618
M I Canny	33,618	–	33,618
A R Oliver	25,214	–	25,214
P J Mellino	11,206	–	11,206
L Andrewatha	33,618	–	33,618
D M Salvaterra	–	–	–
	182,098	–	182,098

A The value of options granted in the year is the fair value of the options calculated at grant date using the valuation method described above. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.

B For accounting purposes no options were exercised in the current year.

6.4.5 Payments to persons before taking office - unaudited

There were no payments to persons before taking office.

Directors' Report

6.5 Audit Committee and Compliance Committee

The Audit and Compliance Committee has a documented charter, approved by the Board. All members must be Non-Executive Directors with a majority being independent. The Chairman may not be the Chairman of the Board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the Audit and Compliance Committee during the year were:

- P W Stancliffe (Chairman)—Independent Non-Executive
- G G Hill—Independent Non-Executive
- R B Flynn—Independent Non-Executive
- R D Hill-Ling—Non-Independent Non-Executive (resigned 28 October 2005).

The internal and external auditors, the Managing Director and Finance Director, are invited to the Audit and Compliance Committee Meetings at the discretion of the Committee. The Committee met six times during the year and Committee Members' attendance record is disclosed in the table of Directors' Meetings.

The Managing Director and the Finance Director declared in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the financial year ended 30 June 2006 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

The external auditor met with the Audit and Compliance Committee and the Board of Directors twice during the year without management being present.

The Audit and Compliance Committee's charter is available on the Company's website along with information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.

The responsibilities of the Audit and Compliance Committee include:

- reviewing the annual, half-year and concise financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Equivalents to International Reporting Standards (AIFRS), and assessing whether the financial information is adequate for shareholder needs
- assessing corporate risk assessment processes
- reviewing the Company's policies and procedures for convergence with Australian Equivalents to International Reporting Standards (AIFRS) for reporting periods beginning on 1 July 2005
- assessing the performance and objectivity of the internal audit function
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review
- providing advice to the Board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001
- assessing the adequacy of the internal control framework and the Company's code of ethical standards
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board

- monitoring compliance with the Company's Fraud Control Plan and monitoring prompt and appropriate rectification of any deficiencies or breakdowns identified
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules, employment laws and all other regulatory requirements
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The Audit and Compliance Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit and internal audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results
- review the draft annual and half-year financial report, and recommend Board approval of the financial report
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

6.6 Risk management

Oversight of the risk management system

The Board oversees the establishment, implementation, and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing operational, financial reporting, and compliance risks for the consolidated entity. The Managing Director and the Finance Director have declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other risk management compliance and controls have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the consolidated entity.

Risk profile

The Audit and Compliance Committee reports to the Board quarterly on the status of risks through integrated risk management programmes aimed at ensuring risks are identified, assessed and appropriately managed.

Each business operational unit is responsible and accountable for implementing and managing the standards required by the programme.

Major risks arise from such matters as actions by competitors, suppliers, government policy changes, the impact of exchange rate movements on the price of raw materials and sales, difficulties in sourcing raw materials, environment, occupational health and safety, property, financial reporting, and the purchase, development and use of information systems.

Directors' Report

Risk management and compliance and control

The consolidated entity strives to ensure that its products are of the highest standard.

The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The Board's policy on internal control is comprehensive. It comprises the Company's internal compliance and control systems, including:

- Operating unit controls - Operating units confirm compliance with financial controls and procedures including information systems controls detailed in procedures manuals
- Functional speciality reporting - Key areas subject to regular reporting to the Board include Treasury and Derivatives Operations, Environmental, Legal and Self Insurance matters
- Investment appraisal - Guidelines for capital expenditure include detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Comprehensive practices have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior Board approval
- financial exposures are controlled, including the use of derivatives. Further details of the Company's policies relating to interest rate management, forward exchange rate management and credit risk management are included in notes to the financial statements
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations
- business transactions are properly authorised and executed
- the quality and integrity of personnel
- financial reporting accuracy and compliance with the financial reporting regulatory framework
- environmental regulation compliance.

Quality and integrity of personnel

Employee performance is appraised at least annually. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue with employees and senior management. Succession plans are also in place to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur.

Financial reporting

The Managing Director and the Finance Director have declared, in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly actual results are reported against budgets approved by the Directors and revised forecasts for the year are prepared regularly.

Convergence with Australian equivalents to International Financial Reporting Standards (AIFRS) has been a key financial reporting project during the financial year ended 30 June 2006. The Board established a formal project, monitored by a steering committee, to ensure a smooth transition to AIFRS reporting.

Details of the impact of transition from previous Australian Generally Accepted Accounting Principles (AGAAP) to AIFRS on the financial report for the financial year ended 30 June 2006 is included in notes to the financial statements.

Environmental regulation

The consolidated entity's manufacturing operations are subject to significant environmental regulation under both Commonwealth and State legislation.

The consolidated entity is committed to achieving a high standard of environmental performance. It has established processes to focus on this area of operating performance. The processes ensure regular monitoring of environmental exposures and compliance with environmental regulations.

The processes are responsible for:

- setting and communicating environmental objectives and quantified targets
- monitoring progress against these objectives and targets
- implementing environmental management plans in operating areas which may have a significant environmental impact
- identifying where remedial actions are required and implementing action plans
- regular monitoring of licence requirements, with performance against licence conditions reported to the various State regulators on a regular basis.

To enable it to meet responsibilities, a regular internal reporting process has been established. Environmental performance is reported from each site up through management on a regular basis. The Board receives reports on the consolidated entity's environmental performance. Compliance with the requirements of environmental regulations and with specific requirements of site environmental licences was substantially achieved across all operations with no instances of non-compliance in relation to licence requirements noted.

Based on the results of enquiries made, the Board is not aware of any significant breaches during the period covered by this report.

Assessment of effectiveness of risk management

Internal audit

The internal auditors assist the Board in ensuring compliance with internal controls and risk management programs by regularly reviewing the effectiveness of the above-mentioned compliance and control systems. The Audit and Compliance Committee is responsible for approving the programme of internal audit visits to be conducted each financial year and for the scope of the work to be performed. An independent review to assess and evaluate the quality of the internal audit function is undertaken once every year. The Audit and Compliance Committee is responsible for recommending to the Board the appointment and dismissal of the chief internal auditor. The internal audit function is outsourced and has access to both the Chairman of the Board and the Chairman of the Audit and Compliance Committee.

Directors' Report

6.7 Ethical standards

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The Board reviews the corporate policies regularly and processes are in place to promote and communicate these policies.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures to assist Directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a Director on a Board matter, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Details of Director related entity transactions with the Company and consolidated entity are set out in notes to the financial statements.

Code of conduct

The consolidated entity has advised each Director, Manager and employee that they must comply with the Corporate Policies. The policies cover the following:

- aligning the behaviour of the Board and management with the code of conduct by maintaining appropriate core Company values and objectives
- fulfilling responsibilities to shareholders by delivering shareholder value
- usefulness of financial information by maintaining appropriate accounting policies, practices and disclosure
- fulfilling responsibilities to clients, customers and consumers by maintaining high standards of product quality, service standards, commitments to fair value, and safety of goods produced
- employment practices such as occupational health and safety, employment opportunity, the community activities, sponsorships and donations
- responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution
- conflicts of interest
- corporate opportunities such as preventing Directors and key executives from taking advantage of property, information or position for personal gain
- confidentiality of corporate information
- fair dealing
- protection and proper use of the Company's assets
- compliance with laws
- reporting of unethical behaviour.

Trading in General Company Securities by Directors and Employees

The key elements of the Trading in General Company Securities by Directors and Employees Policy set out in the corporate policies are:

- identification of those restricted from trading - Directors and senior executives may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options:
 - within 45 days prior to the announcement of the annual or half year results, the day of and the day after the announcements
 - whilst in possession of price sensitive information not yet released to the market
- raising the awareness of legal prohibitions including transactions with colleagues and external advisers
- requiring details to be provided of intended trading in the Company's shares
- requiring details to be provided of the subsequent confirmation of the trade
- identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship.

The policy also details the insider trading provisions of the Corporations Act 2001.

6.8 Communication with shareholders

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website, and issuing media releases.

In summary, the Continuous Disclosure Policy operates as follows:

- the Managing Director and the Finance Director are responsible for interpreting the company's policy and where necessary informing the Board. The Finance Director is responsible for all communications with the ASX. Such matters are advised to the ASX on the day they are discovered, and all Senior Executives must follow a Continuous Disclosure Discovery process, which involves monitoring all areas of the group's internal and external environment
- the concise report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document), including relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments. The full annual financial report is available to all shareholders should they request it
- the half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it
- proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders
- all announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX

Directors' Report

- copies of analyst briefings are placed on the Company's website
- the full texts of notices of meetings and associated explanatory material are placed on the Company's website
- the external auditor attends the Annual General Meetings to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

All of the above information, including that of the previous three years, is made available on the Company's website within one day of public release.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of Directors, the granting of options and shares to Directors, the Remuneration Report and other appropriate matters. Copies of the Constitution are available to any shareholder who requests it.

7. Principal activities

The principal activities of the consolidated entity during the course of the year are outlined in section 1 of the Directors' Report within the Overview of the Consolidated Entity.

Objectives

The consolidated entity's objectives are to:

- increase net profit available to shareholders
- increase earnings per share
- maintain the current dividend policy
- improve the retention rate of our outstanding people resources.

In order to meet theses objectives the following targets have been set for the 2007 financial year and beyond:

- increase revenue and operating activities
- reduce operating costs
- consider further strategic acquisitions
- continue to source cost effective supplies
- further establish competitive cost effective manufacturing procedures
- further develop the management team.

8. Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	Cents per share	Total amount \$'000	Franked/ unfranked	Date of payment
Declared and paid during the year 2006				
Interim 2006 ordinary	13.0	21,798	Franked	27 March 2006
Interim dividend forgone for Share Investment Plan		(3,791)		
Final 2005 ordinary	12.0	19,621	Franked	26 Sept. 2005
Final dividend forgone for Share Investment Plan		(3,146)		
Total Amount		34,482		

Franked dividends declared as paid during the year were franked at the rate of 30 per cent.

Declared after end of year

Since the end of the year, the Directors declared the following dividend. The dividends have not been provided and there are no income tax consequences.

	Cents per share	Total amount \$'000	Franked/ unfranked	Date of payment
Final Ordinary	13.0	21,930	Franked	25 Sept. 2006

The financial effect of these dividends have not been brought to account in the financial statements for the year ended 30 June 2006 and will be recognised in subsequent financial reports.

9. Events subsequent to reporting date

There has not arisen between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the consolidated entity, to affect significantly the operations of the consolidated entity in subsequent financial periods.

10. Likely developments

The consolidated entity will continue to pursue its objective of increasing the profitability and earnings per share during the next financial year. This will require further investment in selected areas such as manufacturing and cost effective imports, which have performed well over recent years and offer sound opportunities for future development.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Directors' Report

11. Directors' interests

The relevant interest of each Director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the consolidated entity and other related bodies corporate, as notified by the Directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Hills Industries Limited			
	Ordinary shares	Options over ordinary shares	
J H Hill-Ling	14,289,414	–	Includes 943,600 shares owned by Hills Associates & Poplar Pty Ltd and 11,489,633 shares owned by Hills Associates Ltd
D J Simmons	289,500	160,000	
I Elliot	1,000	–	
R B Flynn	23,098	–	
G G Hill	66,704	–	
P W Stancliffe	9,654	–	
G L Twartz	172,403	120,000	

12. Share options

Options granted to Directors and officers of the Company

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in the Company to the following Directors and to the following of the five most highly remunerated officers of the Company as part of their remuneration:

Number of options granted	
Directors	
D J Simmons	80,000
G L Twartz	60,000
Officers	
M I Canny	60,000
A R Oliver	45,000
P J Mellino	20,000
L Andrewatha	60,000
D M Salvaterra	–

All options were granted during the financial year.
No options have been granted since the end of the financial year.

Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise Price	Number of shares
January 2023	\$2.50	195,000
January 2024	\$2.90	195,000
January 2025	\$3.23	270,000
January 2026	\$3.66	360,000
January 2027	\$4.16	450,000
January 2028	\$4.83	510,000
		1,980,000

All options expire on the earlier of their expiry date or termination of the employee's employment. In addition, the ability to exercise the options is conditional on the consolidated entity achieving certain performance hurdles. The performance hurdles comprise two components, relative total shareholder return and growth in earnings per share. Further details are included in the Remuneration Report.

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Shares issued on exercise of options

During or since the end of the financial year, for accounting purposes, the Company issued 10,000 ordinary shares as a result of the exercise of options.

13. Indemnification and insurance of officers and auditors

Indemnification

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.

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 executive officers of the Company and Directors, executive officers and secretaries of its controlled entities, with the exception of Korvest Limited where only common directors are covered. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The premiums were paid in respect of all of the Directors and officers of the Company and its controlled entities except as noted above. 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.

Directors' Report

14. Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to its statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit and Compliance Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Compliance Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1Professional independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

In AUD	Consolidated	
	2006	2005
Audit services:		
Auditors of the Company		
audit and review of financial reports (KPMG Australia)	360,000	199,348
audit and review of financial reports (Overseas KPMG firms)	49,342	98,850
	409,342	298,198
Other Auditors:		
audit and review of financial reports (non-KPMG firms)	10,000	79,687
	419,342	377,885
Services other than statutory audit:		
Other Services:		
Taxation compliance services (KPMG Australia)	51,300	79,979
Taxation compliance services (Overseas KPMG firms)	13,094	57,038
	64,394	137,017
Other auditors – other audit assurance	–	55,985
	64,394	193,002

15. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 97 and forms part of the Directors' Report for the financial year ended 30 June 2006.

16. Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the Directors:

D J Simmons
Director

J H Hill-Ling
Director

Dated at Adelaide this 12th day of September 2006.

Hills Industries Limited and its Controlled Entities Income Statements

For the year ended 30 June 2006

In thousands of AUD

	Note	Consolidated		The Company	
		2006	2005	2006	2005
Revenue	2,3	931,799	811,046	287,493	308,657
Other income	4	3,895	5,137	6,302	7,641
		935,694	816,183	293,795	316,298
Expenses excluding net financing costs	5	(862,429)	(752,472)	(261,506)	(274,505)
Results from operating activities		73,265	63,711	32,289	41,793
Financial income	6	965	1,037	2,983	3,306
Financial expenses	6	(6,845)	(4,345)	(7,293)	(3,176)
Net financing costs		(5,880)	(3,308)	(4,310)	130
Profit before income tax expense		67,385	60,403	27,979	41,923
Income tax expense	9	(19,175)	(18,683)	(7,531)	(7,823)
Net profit		48,210	41,720	20,448	34,100
Attributable to:					
Equity holders of the parent	23	43,261	35,510	20,448	34,100
Minority interest	23	4,949	6,210	-	-
Profit for the year		48,210	41,720	20,448	34,100
Earnings per share for profit attributable to the ordinary equity holders of the Company:					
Basic earnings per share from continuing operations	10	26¢	23¢		
Diluted earnings per share from continuing operations	10	26¢	23¢		
Dividends per share					
Ordinary shares	23	26¢	24¢		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 36 to 94.

Hills Industries Limited and its Controlled Entities

Statements of Recognised Income and Expense

For the year ended 30 June 2006

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2006	2005	2006	2005
Foreign exchange translation differences	23	(1,465)	(503)	-	-
Net income/(expense) recognised directly in equity		(1,465)	(503)	-	-
Profit for the year		48,210	41,720	20,448	34,100
Total recognised income and expense for the year	23	46,745	41,217	20,448	34,100
Attributable to:					
Equity holders of the parent		41,796	35,007	20,448	34,100
Minority interest		4,949	6,210	-	-
Total recognised income and expense for the year	23	46,745	41,217	20,448	34,100

Other movements in equity arising from transactions with owners as owners are set out in note 23.

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 36 to 94.

Hills Industries Limited and its Controlled Entities Balance Sheets

As at 30 June 2006

In thousands of AUD	Note	Consolidated		The Company	
		2006	2005	2006	2005
Current Assets					
Cash and cash equivalents	11	20,223	21,287	-	15,593
Trade and other receivables	12	160,716	151,271	201,431	151,279
Inventories	13	135,853	133,986	33,082	28,006
Income tax receivable	15	-	1,197	-	-
Total current assets		316,792	307,741	234,513	194,878
Non-Current Assets					
Receivables	12	-	1,222	-	-
Investments	14	2	102	152,126	144,198
Deferred tax assets	16	23,103	21,938	14,440	14,964
Property, plant and equipment	17	172,047	154,940	58,616	50,189
Intangible assets	18	109,778	91,079	-	17
Total non-current assets		304,930	269,281	225,182	209,368
Total assets		621,722	577,022	459,695	404,246
Current Liabilities					
Bank overdraft	11	7,419	7,290	4,813	-
Trade and other payables	19	113,882	117,135	84,759	63,691
Interest-bearing loans and borrowings	20	10,370	3,238	10,119	2,695
Employee benefits	21	23,949	20,329	8,882	8,365
Income tax payable	15	5,857	8,599	3,523	3,729
Provisions	22	7,574	9,458	5,474	7,415
Total current liabilities		169,051	166,049	117,570	85,895
Non-Current Liabilities					
Interest-bearing loans and borrowings	20	121,539	95,405	121,498	94,498
Employee benefits	21	6,361	6,721	6,100	5,749
Provisions	22	360	360	-	-
Total non-current liabilities		128,260	102,486	127,598	100,247
Total liabilities		297,311	268,535	245,168	186,142
Net assets		324,411	308,487	214,527	218,104
Equity					
Issued capital		167,525	157,214	167,525	157,214
Reserves		24,911	29,926	13,925	13,779
Retained earnings		117,516	105,388	33,077	47,111
Total equity attributable to equity holders of the parent		309,952	292,528	214,527	218,104
Minority interest		14,459	15,959	-	-
Total equity	23,35	324,411	308,487	214,527	218,104

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 36 to 94.

Hills Industries Limited and its Controlled Entities

Statements of Cash Flows

For the year ended 30 June 2006

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2006	2005	2006	2005
Cash flows from operating activities					
Cash receipts from customers		1,041,647	894,812	321,504	325,792
Cash paid to suppliers and employees		(959,450)	(834,405)	(290,671)	(290,734)
Cash generated from operations		82,197	60,407	30,833	35,058
Interest received		965	1,037	2,983	3,306
Interest paid		(7,310)	(3,723)	(7,765)	(2,692)
Dividends received		-	15	862	16,875
Income taxes paid		(21,454)	(25,142)	(14,480)	(12,853)
Net cash from operating activities	32	54,398	32,594	12,433	39,694
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		1,119	3,024	428	3,160
Acquisition of property, plant and equipment	17	(30,995)	(20,514)	(14,447)	(8,794)
Proceeds from sale of investments		482	-	482	-
Disposal of subsidiaries (net of cash)	30(b)	609	-	-	-
Disposal of business operations (net of cash)	31(b)	-	10,400	-	5,000
Acquisition of business operations (net of cash)	31(a)	(15,802)	-	-	(4,704)
Acquisition of subsidiaries (net of cash)	30(a)	(13,103)	(87,020)	(11,675)	(89,485)
Loans to other entities		(134)	-	(134)	-
Loans repaid by other entities		-	8,741	-	8,741
Loans to controlled entities		-	-	(38,352)	(65,416)
Rent received		1,170	526	1,655	1,603
Net cash from investing activities		(56,654)	(84,843)	(62,043)	(149,895)
Cash flows from financing activities					
Proceeds from the issue of share capital	23	9,905	90,160	9,905	91,064
Payments for share issue costs by the Company		-	(820)	-	(820)
Proceeds from borrowings		29,516	65,703	36,062	72,690
Repayment of borrowings		(325)	(59,645)	(123)	-
Loans from controlled entities		-	-	17,980	-
Payment of finance lease liabilities		(601)	(624)	-	-
Dividends paid by the Company	23	(34,482)	(29,129)	(34,482)	(29,129)
Dividends paid to minority interest	23	(2,593)	(18,934)	-	-
Net cash from financing activities		1,420	46,711	29,342	133,805
Net increase/(decrease) in cash and cash equivalents		(836)	(5,538)	(20,268)	23,604
Cash and cash equivalents at 1 July		13,997	19,282	15,593	(8,011)
Effect of exchange rate fluctuations on cash held		(357)	253	(138)	-
Cash and cash equivalents at 30 June	11	12,804	13,997	(4,813)	15,593

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 36 to 94

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

1. Significant accounting policies

Hills Industries Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2006 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity').

The financial report was authorised for issue by the directors on 12 September 2006.

(a) Statement of compliance

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASB's') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001.

International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASB's') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP. The financial reports of the consolidated entity and the Company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 First-Time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in these financial statements.

(b) Basis of preparation

The financial report is presented in Australian dollars. The entity has elected to early adopt the following accounting standards and amendments as at transition date:

- AASB 119 *Employee Benefits* (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (December 2004) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 101 *Presentation of Financial Statements*, AASB 124 *Related Party Disclosures*
- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*.
- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (either July or December 2004)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1023 *General Insurance Contracts*, AASB 1038 *Life Insurance Contracts*
- AASB2005-5 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), and AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 3 *Business Combinations*
- AASB 2006-1 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 121 *The effects of Changes in Foreign Exchange Rates* (July 2004)
- UIG 8 *Scope of AASB 2*.

The consolidated entity plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7, AASB 2005-9 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the consolidated entity.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

The following standards and amendments have been issued and are available for early adoption at reporting date. However, they have not been early adopted as they are not applicable to the Company and the consolidated entity and have no impact on their financial results:

- AASB 2006-2 Amendments to Australian Accounting Standards (March 2006)
- UIG 6 Liabilities arising from participating in a Specific Market – Waste Electrical & Electronic Equipment

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by all entities in the consolidated entity for purposes of this consolidated financial report.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

(e) Property, plant and equipment

(i) Land and Buildings

Land and buildings are stated at fair value. Land and buildings are independently valued at least every four years on an existing use basis, and in the intervening years are valued by the Directors based on the most recent independent valuation.

(ii) Plant and Equipment

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

(iii) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Property, plant and equipment, excluding land are depreciated over their estimated useful lives taking into account estimated residual values. The diminishing value, straight line or units of production method is used as considered appropriate.

Buildings	.75%
Lease hold improvements	20.00% to 33.33%
Plant and equipment	5.00% to 33.33%

Depreciation rates are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed, except to the extent that it is included in the carrying value of another asset (generally inventory) as an allocation of production overheads. The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(f) Intangible assets

(i) Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

(iii) Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

Patents and trademarks	10 to 20 years
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(g) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short-term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(j) Impairment

The carrying amounts of the consolidated entity's assets other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Goodwill and indefinite-lived intangible assets were tested for impairment at 1 July 2004, the date of transition to AIFRSs, even though no indication of impairment existed.

(i) Calculation of recoverable amount

Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(k) Share capital

Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(m) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

(ii) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates, including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(iii) Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(iv) Employee Share Bonus Plan

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

(v) Executive Share Plan

The Executive Share Plan allows consolidated entity employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The valuation method takes into account the exercise price of the option, the life of the option, the current price of the underlying shares, the expected volatility of the share price, the dividends expected of the shares and the risk-free interest rate for the life of the option.

(n) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(n) Provisions (continued)

(i) Claims

A provision for claims is the estimated future liability of the consolidated entity's self-insurance arrangements. The value of the provision is determined in consultation with the company's actuaries or legal advisers as appropriate.

(ii) Provision for Deferred Consideration

Provision is made for consideration payable on the acquisition of businesses and controlled entities where the consideration is payable in the future subject to certain performance measures and those measures are likely to be met. The estimated consideration payable is discounted and the expiration of the discount is recognised as interest expense.

(o) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Trade payables are non-interest bearing and are normally settled on 30 to 60-day terms.

(p) Revenue

(i) Goods sold and services rendered

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of goods and services to entities outside the consolidated entity. Sales revenue is recognised when significant risks and rewards of ownership have been transferred to the buyer, the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date.

(ii) Rental income

Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

(q) Interest income

Interest income is recognised as it accrues.

(r) Finance costs

Finance costs comprise interest payable. Interest paid is recognised as it accrues.

(s) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(t) Income tax

Income tax on the income statement for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The Company and its wholly owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Hills Industries Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

Tax consolidation (continued)

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(u) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(v) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

2. Segment reporting

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure.

Inter-segment pricing is determined on a cost basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The consolidated entity comprises the following main business segments:

Electronic Security and Entertainment	Communications related products and services, domestic and commercial antennas, master antenna television systems, communications antennas, amplifiers, electronic security systems, closed circuit television systems, home and commercial automation and control systems, professional audio products, fibre optic transmission solutions and subscription TV installation services
Home and Hardware	Outdoor clothes driers, ladders, ironing boards, laundry trolleys, security doors, playtime equipment, garden sprayers, wheelbarrows, scaffold systems, rehabilitation and mobility products, water tanks and other rotationally moulded products.
Building and Industrial	Structural, precision and large steel tubing, galvanising, precision metal cabinets, stainless steel products, steel doorframes, roll-formed metal building products, carports and shed systems.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The consolidated entity's business segments operate geographically as follows:

Australia	Manufacturing facilities and sales offices and customers in all states and territories.
Overseas	Manufacturing facilities and sales offices in New Zealand.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

2. Segment reporting (continued)

Primary reporting by Business Segments

	Electronic, Security and Entertainment		Home and Hardware		Building and Industrial		Eliminations		Consolidated	
<i>In thousands of AUD</i>	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue										
Sales to external customers	263,854	206,311	168,933	164,928	498,203	438,917	-	-	930,990	810,156
Inter-segment revenue	-	-	-	-	11,021	9,948	(11,021)	(9,948)	-	-
Total segment revenue	263,854	206,311	168,933	164,928	509,224	448,865	(11,021)	(9,948)	930,990	810,156
Rentals									809	890
Total revenue									931,799	811,046
Result										
Segment result (before interest and tax)	34,024	23,544	12,325	9,560	26,762	31,028	-	-	73,111	64,132
Unallocated/corporate result									154	(421)
Net interest									73,265	63,711
Profit before income tax									(5,880)	(3,308)
Income tax expense									67,385	60,403
Net profit									(19,175)	(18,683)
Depreciation and amortisation	3,014	4,520	5,023	8,272	8,414	7,096	-	-	48,210	41,720
Unallocated/corporate depreciation and amortisation									16,451	19,888
Other non-cash expenses	2,221	2,907	2,295	3,408	8,196	9,389	-	-	1,115	697
Unallocated/corporate non-cash expenses									17,566	20,585
Assets										
Segment assets	124,470	110,390	93,183	105,522	248,487	232,168	-	-	12,712	15,704
Unallocated/corporate assets									1,972	(3,455)
Consolidated total assets									14,684	12,249
Liabilities										
Segment liabilities	32,272	29,670	22,330	26,268	71,003	70,131	-	-	621,722	577,022
Unallocated/corporate liabilities									125,605	126,069
Consolidated total liabilities									171,706	142,466
Acquisitions of non-current assets	6,838	21,863	9,723	19,377	15,639	61,936	-	-	297,311	268,535
Unallocated/corporate assets									32,200	103,176
									1,593	1,180
									33,793	104,356

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

2. Segment reporting (continued)

Secondary reporting by geographical segments

	Australia		Overseas		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
Revenue								
External segment revenue by location of customers	866,460	752,546	64,530	65,584	-	(10,974)	930,990	810,156
Unallocated/corporate revenue							809	890
Total revenue							931,799	811,046
Assets								
Segment assets	440,480	415,952	25,660	32,128	-	-	466,140	448,080
Unallocated/corporate assets							155,582	128,942
Consolidated total assets							621,722	577,022
Acquisitions of non-current assets	31,604	102,641	596	535	-	-	32,200	103,176
Unallocated/corporate assets							1,593	1,180
							33,793	104,356

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

3. Revenue

	Consolidated		The Company	
<i>In thousands of AUD</i>	2006	2005	2006	2005
Sales revenue				
Sale of goods	892,352	786,840	284,976	290,179
Services provided	38,638	23,316	-	-
	930,990	810,156	284,976	290,179
Other revenue				
Property rentals	809	890	1,655	1,603
Dividends received	-	-	862	16,875
	931,799	811,046	287,493	308,657

4. Other income

<i>In thousands of AUD</i>				
Net gain on disposal of property, plant and equipment	179	154	153	152
Net gain on disposal of investments	382	-	382	-
Net gain on disposal of business	-	2,306	-	2,306
Other income	3,334	2,677	5,767	5,183
	3,895	5,137	6,302	7,641

Net gain on disposal of business

(a)

Proceeds on sale of business	-	10,400	-	5,000
Carrying amount of assets and liabilities sold	-	(8,094)	-	(2,694)
Net gain on sale of business	-	2,306	-	2,306

(2005) -The net gain on disposal of business resulted from the sale of the Triton business.

5. Expenses

	Consolidated		The Company	
<i>In thousands of AUD</i>	2006	2005	2006	2005
Profit before income tax includes the following specific expenses:				
<i>Expenses from continuing operations, excluding finance costs</i>				
Cost of goods sold	599,887	517,524	172,926	177,441
Cost of services provided	31,912	20,359	-	-
Sales and marketing expenses	107,250	102,143	51,057	57,426
Distribution expenses	66,644	54,908	18,395	18,908
Administration expenses	39,836	39,083	14,892	14,861
Occupancy expenses	15,439	13,715	2,983	3,027
Other expenses	1,461	4,740	1,253	2,842
	862,429	752,472	261,506	274,505

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

6. Profit from Ordinary Activities

Profit from ordinary activities before income tax has been arrived at after charging/(crediting) the following items

In thousands of AUD

	Consolidated		The Company	
	2006	2005	2006	2005
Depreciation of buildings	627	681	301	277
Depreciation of plant and equipment	16,198	18,082	5,638	8,759
Total depreciation	16,825	18,763	5,939	9,036
Impairment of goodwill	-	268	-	268
Impairment of patents and trademarks	741	1,554	17	595
	741	1,822	17	863
Total depreciation, impairment and amortisation	17,566	20,585	5,956	9,899
Impairment losses plant and equipment	-	1,000	-	1,000
Impairment losses intangible assets	-	1,328	-	-
Interest paid or payable	6,843	4,320	7,293	3,176
Finance charges on capitalised leases	2	25	-	-
Total financing costs	6,845	4,345	7,293	3,176
Interest received or receivable	(965)	(1,037)	(2,983)	(3,306)
Net financing costs	5,880	3,308	4,310	(130)
Impairment of trade receivables	542	(3,180)	-	(4,700)
Impairment of inventory	1,711	2,357	-	2,450
Impairment of loans	-	(2,250)	-	(2,250)
Increase in provisions	1,747	2,089	1,509	2,739
(Profit)/loss on disposal of non-current assets:				-
Net gain on disposal of property, plant and equipment	(179)	(154)	(153)	(152)
Net gain on disposal of investments	(382)	-	(382)	-
Net gain on disposal of business operations	-	(2,306)	-	(2,306)
Net loss on disposal of controlled entity	344	-	1,200	-
	(217)	(2,460)	665	(2,458)

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

7. Personnel expenses

In thousands of AUD

	Consolidated		The Company	
	2006	2005	2006	2005
Wages and salaries	145,706	116,828	44,133	42,529
Other associated personnel expenses	21,849	18,892	8,125	8,420
Increase in liability for annual leave	7,492	9,660	1,378	3,723
Increase in liability for long service leave	3,655	4,763	1,426	2,485
Equity-settled transactions	568	675	521	627
	179,270	150,818	55,583	57,784

8. Auditors' remuneration

In AUD

Audit services

Auditors of the Company

KPMG Australia:

Audit and review of financial reports

Overseas KPMG Firms:

Audit and review of financial reports

Other auditors

Audit and review of financial reports

Other services

Auditors of the Company

KPMG Australia

Taxation services

Overseas KPMG Firms:

Taxation Services

Other auditors

Other services

	Consolidated		The Company	
	2006	2005	2006	2005
	360,000	199,348	160,000	130,000
	49,342	98,850	-	-
	409,342	298,198	160,000	130,000
	10,000	79,687	-	-
	419,342	377,885	160,000	130,000
	51,300	79,979	46,300	71,917
	13,094	57,038	-	-
	64,394	137,017	46,300	71,917
	-	55,985	-	-
	64,394	193,002	46,300	71,917

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

9. Income tax expense

Recognised in the income statement

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Current tax expense				
Current year	19,623	21,614	6,832	10,920
Adjustments for prior years	278	(196)	-	(300)
	19,901	21,418	6,832	10,620
Deferred tax expense				
Origination and reversal of temporary differences	(726)	(2,735)	699	(2,797)
	(726)	(2,735)	699	(2,797)
Total income tax expense in income statement	19,175	18,683	7,531	7,823
Attributable to:				
Continuing operations	19,175	18,683	7,531	7,823

Numerical reconciliation between tax expense and pre-tax net profit

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Profit before tax	67,385	60,403	27,979	41,923
Income tax using the domestic corporation tax rate of 30% (2005: 30%)	20,216	18,121	8,393	12,577
Increase in income tax expense due to:				
Non-deductible expenses	886	1,363	594	1,175
Effect of tax losses derecognised/ (recognised)	(112)	-	245	-
Decrease in income tax expense due to:				
Effect on tax rate in foreign jurisdictions (rates decreased)	18	-	-	-
Tax exempt revenues	(2,111)	(605)	(1,701)	(5,629)
	18,897	18,879	7,531	8,123
Under / (over) provided in prior years	278	(196)	-	(300)
Income tax expense on pre-tax net profit	19,175	18,683	7,531	7,823

Deferred tax recognised directly in equity

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Relating to revaluation of property, plant and equipment	-	(1,045)	-	(468)
	-	(1,045)	-	(468)

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

10. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2006 was based on the profit attributable to ordinary shareholders of \$43.261 million (2005: \$35.510 million) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 166,805,334 (2005: 153,632,521), calculated as follows:

Profit attributable to ordinary shareholders

In thousands of AUD

Profit attributable to ordinary shareholders

Consolidated

2006	2005
43,261	35,510

Weighted average number of ordinary shares

In thousands of shares

Issued ordinary shares at 1 July

Effect of Dividend Investment Plan

Effect of Share investment Plan

Effect of Employee Share Scheme

Effect of Executive Share Plan

Effect of shares issued - Share Purchase Plan

Effect of shares issued - Share Placement

Weighted average number of ordinary shares at 30 June

2006	2005
164,570	139,697
1,258	1,066
756	872
217	256
4	-
-	4,160
-	7,582
166,805	153,633

Diluted earnings per share

Basic and diluted shares are the same in both years.

Earnings per share for continuing operations

Basic earnings per share

In AUD

From continuing operations

2006	2005
26¢	23¢

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

11. Cash and cash equivalents

In thousands of AUD

	Consolidated		The Company	
	2006	2005	2006	2005
Bank balances	14,848	12,848	-	15,593
Call deposits	5,375	8,439	-	-
Cash and cash equivalents	20,223	21,287	-	15,593
Bank overdrafts repayable on demand	(7,419)	(7,290)	(4,813)	-
Cash and cash equivalents in the statement of cash flows	12,804	13,997	(4,813)	15,593

12. Trade and other receivables

In thousands of AUD

	Consolidated		The Company	
	2006	2005	2006	2005
Current				
Trade receivables	158,832	153,245	48,024	49,102
Less impairment losses	(4,888)	(5,208)	(1,000)	(1,600)
	153,944	148,037	47,024	47,502
Other receivables and prepayments	6,638	3,082	118	2
Loans – other entities	134	152	134	-
Loans – controlled entities	-	-	158,215	107,835
Less impairment losses	-	-	(4,060)	(4,060)
	160,716	151,271	201,431	151,279
Non-current				
Loans to other entities	-	1,222	-	-
	-	1,222	-	-

13. Inventories

In thousands of AUD

	Consolidated		The Company	
	2006	2005	2006	2005
Raw materials and consumables	44,646	48,308	5,074	5,859
Work in progress	3,482	4,446	-	25
Finished goods	87,725	81,232	28,008	22,122
	135,853	133,986	33,082	28,006
Impairment losses related to raw materials	151	-	-	-
Impairment losses related to finished goods	7,131	5,857	3,600	3,800
Total impairment losses	7,282	5,857	3,600	3,800

14. Investments

In thousands of AUD

	Consolidated		The Company	
	2006	2005	2006	2005
Non-current investments				
Listed equity securities	2	102	2	102
Non-current investments				
Investments in controlled entities - at cost	-	-	152,124	144,096

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

15. Current tax assets and liabilities

The current tax liability for the consolidated entity of \$5,857,000 (2005: \$8,599,000) and for the Company of \$3,523,000 (2005: \$3,729,000) represent the amount of income taxes payable in respect of current and prior financial periods. The current tax asset for the consolidated entity of \$1,197,000 in 2005, nil in 2006, represents the amount of income taxes recoverable in respect of prior periods and that arise from the payment of tax in excess of the amounts due to the relevant tax authority. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax liability (asset) initially recognised by the members in the tax-consolidated group.

16. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated

	Assets		Liabilities		Net	
In thousands of AUD	2006	2005	2006	2005	2006	2005
Property, plant and equipment	6,336	10,634	(3,085)	(3,954)	3,251	6,680
Inventories	2,992	2,873	(244)	(238)	2,748	2,635
Employee benefits	9,011	5,871	83	-	9,094	5,871
Doubtful debts	1,784	1,207	-	-	1,784	1,207
Other loans and borrowings	1,218	1,218	-	-	1,218	1,218
Provisions	1,654	3,098	-	-	1,654	3,098
Self insurance provisions	1,118	-	-	-	1,118	-
Other accruals	588	331	(67)	-	521	331
Software and prepayments	815	385	-	-	815	385
Other items	660	273	-	-	660	273
Tax value of loss carry-forwards recognised	240	240	-	-	240	240
Tax assets / (liabilities)	26,416	26,130	(3,313)	(4,192)	23,103	21,938

The Company

	Assets		Liabilities		Net	
In thousands of AUD	2006	2005	2006	2005	2006	2005
Property, plant and equipment	3,367	2,626	(1,166)	(1,196)	2,201	1,430
Inventories	2,068	2,830	-	-	2,068	2,830
Employee benefits	5,201	5,280	-	-	5,201	5,280
Doubtful debts	750	1,090	-	-	750	1,090
Other loans and borrowings	1,218	1,218	-	-	1,218	1,218
Provisions	1,376	2,386	-	-	1,376	2,386
Other accruals	528	265	-	-	528	265
Software and prepayments	554	385	-	-	554	385
Other items	544	80	-	-	544	80
Tax assets / (liabilities)	15,606	16,160	(1,166)	(1,196)	14,440	14,964

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

16. Deferred tax assets and liabilities (continued)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Tax losses	11,354	11,109	10,814	10,569
	11,354	11,109	10,814	10,569

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

Movement in temporary differences during the year

<i>In thousands of AUD</i>	Consolidated			The Company		
	Asset	Liability	Net	Asset	Liability	Net
Opening balance 1 July 2004	20,151	(2,564)	17,587	13,362	(727)	12,635
Increase through acquisition of subsidiaries	2,661	-	2,661	-	-	-
Recognised in income	3,318	(583)	2,735	2,798	(1)	2,797
Recognised in equity	-	(1,045)	(1,045)	-	(468)	(468)
Closing balance 30 June 2005	26,130	(4,192)	21,938	16,160	(1,196)	14,964

<i>In thousands of AUD</i>	Consolidated			The Company		
	Asset	Liability	Net	Asset	Liability	Net
Opening balance 1 July 2005	26,130	(4,192)	21,938	16,160	(1,196)	14,964
Increase through acquisition of subsidiaries	439	-	439	-	-	-
Recognised in income	(153)	879	726	(729)	30	(699)
Other	-	-	-	175	-	175
Closing balance 30 June 2006	26,416	(3,313)	23,103	15,606	(1,166)	14,440

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

17. Property, Plant and equipment

	Consolidated				The Company			
	Land	Buildings	Plant and equipment	Total	Land	Buildings	Plant and equipment	Total
	Fair value	Fair value	Cost	Fair value	Fair value	Fair value	Cost	
<i>In thousands of AUD</i>								
Balance at 1 July 2004	29,067	47,777	174,020	250,864	14,560	23,085	69,300	106,945
Acquisitions through business combinations/operations	-	233	2,075	2,308	-	-	1,097	1,097
Additions	6	1,089	19,419	20,514	1	349	8,444	8,794
Disposals	(1,545)	(583)	(11,068)	(13,196)	(1,545)	(350)	(8,184)	(10,079)
Disposals through sale of entities/business operations	-	-	(1,000)	(1,000)	-	-	(1,000)	(1,000)
Effect of movements in foreign exchange	(181)	(173)	(409)	(763)	-	-	-	-
Balance at 30 June 2005	27,347	48,343	183,037	258,727	13,016	23,084	69,657	105,757
Balance at 1 July 2005	27,347	48,343	183,037	258,727	13,016	23,084	69,657	105,757
Acquisitions through business combinations/operations	-	42	8,727	8,769	-	-	-	-
Additions	-	4,407	26,588	30,995	2,140	9,047	3,260	14,447
Disposals	-	(477)	(17,524)	(18,001)	-	-	(11,696)	(11,696)
Disposals – disposal of entities	-	-	(14,938)	(14,938)	-	-	-	-
Effect of movements in foreign exchange	(134)	(426)	(385)	(945)	-	-	193	193
Balance at 30 June 2006	27,213	51,889	185,505	264,607	15,156	32,131	61,414	108,701

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

17. Property, plant and equipment – (continued)

	Consolidated				The Company			
	Land	Buildings	Plant and equipment	Total	Land	Buildings	Plant and equipment	Total
<i>In thousands of AUD</i>								
Depreciation and impairment losses								
Balance at 1 July 2004	-	(1,435)	(93,608)	(95,043)	-	(586)	(54,018)	(54,604)
Depreciation charge for the year	-	(681)	(18,082)	(18,763)	-	(277)	(8,759)	(9,036)
Disposals	-	241	10,086	10,327	-	18	8,054	8,072
Effect of movements in foreign exchange	-	(171)	(137)	(308)	-	-	-	-
Balance at 30 June 2005	-	(2,046)	(101,741)	(103,787)	-	(845)	(54,723)	(55,568)
Balance at 1 July 2005	-	(2,046)	(101,741)	(103,787)	-	(845)	(54,723)	(55,568)
Depreciation charge for the year	-	(627)	(16,198)	(16,825)	-	(301)	(5,638)	(5,939)
Disposals	-	269	16,831	17,100	-	-	11,422	11,422
Disposals – disposal of entities	-	-	10,563	10,563	-	-	-	-
Effect of movements in foreign exchange	-	8	381	389	-	-	-	-
Balance at 30 June 2006	-	(2,396)	(90,164)	(92,560)	-	(1,146)	(48,939)	(50,085)
Carrying amounts								
At 1 July 2004	29,067	46,342	80,412	155,821	14,560	22,499	15,282	52,341
At 30 June 2005	27,347	46,297	81,296	154,940	13,016	22,239	14,934	50,189
At 1 July 2005	27,347	46,297	81,296	154,940	13,016	22,239	14,934	50,189
At 30 June 2006	27,213	49,493	95,341	172,047	15,156	30,985	12,475	58,616

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

17. Property, plant and equipment – (continued)

Valuation land and buildings

Fair value at 30 June 2006 is a director's valuation based on an independent valuation of all freehold land and buildings carried out during August and September 2003 and dated 15 September 2003. Fair value at 30 June 2005 is a directors' valuation as at that date based on an independent valuation of all freehold land and buildings dated 15 September 2003. The valuation process was managed by AON Risk Services Australia Limited with the individual valuations being performed by various certified valuers. The valuations were determined having regard to the highest and best use of the assets for which market participants would be prepared to pay.

The costs of additions since the valuations are deemed to be the fair value of those assets. The directors are of the opinion that these bases provide a reasonable estimate of fair value.

The carrying amount of land and buildings at cost at 30 June 2006 if not revalued would be \$38,685,000.

Plant and equipment includes an immaterial amount of plant and equipment acquired using lease finance. Leased plant and equipment is capitalised at a value equal to the present value of the minimum lease payments recorded at the inception of the lease. Leased plant and equipment is depreciated on the same basis as plant and equipment which is owned.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

18. Intangible assets

	Goodwill on consolidation	Consolidated Goodwill purchased	Patents and trademarks	Total	Goodwill purchased	The Company Patents and trademarks	Total
<i>In thousands of AUD</i>							
Cost							
Balance at 1 July 2004	10,081	3,223	14,604	27,908	3,149	6,265	9,414
Acquisitions through business combinations/operations	81,535	-	-	81,535	-	-	-
Disposals write-off	(1,328)	-	(6,553)	(7,881)	-	(6,215)	(6,215)
Balance at 30 June 2005	90,288	3,223	8,051	101,562	3,149	50	3,199
Balance at 1 July 2005	90,288	3,223	8,051	101,562	3,149	50	3,199
Acquisitions through business combinations	11,251	8,189	-	19,440	-	-	-
Balance at 30 June 2006	101,539	11,412	8,051	121,002	3,149	50	3,199
Amortisation and impairment losses							
Balance at 1 July 2004	(4,314)	(2,955)	(5,251)	(12,520)	(2,881)	(2,959)	(5,840)
Amortisation for the year	-	-	(1,554)	(1,554)	-	(595)	(595)
Impairment charge	-	(268)	-	(268)	(268)	-	(268)
Disposals	-	-	3,859	3,859	-	3,521	3,521
Balance at 30 June 2005	(4,314)	(3,223)	(2,946)	(10,483)	(3,149)	(33)	(3,182)
Balance at 1 July 2005	(4,314)	(3,223)	(2,946)	(10,483)	(3,149)	(33)	(3,182)
Amortisation for the year	-	-	(741)	(741)	-	(17)	(17)
Balance at 30 June 2006	(4,314)	(3,223)	(3,687)	(11,224)	(3,149)	(50)	(3,199)
Carrying amounts							
At 1 July 2004	5,767	268	9,353	15,388	268	3,306	3,574
At 30 June 2005	85,974	-	5,105	91,079	-	17	17
At 1 July 2005	85,974	-	5,105	91,079	-	17	17
At 30 June 2006	97,225	8,189	4,364	109,778	-	-	-

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

18. Intangible assets (continued)

Amortisation and impairment charge

The amortisation and impairment charge is recognised in the following line items in the income statement:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Other operating expenses	741	1,822	17	863

Impairment loss and subsequent reversal

During the year ended 30 June 2006 the consolidated entity determined that there is no impairment of any of its cash generating units containing goodwill or intangible assets with indefinite useful lives.

The cash generating unit impairment tests are based on value in use calculations, using cash flow projections based on actual operating results, budgets and three-year strategic plans. Cash flows have been extrapolated over periods consistent with useful lives of intangibles with finite useful lives in each cash generating unit, using a growth rate of 3% for periods past the three year strategic plan no greater than the long term average growth rate for the market to which the asset is dedicated. A post tax discount rate of 11% determined by reference to the consolidated entity's weighted average cost of capital has been used in discounting the projected cash flows.

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Building and Industrial	60,428	51,589	-	-
Electronic Security and Entertainment	15,977	15,625	-	-
Home and Hardware	29,009	18,760	-	-
	105,414	85,974	-	-

19. Trade and other payables

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Trade payables	76,727	88,461	18,943	23,263
Other payables and accrued expenses	36,990	28,386	12,212	11,087
Loans from controlled entities	-	-	53,604	29,218
Other loans - unsecured	165	288	-	123
	113,882	117,135	84,759	63,691

20. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings.

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Current liabilities				
Current portion of unsecured bank loans	10,370	3,238	10,119	-
Loans – controlled entities	-	-	-	2,695
	10,370	3,238	10,119	2,695
Non-current liabilities				
Unsecured bank loans	121,001	94,867	95,000	68,000
Other loans - unsecured	538	538	498	498
Loans – controlled entities	-	-	26,000	26,000
	121,539	95,405	121,498	94,498

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

20. Interest-bearing loans and borrowings (continued)

Financing facilities

In thousands of AUD

	Consolidated		The Company	
	2006	2005	2006	2005
Bank overdraft	4,899	8,842	1,000	1,000
Unsecured bank loans	173,310	120,000	130,000	75,000
Standby letters of credit	300	-	-	-
Short term money market	21,000	22,000	21,000	21,000
	199,509	150,842	152,000	97,000
Facilities utilised at reporting date				
Bank overdraft	7,419	7,290	4,813	-
Unsecured bank loans	122,311	98,102	95,000	68,000
Short term money market	8,500	-	8,500	-
	138,230	105,392	108,313	68,000
Facilities not utilised at reporting date				
Bank overdraft	(2,520)	1,552	(3,813)	1,000
Unsecured bank loans	50,999	21,898	35,000	7,000
Standby letters of credit	300	-	-	-
Short term money market	12,500	22,000	12,500	21,000
	61,279	45,450	43,687	29,000

Financing arrangements

Bank overdrafts

Bank overdrafts are denominated in \$A and \$NZ. The bank overdraft of a controlled entity is secured by a guarantee from the Company. Interest on bank overdrafts is charged at prevailing market rates. The bank overdrafts are payable on demand and are subject to annual review. The Company and a number of its wholly owned entities have a net bank overdraft facility of \$1,000,000 (disclosed above). Within this net facility, the Company has a gross overdraft facility of \$20,000,000, which it can utilise as long as cash balances held by the other entities that are party to the set off arrangement reduce the net overdraft to less than \$1,000,000.

At 30 June 2006, the Company's overdraft exceeded the net facility but cash balances held by the other entities offset this. The Company's overdraft was within its gross limit and the net of the overdraft and other cash balances held was within the net limit.

Unsecured bank loans

Bank loans are denominated \$A and \$NZ. The bank loans are 90 day Commercial Bills with interest charged at prevailing market rates.

Standby letter of credit

The standby letter of credit facility is a committed facility reviewed annually. No drawdowns against this facility had been made as at 30 June 2006.

Short term money market

Borrowings on the short term money market are denominated in \$A. Interest on the borrowings is charged at the prevailing market rates

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

21. Employee benefits

In thousands of AUD

Current

Employee benefits

Non Current

Employee benefits

	Consolidated		The Company	
	2006	2005	2006	2005
Employee benefits	23,949	20,329	8,882	8,365
Employee benefits	6,361	6,721	6,100	5,749

(a) Share based payments

In October 1997, the consolidated entity established a share option plan that entitles selected senior managers to acquire shares in the entity subject to the successful achievement of performance targets related to improvements in total shareholder returns over a two-year option period. During the year a further grant of options has been offered to these employees. In accordance with the plan these options are exercisable at the market price of the shares at the date of grant.

The options are exercisable if the total shareholder return (measured as share price growth plus dividends paid) over a two-year period from the grant date exceeds ten percent plus CPI per annum.

Once exercise the shares are forfeited if the holder ceases to be an employee of the consolidated entity within a further three year period. The shares issued pursuant to these options are financed by an interest free loan from the holding company repayable within twenty years from the proceeds of dividends declared by the holding company. These loans are of a non-recourse nature. For accounting purposes these 20-year loans are treated as part of the options to purchase shares, until the loan is extinguished at which point the shares are recognised.

The options are offered only to selected senior managers. Details of the options are as follows:

Grant date	Number of options	Number outstanding at balance date AIFRS	Number outstanding at balance date ASX
February 2001	195,000	195,000	-
February 2002	245,000	195,000	-
February 2003	300,000	270,000	-
February 2004	370,000	360,000	-
February 2005	460,000	450,000	450,000
February 2006	510,000	510,000	510,000
Total share options	2,080,000	1,980,000	960,000

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

Grant date	Exercise date	Expiry date	Exercise price	Number of Options at Beginning of Year	Options granted	Options lapsed	Options exercised	Number of options at end of year on issue
Consolidated and Company 2006								
Feb 01	Jan 2023	Jan 03	\$2.50	195,000	-	-	-	195,000
Feb 02	Jan 2024	Jan 04	\$2.90	195,000	-	-	-	195,000
Feb 03	Jan 2025	Jan 05	\$3.23	270,000	-	-	-	270,000
Feb 04	Jan 2026	Jan 06	\$3.66	370,000	-	-	(10,000)	360,000
Feb 05	Jan 2027	Jan 07	\$4.16	450,000	-	-	-	450,000
Feb 06	Jan 2028	Jan 08	\$4.83	-	510,000	-	-	510,000
				1,480,000	510,000	-	(10,000)	1,980,000
Weighted average exercise price				\$3.48	\$4.83	-	\$3.14	\$3.83

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

21. Employee benefits (continued)

Grant date	Exercise date	Expiry date	Exercise price	Number of Options at Beginning of Year	Options granted	Options lapsed	Options exercised	Number of options at end of year on issue
Consolidated and Company 2005								
Feb 01	Jan 2023	Jan 03	\$2.50	195,000	-	-	-	195,000
Feb 02	Jan 2024	Jan 04	\$2.90	195,000	-	-	-	195,000
Feb 03	Jan 2025	Jan 05	\$3.23	270,000	-	-	-	270,000
Feb 04	Jan 2026	Jan 06	\$3.66	370,000	-	-	-	370,000
Feb 05	Jan 2027	Jan 07	\$4.16	-	460,000	(10,000)	-	450,000
				1,030,000	460,000	(10,000)	-	1,480,000
Weighted average exercise price				\$3.18	\$4.16	\$4.16	-	\$3.48

The fair value of services received in return for share options granted during the year was \$286,000 (2005: \$109,000). This amount is amortised over the life of the option and the three-year holding period. The estimate of the fair value of the services received is based on a model which includes the length of the option period and the relationship between the market price at the date of the grant of the option and the strike price of the option. This method has been applied consistently.

Employee expenses

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Share options granted in 2001	4	9	4	9
Share options granted in 2002	16	16	16	16
Share options granted in 2003	21	21	21	21
Share options granted in 2004	32	32	32	32
Share options granted in 2005	44	22	44	22
Share options granted in 2006	29	-	29	-
Expense arising from employee share scheme	422	575	375	527
Total expense recognised as employee costs	568	675	521	627

22. Provisions

<i>In thousands of AUD</i>	Outstanding claims	Deferred consideration	Other	Total
Consolidated				
Balance at 1 July 2005	5,522	3,450	846	9,818
Provisions made during the year	597	1,000	150	1,747
Provisions used during the year	-	(3,450)	(181)	(3,631)
Balance at 30 June 2006	6,119	1,000	815	7,934
Current	6,119	1,000	455	7,574
Non-current	-	-	360	360
	6,119	1,000	815	7,934
The Company				
Balance at 1 July 2005	3,965	3,450	-	7,415
Provisions made during the year	509	1,000	-	1,509
Provisions used during the year	-	(3,450)	-	(3,450)
Balance at 30 June 2006	4,474	1,000	-	5,474
Current	4,474	1,000	-	5,474
Non-current	-	-	-	-
	4,474	1,000	-	5,474

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

22. Provisions (continued)

Outstanding claims

The provision for claims is the estimated future liability of the consolidated entity's self-insurance arrangements. The value of the provision is determined in consultation with the company's actuaries or legal advisers as appropriate.

Deferred consideration

The deferred consideration provision represents the component, on acquisition of subsidiaries and /or business operations, of deferred consideration payable only if the acquiree meets certain performance criteria over a specified period of time.

Other

Other provisions comprise mainly a provision for site restoration.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

23. Capital and reserves

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

Consolidated	Share capital	Equity compensation reserve	Translation reserve	Asset revaluation reserve	Asset realisation reserve	Retained earnings	Total	Minority interest	Total equity
<i>In thousands of AUD</i>									
Balance at 1 July 2004	67,347	62	2,340	26,154	4,101	97,256	197,260	34,719	231,979
Total recognised income and expense	-	-	(503)	-	-	35,510	35,007	6,210	41,217
Shares issued under the Employee Share Bonus Plan	527	-	-	-	-	-	527	-	527
Shares issued under the Dividend Investment Plan	8,124	-	-	-	-	-	8,124	-	8,124
Shares issued under the Share Purchase Plan	42,036	-	-	-	-	-	42,036	-	42,036
Shares issued under a share placement	40,000	-	-	-	-	-	40,000	-	40,000
Share issue costs	(820)	-	-	-	-	-	(820)	-	(820)
Share options granted under the Executive Share Plan	-	100	-	-	-	-	100	-	100
Disposal of revalued land and buildings	-	-	-	(1,021)	(730)	-	(1,751)	-	(1,751)
Deferred tax	-	-	-	(577)	-	-	(577)	-	(577)
Transfer from reserves	-	-	-	-	-	1,751	1,751	-	1,751
Dividends to shareholders	-	-	-	-	-	(29,129)	(29,129)	-	(29,129)
Minority interest loss in controlled entities acquired by the Company during the year	-	-	-	-	-	-	-	(6,036)	(6,036)
Minority interest in dividends paid or payable by controlled entities	-	-	-	-	-	-	-	(18,934)	(18,934)
Balance at 30 June 2005	157,214	162	1,837	24,556	3,371	105,388	292,528	15,959	308,487

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

23. Capital and reserves (continued)

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

Consolidated	Share capital	Equity compensation reserve	Translation reserve	Asset revaluation reserve	Asset realisation reserve	Retained earnings	Total	Minority interest	Total equity
<i>In thousands of AUD</i>									
Balance at 1 July 2005	157,214	162	1,837	24,556	3,371	105,388	292,528	15,959	308,487
Total recognised income and expense	-	-	(1,465)	-	-	43,261	41,796	4,949	46,745
Shares issued under the Executive Share Plan	32	151	-	-	-	-	183	-	183
Shares issued under the Employee Share Bonus Plan	374	-	-	-	-	-	374	-	374
Shares issued under the Dividend Investment Plan	9,905	-	-	-	-	-	9,905	-	9,905
Dividends to shareholders	-	-	-	-	-	(34,482)	(34,482)	-	(34,482)
Minority interest in dividends paid or payable by controlled entities	-	-	-	-	-	-	-	(2,593)	(2,593)
Minority interest loss in controlled entities acquired by the Company during the year	-	-	-	-	-	-	-	(1,249)	(1,249)
Disposal of entities	-	-	(1,555)	(1,600)	(546)	3,349	(352)	(2,607)	(2,959)
Balance at 30 June 2006	167,525	313	(1,183)	22,956	2,825	117,516	309,952	14,459	324,411

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

23. Capital and reserves (continued)

Reconciliation of movement in capital and reserves

The Company

In thousands of AUD

	Share capital	Equity compensation reserve	Asset revaluation reserve	Asset realisation reserve	Retained earnings	Total equity
Balance at 1 July 2004	67,347	62	12,784	833	42,140	123,166
Total recognised income and expense	-	-	-	-	34,100	34,100
Shares issued under the Employee Share Bonus Plan	527	-	-	-	-	527
Shares issued under the Dividend Investment Plan	8,124	-	-	-	-	8,124
Shares issued under the Share Purchase Plan	42,036	-	-	-	-	42,036
Shares issued under a share placement	40,000	-	-	-	-	40,000
Share issue costs	(820)	-	-	-	-	(820)
Share options granted under the Executive Share Plan	-	100	-	-	-	100
Disposal of revalued land and buildings	-	-	(1,021)	1,021	-	-
Dividends to shareholders	-	-	-	-	(29,129)	(29,129)
Balance at 30 June 2005	157,214	162	11,763	1,854	47,111	218,104

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

23. Capital and reserves (continued)

Reconciliation of movement in capital and reserves

The Company

In thousands of AUD

	Share capital	Equity compensation reserve	Asset revaluation reserve	Asset realisation reserve	Retained earnings	Total
Balance at 1 July 2005	157,214	162	11,763	1,854	47,111	218,104
Total recognised income and expense	-	-	-	-	20,448	20,448
Shares issued under the Executive Share Plan	32	146	-	-	-	178
Shares issued under the Employee Share Bonus Plan	374	-	-	-	-	374
Shares issued under the Dividend Investment Plan	9,905	-	-	-	-	9,905
Dividends to shareholders	-	-	-	-	(34,482)	(34,482)
Balance at 30 June 2006	167,525	308	11,763	1,854	33,077	214,527

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

23. Capital and reserves (continued)

Share capital

<i>In thousands of shares</i>	The Company Ordinary shares	
	2006	2005
On issue at 1 July	164,560	139,697
Issued under the Dividend Investment Plan	2,209	2,071
Issued under the Share Investment Plan	1,541	1,672
Issued under the Employee Share Bonus Plan	372	456
Issued under the Executive Share Plan	10	-
Issued under Share Purchase Plan	-	10,664
Issued under Share Placement	-	10,000
On issue at 30 June – fully paid	<u>168,692</u>	<u>164,560</u>

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.

The Company issued ordinary shares under a Dividend Investment Plan and a Share Investment Plan during the year. Under the Dividend Investment Plan, participating shareholders elected to apply dividends in whole or in part to the purchase of ordinary shares at an issue price. Under the Share Investment Plan, participating shareholders elected to forgo dividends in whole or in part and to substitute shares issued out of the capital account. The issue price was at a 5% discount on the market price.

Shares under the Dividend Investment Plan are recognised in equity at the value of the dividends applied to purchase those shares. The value of shares issued slightly exceeds the value of the dividends applied due to the rounding up of shares issued to the nearest whole share. Shares issued under the Share Investment Plan are recognised in equity at nil value as the dividends are forgone and substituted for shares issued for no consideration.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Revaluation reserve

The revaluation reserve relates to land and buildings measured at fair value in accordance with applicable Australian Accounting Standards.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

23. Capital and reserves (continued)

Asset realisation reserve

Where a revalued asset is sold, that portion of the asset revaluation reserve which relates to that asset is transferred to the asset realisation reserve.

Equity compensation reserve

The equity compensation reserve represents the value of shares held by an equity compensation plan that the consolidated entity is required to include in the consolidated financial statements. This reserve will be reversed against share capital when the underlying shares vest in the employee. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the consolidated entity's own equity instruments.

Dividends

Dividends recognised in the current year by the Company are:

<i>In thousands of AUD</i>	Cents per share	Total amount	Franked / unfranked	Date of payment
2006				
Interim 2006 ordinary	13.0	21,798	Franked	27 March 2006
Interim dividend forgone for Share Investment Plan		(3,791)		
Final 2005 ordinary	12.0	19,621	Franked	26 September 2005
Final dividend forgone for Share Investment Plan		(3,146)		
Total amount		<u>34,482</u>		
2005				
Interim 2005 ordinary	12.0	19,577	Franked	29 March 2005
Interim dividend forgone for Share Investment Plan		(3,097)		
Final 2004 ordinary	11.5	16,105	Franked	27 September 2004
Final dividend forgone for Share Investment Plan		(3,456)		
Total amount		<u>29,129</u>		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

Since the end of the year, the directors declared the following dividend:

<i>In thousands of AUD</i>	Cents per share	Total amount	Franked / unfranked	Date of payment
Final ordinary	13.0	21,930	Franked	25 September 2006

The financial effect of this dividend has not been brought to account in the financial statements for the financial year ended 30 June 2006 and will be recognised in subsequent financial reports.

Dividend and share reinvestment plans

The Dividend Investment Plan and Share Investment Plan will operate in respect of the proposed final dividend. Under the Dividend Investment Plan, participating shareholders elect to apply dividends in whole or in part to the purchase of ordinary shares at an issue price. Under the Share Investment Plan, participating shareholders elect to forgo dividends in whole or in part and to substitute shares issued out of the capital account.

A discount of 5.0% will apply under the rules of the plans.

Last date for receipt of election notice for the dividend plans: 11 September 2006.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

23. Capital and reserves (continued)

Dividend franking account

In thousands of AUD

Dividend franking account

30 per cent franking credits available to shareholders of for subsequent financial years

The Company	
2006	2005
41,955	39,628
76,098	72,467

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- (a) franking credits that will arise from the payment of the current tax liabilities;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and
- (d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

24. Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the consolidated entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The consolidated entity does not require collateral in respect of financial assets.

Investments are allowed only in liquid securities and only with counterparties approved by the Board. Transactions involving derivative financial instruments are with counterparties with whom the consolidated entity has a signed netting agreement as well as sound credit ratings. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the balance sheet.

Interest rate risk

The consolidated entity enters into interest rate swaps to lower funding costs or to alter interest rate exposures arising from mismatches in repricing dates between assets and liabilities. Interest rate swaps allow the consolidated entity to raise long-term borrowings at floating and/or short term fixed rates and swap them into long term fixed rates. Interest rate swaps, denominated in Australian dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the consolidated entity's policy. The swaps mature over the next one to six years (see the following table) and have fixed swap rates ranging from 4.81 per cent to 6.19 per cent. At 30 June 2006, the consolidated entity had interest rate swaps with a notional contract amount of \$81,000,000 (2005: \$56,000,000).

The net fair value of swaps at 30 June 2006 was \$1,030,000 (2005: \$1,000), comprising assets of \$1,030,000 (2005: \$249,000) and liabilities of \$Nil (2005: \$248,000).

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

24. Financial instruments (continued)

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

Consolidated	2006							2005						
	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
<i>In thousands of AUD</i>														
Cash and cash equivalents	5.41%	20,223	20,223	-	-	-	-	5.03%	21,287	12,848	-	8,439	-	-
GBP fixed rate loan*	-	-	-	-	-	-	-	5.50%	(3,235)	-	(3,235)	-	-	-
Short term money market - unsecured	6.00%	(8,500)	(8,500)	-	-	-	-	-	-	-	-	-	-	-
Bank loans/bill facilities - unsecured	5.90%	(96,310)	(96,310)	-	-	-	-	5.79%	(68,000)	(68,000)	-	-	-	-
NZD bill facilities - unsecured	6.33%	(26,001)	(26,001)	-	-	-	-	5.96%	(26,867)	(26,867)	-	-	-	-
Effect of interest rate swaps	(0.21)%	-	75,000	(10,000)	(15,000)	(45,000)	(5,000)	(0.15)%	-	47,000	-	(30,000)	(17,000)	-
Other loans	4.02%	(1,098)	(560)	-	-	-	(538)	-	(541)	(3)	-	-	-	(538)
Bank overdrafts	9%	(7,419)	(7,419)	-	-	-	-	7.36%	(7,290)	(7,290)	-	-	-	-
		<u>(119,105)</u>	<u>(43,567)</u>	<u>(10,000)</u>	<u>(15,000)</u>	<u>(45,000)</u>	<u>(5,538)</u>		<u>(84,646)</u>	<u>(42,312)</u>	<u>(3,235)</u>	<u>(21,561)</u>	<u>(17,000)</u>	<u>(538)</u>

* These assets / liabilities bear interest at a fixed rate.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

24. Financial instruments (continued)

Effective interest rates and repricing analysis

The Company

In thousands of AUD

	2006							2005						
	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Cash and cash equivalents*	-	-	-	-	-	-	-	5.07%	15,593	15,593	-	-	-	-
Loans from controlled entity	8.5%	(27,060)	(1,060)	-	-	(26,000)	-	8.36%	(28,695)	(2,695)	-	-	(26,000)	-
Sort term money market - unsecured*	6%	(8,500)	(8,500)	-	-	-	-	-	-	-	-	-	-	-
Bank loans/bill facilities - unsecured	5.9%	(95,000)	(95,000)	-	-	-	-	5.95%	(68,000)	(68,000)	-	-	-	-
Effect of interest rate swaps	(0.18)%	-	69,000	(10,000)	(9,000)	(45,000)	(5,000)	(0.09)%	-	47,000	(8,000)	(16,000)	(23,000)	-
Other loans	4.02%	(1,057)	(560)	-	-	-	(497)	-	(498)	-	-	-	-	(498)
Bank overdrafts	9%	(4,813)	(4,813)	-	-	-	-	-	-	-	-	-	-	-
		<u>(136,430)</u>	<u>(40,933)</u>	<u>(10,000)</u>	<u>(9,000)</u>	<u>(71,000)</u>	<u>(5,497)</u>		<u>(81,600)</u>	<u>(8,102)</u>	<u>(8,000)</u>	<u>(16,000)</u>	<u>(49,000)</u>	<u>(498)</u>

* These assets / liabilities bear interest at a fixed rate.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

24. Financial instruments (continued)

Foreign currency risk

The consolidated entity enters into forward exchange contracts to hedge anticipated but unspecified purchase and sale commitments denominated in foreign currencies (principally US dollars). The terms of these derivatives and commitments are rarely more than three months. The consolidated entity's policy is to enter into forward foreign exchange contracts to hedge a portion of foreign currency purchases and sales within the following three months within Board approved limits.

The net fair value of forward exchange contracts used as hedges of forecasted transactions at 30 June 2006 was \$346,000 (2005: \$149,000), comprising assets of \$317,000 (2005: \$149,000) and liabilities of \$29,000 (2005: \$Nil).

Sensitivity analysis

In managing interest rate and currency risks the consolidated entity aims to reduce the impact of short-term fluctuations on the consolidated entity's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At 30 June 2006, it is estimated that a general increase of one percentage point in interest rates would decrease the consolidated entity's profit before tax by approximately \$300,000 (2005: \$300,000). Interest rate swaps have been included in this calculation.

It is estimated that a general increase of one percentage point in the value of the AUD against other foreign currencies would have no significant effect.

25. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Less than one year	13,625	10,457	1,213	927
Between one and five years	34,039	26,467	1,891	1,850
More than five years	12,116	5,624	-	-
	59,780	42,548	3,104	2,777

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

26. Capital and other commitment

In thousands of AUD

Capital expenditure commitments

Plant and equipment

Contracted but not provided for and payable:

	Consolidated		The Company	
	2006	2005	2006	2005
Within one year	17,197	11,756	2,440	3,830

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

27. Contingencies

The directors are of the opinion that provisions are not required in respect of the following matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

In thousands of AUD

	Consolidated		The Company	
	2006	2005	2006	2005
Contingent liabilities considered remote				
<i>Guarantees</i>				
(i) Under the terms of a Deed of Cross Guarantee the Company and its wholly owned subsidiaries, have guaranteed the bank facilities in each others' companies. The amounts shown are the bank guarantees. No deficiency in net assets exists in these companies at reporting date.	-	-	191,209	142,542
(ii) Under the terms of a Deed of Cross Guarantee, described in note 28, the Company and its wholly owned subsidiaries, have guaranteed the repayment of all current and future creditors in each others' companies, in the event any of the entities party to the Deed is wound up. No deficiency in net assets exists in these companies at reporting date.	-	-	-	-
(iii) Letters of credit established in favour of suppliers/creditors.	10,668	12,761	10,418	11,431
There are no contingent assets where the probability of future receipts is not considered remote.				

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

28 Deed of cross guarantee

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

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

The subsidiaries subject to the Deed are:

- Hills Finance Pty Ltd
- Hills Hoists Pty Ltd
- Bailey Aluminium Products Pty Ltd
- KDB Engineering Pty Ltd
- Kerry Equipment (Aust) Pty Ltd
- Woodroffe Industries Pty Ltd
- ACN 000 195 951 Pty Ltd (Formerly Triton Manufacturing & Design Co Pty Ltd)
- Orrcon Operations Pty Ltd
- Orrcon Holdings Pty Ltd

All of the subsidiaries except KDB Engineering Pty Ltd, Orrcon Operations Pty Ltd and Orrcon Holdings Pty Ltd became a party to the deed on 15 April 2004 by virtue of a Deed of Assumption.

Orrcon Holdings Limited and Orrcon Operations Pty Ltd became parties to the deed on 23 June 2006, by virtue of a Deed of Assumption.

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

A consolidated income statement and consolidated balance sheet, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2006 is set out on below.

Summarised income statement and retained profits

<i>In thousands of AUD</i>	Consolidated	
	2006	2005
<i>Profit before tax</i>	43,220	40,782
<i>Income tax expense</i>	(10,801)	(6,060)
<i>Profit after tax</i>	32,419	34,722
<i>Retained profits at beginning of year</i>	82,565	76,946
<i>Adjustment to retained profits on transition to IFRS, net of tax</i>	-	26
<i>Adjustment to retained profits at the beginning of the year on inclusion of additional company in the Class Order</i>	5,625	-
<i>Dividends recognised during the year</i>	(34,482)	(29,129)
<i>Retained profits at end of year</i>	86,127	82,565

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

28. Deed of cross guarantee (continued)

Balance Sheet

In thousands of AUD

Assets

Cash and cash equivalents
Trade and other receivables
Inventories
Income tax receivable

Total current assets

Investments
Deferred tax assets
Property, plant and equipment
Intangible assets

Total non-current assets

Total assets

Liabilities

Bank overdraft
Trade and other payables
Interest-bearing loans and borrowings
Employee benefits
Income tax payable
Provisions

Total current liabilities

Interest-bearing loans and borrowings
Employee benefits

Total non-current liabilities

Total liabilities

Net assets

Equity

Issued capital
Reserves
Retained earnings

Total equity

Consolidated	
2006	2005
6,347	20,374
178,295	155,811
90,219	32,932
-	1,171
274,861	210,288
52,172	118,199
16,860	16,686
127,185	69,929
62,770	12,152
258,987	216,966
533,848	427,254
5,767	-
87,908	38,977
10,120	2,696
14,132	9,615
3,523	1,716
5,511	7,452
126,961	60,456
121,498	94,498
6,100	5,749
127,598	100,247
254,559	160,703
279,289	266,551
167,525	157,214
25,637	26,772
86,127	82,565
279,289	266,551

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

29. Consolidated entities

	Note	Country of Incorporation	Ownership interest	
			2006	2005
Parent entity				
Hills industries Limited		Australia		
Subsidiaries				
Hills Finance Pty Ltd		Australia	100	100
Hills industries Limited		New Zealand	100	100
Spraygen Sprayers Limited		United kingdom	100	100
Korvest Ltd	(b) (c)	Australia	46.4	46.6
Korvest NZ Limited	(b)	New Zealand	46.4	46.6
Hills Hoists Pty Ltd		Australia	100	100
Bailey Aluminium Products Pty Ltd		Australia	100	100
ACN 000195 951 Pty Ltd (Formerly Triton Manufacturing & Design Co Pty Ltd)		Australia	100	100
ACN 089 622 622 Pty Ltd (Formerly Triton Workshop Systems (UK) Pty Ltd)		Registered branch in United Kingdom	100	100
Woodroffe Industries Pty Ltd		Australia	100	100
Fielders Australia Pty Ltd		Australia	60	60
Fielders Mobile Mill Pty Ltd (Formerly Aveso Pty Ltd)		Australia	100	100
Zen 99 Pty Ltd		Australia	100	100
Orrcon Holdings Pty Ltd		Australia	100	100
Orrcon Operations Pty Ltd		Australia	100	100
Orrcon Tubing Pty Ltd		Australia	100	100
Precision Tube Company Ltd		Australia	100	100
Tube Specialist Pty Ltd		Australia	100	100
ATS 2005 Pty Ltd (Formerly Access Television Services Pty Ltd.)		Australia	100	100
ATS 2004 Pty Ltd		Australia	100	100
Universal Communications Corp Pty Ltd		Australia	100	100
ACN 089 140 134 Pty Ltd		Australia	100	100
Access Television Services Pty Ltd (Shelved)		Australia	100	-
Audio Telex Communications Pty Ltd		Australia	100	100
Crestron Control Solutions Pty Ltd		Australia	100	100
Team Poly Pty Ltd		Australia	100	75
KDB Engineering Pty Ltd		Australia	100	100
Kerry Equipment (Aust) Pty Ltd		Australia	100	100
Step Electronics 2005 Pty Ltd (Formerly CCTV Security Solutions Pty Ltd)	(b)	Australia	50	50
Greenwattle Investments Pty Ltd	(a)	Australia	100	-
Access Scaffolding (Aust) Pty Ltd	(a)	Australia	100	-
Greenwattle Equipment Pty Ltd	(a)	Australia	100	-
Alquip Holdings Pty Ltd	(a)	Australia	100	-
Alquip Pty Ltd	(a)	Australia	100	-
Pathfinder Insurance Pte Ltd		Singapore	100	100
Hills Nominees Pty Ltd		Australia	100	100
DAS Security Wholesalers Pty Ltd		Australia	100	100
Pacific Communications Pty Ltd		Australia	100	100
Pacom Security Pty Ltd		Australia	100	100
CBS Hardware Pty Ltd		Australia	100	100
Step Electronics Pty Ltd		Australia	100	100

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

29. Consolidated entities (continued)

All shares are ordinary shares. Names inset indicate shares held by the company immediately above the inset. The percentage shown is the interest of Hills Industries Limited.

- (a) These companies have become part of the economic entity during the financial year.
- (b) These companies are controlled by virtue of the parent entity's control of the company's Board through the chairman's casting vote, effective management of the company and exposure to the risks and benefits of ownership, or control of voting rights through the dilution of the minority shareholders.
- (c) During the year Korvest Ltd issued 27,318 (2005: 68,422) ordinary shares pursuant to its Employee Share Bonus Plan for no consideration. Hills Industries Limited does not participate in this plan. As a result of this transaction Hills Industries Limited decreased its interest in Korvest Ltd.

30. Acquisitions/disposals of subsidiaries

(a) Acquisitions of subsidiaries

The consolidated entity acquired one entity and increased control in one other entity during the course of the year. The consolidated entity paid \$3,400,000 deferred payment in respect of the acquisition of the Audio Telex Group acquired in 2005.

Company Name	Date of Control	Consideration Net of Cash \$'000	Nature of Business	% Acquired
• Alquip Group	01/01/2006	*4,990	Supplier of access equipment hired and sold to building contractors.	100%
• Team Poly Pty Ltd	01/04/2005	4,713	Manufacture of rotationally moulded water tanks.	Additional 25% Total 100%
• Audio Telex Group – deferred payment	01/06/2005	3,400		
Total		13,103		

*Excludes a deferred payment of \$1,000,000.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

30. Acquisitions/disposals of subsidiaries (continued)

(a) Acquisitions of subsidiaries (continued)

The acquisition of the Alquip Group had the following effect on the consolidated entity's assets and liabilities.

Acquiree's net liabilities at the acquisition date

In thousands of AUD

	Recognised values	Fair value adjustments	Carrying amounts
Property, plant and equipment	4,163	-	4,163
Inventories	1,860	-	1,860
Trade and other receivables	2,968	-	2,968
Deferred tax asset	439	-	439
Bank overdraft	(1,428)	-	(1,428)
Interest-bearing loans and borrowings	(596)	-	(596)
Other loans and borrowings	(6,535)	-	(6,535)
Trade and other payables	(1,560)	-	(1,560)
Tax payable	(221)	-	(221)
Provisions	(248)	-	(248)
Net identifiable assets and liabilities	(1,158)	-	(1,158)
Net identifiable assets and liabilities	(1,158)		
Goodwill on acquisition	5,720		
Deferred consideration	(1,000)		
Consideration paid, satisfied in cash*	3,562		
Bank overdraft (acquired)	1,428		
Net cash outflow	4,990		

*Include legal fees and taxes amounting to \$64,000.

The goodwill arises from the ability of the Alquip Group to earn a higher return on the Alquip Group's collective net assets than would be expected from those net assets acting separately. This reflects the synergies of the assets. The goodwill also stems from the synergies that result from the combination of the Hills and Alquip Groups. The goodwill arose on acquisition because certain intangible assets did not meet the AIFRS 3 criteria for recognition as intangible assets at the date of acquisition.

The consideration for the acquisition includes a deferred amount of \$1,000,000. The deferred payment is payable provided certain performance criteria are met.

It is not practicable to estimate the effect on the income statement had the business been acquired at the beginning of the reporting period. The business will undergo a number of changes as a result of the ownership by Hills, including new product initiatives.

There was no material effect on profit for the period as a result of the Alquip acquisition.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

30. Acquisitions/disposals of subsidiaries (continued)

(a) Acquisitions of subsidiaries (continued)

Aggregated details of the acquisitions are as follows:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Consideration paid for new and increased control entities	8,275	87,785	8,275	87,785
(Cash)/bank overdraft acquired	1,428	(2,465)	-	-
Outflow of cash for new and increased control entities	9,703	85,320	8,275	87,785
Deferred consideration paid	3,400	1,700	3,400	1,700
Total outflow of cash	13,103	87,020	11,675	89,485

In 2005 the consolidated entity acquired 100% interest in the Access Television Services Group for a net cash consideration of (\$588,000), 75% interest in Team Poly Pty Ltd for a net cash consideration of \$16,646,000, 100% interest in the Audio Telex Group for a net cash consideration of \$20,680,000 and the remaining 50% interest in the Orrcon Group to attain 100% ownership of that group for a net cash consideration of \$48,582,000. The consolidated entity paid \$1,700,000 deferred payment in respect of the acquisition of the K-Care Group acquired in 2003.

(b) Disposals of subsidiaries

During the year the Consolidated Entity disposed of the subsidiaries Hills Industries Limited (UK) and the Pacom SE Asia Group including Pacom SE Asia Pte Ltd and Pacific Communications Services Snd Bhd. There were no disposals of entities during the previous corresponding period. Details of the disposals are as follows:

Hills Industries Limited (UK)

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Cash/(overdraft)	(2,773)	-	-	-
Inventories	3,526	-	-	-
Trade and other receivables	3,762	-	-	-
Property, plant and equipment	3,831	-	-	-
Deferred tax assets	346	-	-	-
Trade and other payables	(1,764)	-	-	-
Current interest bearing liabilities	(5,885)	-	-	-
Provisions	(361)	-	-	-
Fair value of assets and liabilities disposed	682	-	-	-
Less minority interest therein	(2,502)	-	-	-
Add overdraft of Hills Industries Limited (UK)	2,773	-	-	-
Loss on disposal	(344)	-	-	-
Cash flow on disposal net of overdraft disposed	609	-	-	-

Hills industries Limited (UK) was disposed of on 1 July 2005. Results of operations since that date have been excluded from the results of the Consolidated Entity.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

30. Acquisitions/disposals of subsidiaries (continued)

(b) Disposals of subsidiaries (continued)

During the current period the Pacom SE Asia Group was liquidated, as it was no longer an operating entity. There was no gain or loss on liquidation. Details of the liquidation are as follows:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Share capital	1,200	-	-	-
Loss on disposal	(1,200)	-	-	-
Cash flow on disposal net of cash disposed	-	-	-	-

The Pacom SE Asia Group was disposed of on 1 July 2005.

31. Acquisitions/disposals of business operations

(a). Acquisitions of business operations

The consolidated entity acquired two business operations during the course of the year. Results for the businesses since the date of their respective acquisitions have been included in the consolidated results. The details of the acquisitions are noted in the table below.

Name of business	Date of Control	Consideration Net of Cash \$'000	Nature of Business
• Brisbane Sheet Metal	01/12/2005	14,841	Roll forming of metal building products in Brisbane and Coolumb.
• Australian Audio Supplies	01/04/2006	961	Distribution of professional audio equipment.
Total		15,802	

Aggregated details of the acquisitions are as follows:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Fair value of assets acquired				
Cash	212	-	-	-
Inventories	2,141	-	-	2,853
Trade and other receivables	2,906	-	-	1,863
Property, plant and equipment	4,606	-	-	1,097
Goodwill purchased	8,189	-	-	268
Deferred tax asset	-	-	-	550
Employee benefits	(208)	-	-	-
Trade and other payables	(1,832)	-	-	(1,532)
Provisions	-	-	-	(395)
Fair value of assets and liabilities acquired	16,014	-	-	4,704
Less cash acquired	(212)	-	-	-
Cash flow on acquisition net of cash acquired	15,802	-	-	4,704

The goodwill arose on acquisition because certain intangible assets did not meet the AIFRS 3 criteria for recognition as intangible assets at the date of acquisition. The goodwill is mainly represented by management expertise, work force, distribution channels and geographic presence.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

31. Acquisitions/disposals of business operations (continued)

(a). Acquisitions of business operations (continued)

It is not practicable to estimate the effect on the income statement had the businesses been acquired at the beginning of the financial year. The businesses will undergo a number of changes as a result of the ownership of Hills including new product initiatives.

There was no material effect on profit for the period as a result of these acquisitions.

2005: The consolidated entity did not acquire any business operations during the financial year. The Company acquired the Triton business.

(b). Disposal of business operations

The Triton business was sold during the prior financial year. No business operations were disposed of during the current financial year. Details of the disposal are as follows:

	Consolidated		The Company	
	2006	2005	2006	2005
<i>In thousands of AUD</i>				
Fair value of assets acquired				
Consideration (cash)	-	10,400	-	5,000
Carrying amount of disposal	-	(8,094)	-	(2,694)
Profit on disposal	-	2,306	-	2,306

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

32. Reconciliation of cash flows from operating activities

In thousands of AUD

Cash flows from operating activities

	Consolidated		The Company	
	2006	2005	2006	2005
Profit for the period	48,210	41,720	20,446	34,100
Adjustments for:				
Depreciation	16,825	18,763	5,939	9,036
Amortisation of intangibles	741	1,822	17	863
Impairment of trade receivables	542	(3,180)	-	(4,700)
Impairment of inventory	1,711	2,357	-	2,450
Impairment of loans	-	(2,250)	-	(2,250)
Impairment of intangible assets	-	1,060	-	(268)
Tax payable transferred to head entity of tax consolidation group	-	-	(7,260)	-
Foreign exchange gains	(463)	-	-	-
Dilution of interest in controlled entity	(29)	24	-	-
(Gain)/loss on sale of property, plant and equipment	(179)	(154)	(152)	(152)
(Gain)/loss on sale of entities	344	-	1,200	-
(Gain)/loss on sale of business operations	-	(2,306)	-	(2,306)
(Gain)/loss on sale of investments	(381)	-	(381)	-
Rent received	(809)	(890)	(1,655)	(1,603)
Finance charges on capitalised leases	2	25	-	-
Equity-settled share-based payment expenses	568	590	521	542
Add/(less) amounts set aside to provisions:				
- employee benefits	11,147	14,423	2,804	6,209
- outstanding claims	597	(647)	508	988
- other	150	486	-	-
Operating profit before changes in working capital and provisions	78,976	71,843	21,987	42,909
(Increase)/decrease in trade and other receivables	(15,295)	(20,872)	395	788
Decrease in income taxes receivable	1,197	-	-	-
(Increase)/decrease in inventories	(4,330)	(41,528)	(5,077)	(2,447)
(Increase)/decrease in deferred tax assets	(1,929)	(4,113)	699	(3,346)
(Decrease)/increase in trade and other payables	5,835	40,745	(3,201)	7,456
(Decrease)/increase in income taxes payable	(1,810)	(2,653)	(386)	(1,685)
Increase in provisions and employee benefits	(8,246)	(10,828)	(1,984)	(3,981)
Net cash from operating activities	54,398	32,594	12,433	39,694

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

33. Related parties

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

Robert Donald Hill-Ling (Chairperson)
resigned 28 October 2005
Jennifer Helen Hill-Ling (Chairperson)
Ian Elliot
Roger Baden Flynn
Geoffrey Guild Hill
Peter William Stancliffe

Executives

M I Canny (Group General Manager, Home and Hardware Products)
A R Oliver (Group General Manager, Antenna and TV Systems)
P J Mellino (Group General Manager, Hills Electronic Security)
J Easling (Managing Director, Fielders)
L Andrewatha (Managing Director, Orrcon Group)
A Muir (Business Development Manager)

Executive directors

David James Simmons (Managing Director)
Graham Lloyd Twartz (Finance Director)

Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' are as follows:

In AUD	Consolidated		The Company	
	2006	2005	2006	2005
<i>Short-term employee benefits</i>	2,979,280	2,513,755	2,405,959	2,224,638
<i>Post-employment benefits</i>	209,307	191,934	152,350	166,201
<i>Termination benefits</i>	180,000	-	180,000	-
<i>Share based payments</i>	219,915	92,357	168,488	71,203
	3,588,502	2,798,046	2,906,797	2,462,042

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosure as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Loans to key management personnel and their related parties

There were no loans outstanding at the reporting date to key management personnel and their related parties. Option loans detailed in prior year reports are no longer recognised as loans as they are included in the fair value of the options as required by AIFRS.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

33. Related parties (continued)

Other key management personnel transactions with the Company or its controlled entities

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

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

<i>In AUD</i>		Note	Consolidated		The Company	
			2006	2005	2006	2005
Key management persons	Transaction					
R D Hill-Ling	Interest expense	(i)	-	19,971	-	19,971
J H Hill-Ling	Legal fees	(ii)	-	9,536	-	9,536
D J Simmons	Interest expense	(i)	-	19,022	-	19,022
J Easling	Property rental	(iii)	680,061	606,123	-	-

- (i) During the financial year ended 30 June 2005, two directors and a number of their personally related entities held cash on deposit with the Company. The Company paid interest on these deposits at rates no more favourable than market rates. No deposits were held during the current year.
- (ii) J H Hill-Ling is a consultant to Blessington Judd, a firm of solicitors that rendered legal services to the consolidated entity in the ordinary course of business during the 2005 financial year. Amounts billed in that year were based on normal market rates for such services and were due and payable under normal payment terms. J H Hill-Ling, as a consultant of Blessington Judd, did not provide any services to the consolidated entity or Company in the current year.
- (iii) The consolidated entity rents certain property from a company in which J Easling is a shareholder. Amounts were billed based on normal market rentals and were due and payable under normal payment terms.

There were no amounts receivable from and payable to key management personnel at reporting date arising from these transactions. (2005: \$nil)

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

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

33. Related parties (continued)

Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in Hills Industries Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2004 AIFRS	Granted as compen- sation	Held at 30 June 2004 AIFRS	Granted as compen- sation	Held at 30 June 2006 AIFRS	Held at 30 June 2006 ASX	ASX exercised during the year ended 30 June 2006
Directors							
D J Simmons	280,000	80,000	360,000	80,000	440,000	160,000	(80,000)
G L Twartz	160,000	60,000	220,000	60,000	280,000	120,000	(60,000)
Executives							
M I Canny	160,000	60,000	220,000	60,000	280,000	120,000	(60,000)
A R Oliver	145,000	45,000	190,000	45,000	235,000	90,000	(45,000)
P J Mellino	60,000	20,000	80,000	20,000	100,000	40,000	(20,000)
L Andrewatha	-	60,000	60,000	60,000	120,000	120,000	-
J Easling	15,000	25,000	40,000	30,000	70,000	55,000	(15,000)
A Muir	10,000	10,000	20,000	25,000	45,000	35,000	(10,000)

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

Movements in shares

The movement during the reporting period in the number of ordinary shares in Hills Industries Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2005	Purchases	Received on exercise of options	Employee Share Bonus Plan	Sales	Held at 30 June 2006
Directors						
RD Hill-Ling	16,787,152	195,062	-	-	-	16,982,214
JH Hill-Ling	14,025,380	264,034	-	-	-	14,289,414
DJ Simmons	49,288	-	-	212	(40,000)	9,500
I Elliot	1,000	-	-	-	-	1,000
GG Hill	63,147	3,557	-	-	-	66,704
RB Flynn	21,865	1,233	-	-	-	23,098
PW Stancliffe	9,138	516	-	-	-	9,654
G L Twartz	12,191	-	-	212	-	12,403
Executives						
M I Canny	28,764	-	-	212	-	28,976
A R Oliver	35,682	2,014	-	212	-	37,908
P J Mellino	5,094	-	-	212	-	5,306
L Andrewatha	-	-	-	-	-	-
J Easling	4,430	254	-	212	-	4,896
A Muir	1,493	-	-	212	-	1,705

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

33. Related parties (continued)

	Held at 1 July 2004	Purchases	Received on exercise of options	Employee Share Bonus Plan	Sales	Held at 30 June 2005
Directors						
RD Hill-Ling	16,066,928	720,224	-	-	-	16,787,152
JH Hill-Ling	13,331,534	693,846	-	-	-	14,025,380
DJ Simmons	47,469	1,576	-	243	-	49,288
I Elliot	1,000	-	-	-	-	1,000
GG Hill	57,098	6,049	-	-	-	63,147
RB Flynn	18,926	6,617	-	-	(3,678)	21,865
PW Stancliffe	6,184	2,954	-	-	-	9,138
G L Twartz	10,698	1,250	-	243	-	12,191
Executives						
M I Canny	28,521	-	-	243	-	28,764
A R Oliver	33,404	2,035	-	243	-	35,682
P J Mellino	4,851	-	-	243	-	5,094
L Andrewatha	-	-	-	-	-	-
J Easling	2,727	1,460	-	243	-	4,430
A Muir	-	1,250	-	243	-	1,493

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

Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (see note 29), and with its key management personnel.

Other related party transactions

Subsidiaries

All transactions with partly owned controlled entities are on normal terms and conditions. Transactions with controlled entities are determined on a cost basis. Sales of goods and services that eliminated with cost of goods sold and services provided amounted to \$32,557,000 (2005: 25,644,000). Loans and borrowings with Australian wholly owned controlled entities are interest free and payable on demand while loans to or from non-wholly owned subsidiaries are charged interest at rates no more favourable than current market rates. Inter entity interest paid and received during the year was \$6,826,000 (2005: \$5,943,000). Entities within the group rent properties to or from other entities within the group at rentals that are market related. Property rentals during the year were \$1,917,000 (2005: \$2,355,000). Group entities charge an administration fee for services rendered which during the year were \$4,632,000 (2005: \$13,334,000). Inter entity dividends paid and received during the year amounted to \$6,486,000 (2005: \$21,261,000).

Group entity trading transactions and borrowings result in balances arising in respect of current and non-current assets and liabilities. At 30 June 2006 the current assets and liabilities was \$150,631,000 (2005: 85,367,000) and the non-current assets and liabilities were \$121,500,000 (2005: \$110,800,000)

34. Subsequent events

There has not arisen between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the consolidated entity, to affect significantly the operations of the consolidated entity in subsequent financial periods.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

35. Explanation of transition to AIFRSs

Reconciliation of equity

		Consolidated						The Company					
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
<i>In thousands of AUD</i>		1 July 2004			30 June 2005			1 July 2004			30 June 2005		
Assets													
Cash and cash equivalents		21,835	-	21,835	21,287	-	21,287	6,969	-	6,969	15,593	-	15,593
Trade and other receivables	b, e	117,025	(901)	116,124	152,991	(1,720)	151,271	80,762	(94)	80,668	152,128	(849)	151,279
Inventories		89,610	-	89,610	133,986	-	133,986	25,154	-	25,154	28,006	-	28,006
Income tax receivable		1,859	-	1,859	1,197	-	1,197	-	-	-	-	-	-
Total current assets		230,329	(901)	229,428	309,461	(1,720)	307,741	112,885	(94)	112,791	195,727	(849)	194,878
Receivables		6,399	-	6,399	1,222	-	1,222	6,399	-	6,399	-	-	-
Investments		104	-	104	102	-	102	102	-	102	102	-	102
Investment in subsidiaries		-	-	-	-	-	-	52,862	-	52,862	144,096	-	144,096
Deferred tax assets	d, e	19,040	(1,453)	17,587	24,440	(2,502)	21,938	14,617	(1,982)	12,635	18,410	(3,446)	14,964
Property, plant and equipment		155,821	-	155,821	154,940	-	154,940	52,341	-	52,341	50,189	-	50,189
Intangible assets	c	15,388	-	15,388	90,760	319	91,079	3,306	-	3,306	17	-	17
Total non-current assets		196,752	(1,453)	195,299	271,464	(2,183)	269,281	129,627	(1,982)	127,645	212,814	(3,446)	209,368
Total assets		427,081	(2,354)	424,727	580,925	(3,903)	577,022	242,512	(2,076)	240,436	408,541	(4,295)	404,246

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

35. Explanation of transition to AIFRSs (continued)

Reconciliation of equity (continued)

In thousands of AUD	Note	Consolidated						The Company					
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
		1 July 2004			30 June 2005			1 July 2004			30 June 2005		
Liabilities													
Bank overdraft		2,553	-	2,553	7,290	-	7,290	14,980	-	14,980	-	-	-
Trade and other payables		69,009	-	69,009	117,135	-	117,135	50,517	-	50,517	63,691	-	63,691
Interest-bearing loans and borrowings		7,948	-	7,948	3,238	-	3,238	2,191	-	2,191	2,695	-	2,695
Employee benefits		17,569	-	17,569	20,329	-	20,329	7,791	-	7,791	8,365	-	8,365
Income tax payable	e	9,286	-	9,286	8,599	-	8,599	6,917	-	6,917	4,899	(1,170)	3,729
Provisions		7,297	-	7,297	9,458	-	9,458	4,676	-	4,676	7,415	-	7,415
Total current liabilities		113,662	-	113,662	166,049	-	166,049	87,072	-	87,072	87,065	(1,170)	85,895
Interest-bearing loans and borrowings		74,336	-	74,336	95,405	-	95,405	26,498	-	26,498	94,498	-	94,498
Employee benefits		4,390	-	4,390	6,721	-	6,721	3,700	-	3,700	5,749	-	5,749
Provisions		360	-	360	360	-	360	-	-	-	-	-	-
Total non-current liabilities		79,086	-	79,086	102,486	-	102,486	30,198	-	30,198	100,247	-	100,247
Total liabilities		192,748	-	192,748	268,535	-	268,535	117,270	-	117,270	187,312	(1,170)	186,142
Net assets/(liabilities)		234,333	(2,354)	231,979	312,390	(3,903)	308,487	125,242	(2,076)	123,166	221,229	(3,125)	218,104
Equity													
Issued capital	b	68,300	(953)	67,347	158,544	(1,330)	157,214	68,300	(953)	67,347	158,544	(1,330)	157,214
Reserves	b, c, d	33,876	(1,219)	32,657	31,622	(1,696)	29,926	14,344	(665)	13,679	14,344	(565)	13,779
Retained earnings	g	97,340	(84)	97,256	106,179	(791)	105,388	42,598	(458)	42,140	48,341	(1,230)	47,111
Total equity attributable to equity holders of the parent		199,516	(2,256)	197,260	296,345	(3,817)	292,528	125,242	(2,076)	123,166	221,229	(3,125)	218,104
Minority interest	b, d, g	34,817	(98)	34,719	16,045	(86)	15,959	-	-	-	-	-	-
Total equity		234,333	(2,354)	231,979	312,390	(3,903)	308,487	125,242	(2,076)	123,166	221,229	(3,125)	218,104

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

35. Explanation of transition to AIFRSs (continued)

As stated in significant accounting policies note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the reconciliation of equity

The impact on deferred tax of the adjustments described below is set out in note (f).

- (a) AASB 101 requires that gains and losses on the disposal of non-current assets be reported on a net basis by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses.

Reclassification in the consolidation of the net book value on disposal of property, plant and equipment, for the year ended 30 June 2005, resulted in other expenses decreasing and other income decreasing by \$2,870,000. In the Company other expenses decreased and other income decreased by \$3,008,000.

Reclassification in the consolidation of the carrying value on disposal of business, for the year ended 30 June 2005, resulted in other expenses decreasing and other income decreasing by \$8,094,000. In the Company other expenses decreased and other income decreased by \$2,694,000.

- (b) The Consolidated Entity applied AASB 2 to its active share-based payment arrangements at 1 July 2004 except for those options that were issued to employees as part of the Executive Share Plan after November 2002 but had not vested by January 2005.

Under previous GAAP, the Consolidated Entity did not account for equity-settled share based payment transactions. Such payments are now recognised at fair value in accordance with AASB 2. Under previous GAAP, the Consolidated Entity recognised limited recourse loans to employees to purchase shares as loans and as share capital. In compliance with AASB 2 these limited recourse loans have been derecognised as loans and share capital and recognised as options at fair value in accordance with AASB 2.

Share options – Executive Share Plan

The effect in the Consolidated Entity and the Company of accounting for Executive Share Plan share options is to decrease retained income by \$10,000, increase the equity compensation reserve by \$62,000, decrease share capital by \$953,000 and decrease current loans receivable by \$901,000 as at 1 July 2004. For the year ending 30 June 2005 the effect in the Consolidated Entity and the Company is to increase employee benefits \$15,000, decrease retained income by a further \$15,000, increase the equity compensation reserve by a further \$100,000, decrease share capital by a further \$904,000 and decrease current loan receivables by a further \$819,000. The net effect in the Consolidated Entity and the Company as at 30 June 2005 is an increase of \$162,000 in the equity compensation reserve, a decrease in retained income by \$25,000, a decrease in share capital by \$1,857,000 and a decrease in current loans receivable by \$1,720,000.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

35. Explanation of transition to AIFRSs (continued)

Shares – Employee Share Bonus Plan

The effect in the Consolidated Entity of accounting for Employee Share Bonus Plan shares is to increase employee benefits in other expenses by \$575,000, increase share capital by \$527,000, decrease retained income by \$527,000 and decrease minority interest by \$48,000 for the year ending 30 June 2005. For the Company the effect is to increase employee benefits in other expenses, decrease retained income and increase share capital by \$527,000 for the year ended 30 June 2005.

- (c) Under AIFRS goodwill and intangible assets with an indefinite useful life are not subject to amortisation but tested for impairment annually. The impact on the results for the Consolidated Entity is a decrease in other expenses, an increase in retained income and an increase in goodwill by \$319,000 for the year ended 30 June 2005. There was no effect on the Company.
- (d) In compliance with AIFRS the Consolidated Entity has adopted the balance sheet method of tax effect accounting. The effect on the Consolidated Entity is to increase deferred tax liabilities by \$1,562,000, increase deferred tax assets by \$109,000, decrease the asset revaluation reserve by \$1,281,000, decrease retained income by \$74,000 and decrease minority interest by \$98,000 as at 1 July 2004. For the Company the effect is to increase deferred tax liabilities by \$727,000 and decrease the asset revaluation reserve by \$727,000.

For the financial year ended 30 June 2005 the effect on the Consolidated Entity is to increase deferred tax liabilities by \$2,652,000, increase deferred tax assets by \$150,000, decrease the asset revaluation reserve by \$1,858,000, decrease retained income by \$548,000 and decrease minority interest by \$96,000. For the Company the effect is to increase deferred tax liabilities by \$1,795,000, increase deferred tax assets by \$72,000, decrease the asset revaluation reserve by \$1,281,000, and decrease retained income by \$442,000.

- (e) The consolidated entity had applied UIG 52 for tax consolidation purposes under previous GAAP, resulting in the Company as the head entity of the tax-consolidated group recognising both current and deferred tax in relation to the wholly-owned subsidiaries in the tax-consolidated group.

Under AIFRS, the consolidated entity has adopted Interpretation 1052 which requires the subsidiaries to initially recognise both current and deferred taxes before recognising the head entity's assumption of the current tax liability (asset) and deferred tax assets from tax losses. Under AIFRS the subsidiaries are now required to recognise deferred tax assets relating to temporary differences, other than for tax losses.

Under previous GAAP, the tax funding arrangements assets and liabilities were recognised as inter-entity tax-related balances whereas tax funding arrangements expenses and revenues were recognised as a component of income tax expense or revenue.

Upon adoption of Interpretation 1052 under AIFRS, all tax funding arrangements amounts are recognised as inter-entity amounts, giving rise to a contribution by or distribution to equity participants to the extent they differ from the amounts assumed by the head entity from subsidiaries. The entities in the Australian tax-consolidated group have revised the tax funding arrangement to address only current tax amounts and deferred tax assets from tax losses/credits so that no net contributions or distributions to equity participants are expected to arise in the future.

The effect of the above in the Company at 1 July 2004 is to increase inter-company receivable by \$807,000, decrease deferred tax asset by \$1,255,000 and decrease retained earnings by \$448,000. The effect in the Company at 30 June 2005 is to increase Inter-company receivable by \$870,000, decrease deferred tax liability by \$1,302,000, decrease current tax liabilities by \$1,171,000, decrease deferred tax asset by \$3,574,000, decrease income tax expense by \$217,000 and decrease retained earnings by \$665,000.

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

35. Explanation of transition to AIFRSs (continued)

For the consolidated entity, the impact of moving from UIG 52 to Interpretation 1052 is the same as the impact of moving to AASB 112. See note (d). There is nil impact on the consolidated entity from the tax funding arrangement changes as upon consolidation the inter-company balances are eliminated.

- (f) The above changes increased (decreased) the deferred tax liability as follows based on tax rates of 30 and 33 per cent depending on when the temporary differences are expected to reverse:

		Consolidated		The Company	
		1 July 2004	30 June 2005	1 July 2004	30 June 2005
<i>In thousands of AUD</i>	<i>Note</i>				
Deferred tax liabilities adjustments arising from adoption of AASB 112	d	1,562	2,652	727	1,196
Deferred tax asset adjustments arising from adoption of AASB 112	d	(109)	(150)	-	(22)
Derecognition of deferred tax liability relating to subsidiaries within the tax consolidated group upon transition to UIG 1052	e	-	-	-	(1,302)
Derecognition of non-tax loss deferred tax assets relating to subsidiaries within the tax consolidated group upon transition to UIG 1052	e	-	-	1,255	3,574
Net increase (decrease) in deferred taxes		1,453	2,502	1,982	3,446
Comprising of movements in:					
Decrease (increase) in deferred tax assets		(109)	(150)	1,255	3,553
(Decrease) increase in deferred tax liabilities		1,562	2,652	727	(107)
		1,453	2,502	1,982	3,446

Of the net increase in deferred tax liability of \$1,453,000 at 1 July 2004, \$1,281,000 was recognised as a decrease in asset revaluation reserve (see note 35(d)) and the balance of \$172,000 was recognised as a reduction in retained earnings of \$74,000 and a decrease in minority interest of \$98,000 (see note 35(g)).

The effect on the income statement for the financial year ended 30 June 2005 was to decrease the previously reported tax charge for the period by \$474,000 and increase minority interest by \$2,000 in the consolidated entity and \$447,000 in the Company.

- (g) The effect of the above adjustments on retained earnings is as follows:

		Consolidated		The Company	
		1 July 2004	30 June 2005	1 July 2004	30 June 2005
<i>In thousands of AUD</i>	<i>Note</i>				
Employee benefits	b	(62)	(689)	(62)	(689)
Intangible assets	c	-	319	-	-
Income tax expense	e	-	-	(448)	(231)
Deferred tax	d	(172)	(644)	-	(447)
Current loans receivable	b	953	1,857	953	1,857
Share capital	b	(901)	(1,720)	(901)	(1,720)
Total adjustment to equity		(182)	(877)	(458)	(1,230)
Attributable to:					
Equity holders of the parent		(84)	(791)	(458)	(1,230)
Minority interest	b, d	(98)	(86)	-	-
		(182)	(877)	(458)	(1,230)

Hills Industries Limited and its Controlled Entities

Notes to the consolidated financial statements

35. Explanation of transition to AIFRSs (continued)

Reconciliation of profit for 2005

<i>In thousands of AUD</i>	<i>Note</i>	Previous GAAP	Consolidated Effect of Transition to AIFRSs	AIFRSs	Previous GAAP	The Company Effect of Transition to AIFRSs	AIFRSs
Revenue		811,046	-	811,046	308,657	-	308,657
Other income	a	16,101	(10,964)	5,137	13,343	(5,702)	7,641
		827,147	(10,964)	816,183	322,000	(5,702)	316,298
Cost of goods sold		(517,524)	-	(517,524)	(177,441)	-	(177,441)
Cost of services sold		(20,359)	-	(20,359)	-	-	-
Sales and marketing expenses		(102,143)	-	(102,143)	(57,426)	-	(57,426)
Distribution expenses		(54,908)	-	(54,908)	(18,908)	-	(18,908)
Administrative expenses		(39,083)	-	(39,083)	(14,861)	-	(14,861)
Occupancy expenses		(13,715)	-	(13,715)	(3,027)	-	(3,027)
Other expenses	a, b, c	(15,433)	10,693	(4,740)	(8,002)	5,160	(2,842)
Operating profit before interest expense		63,982	(271)	63,711	42,335	(542)	41,793
Financial income		1,037	-	1,037	3,306	-	3,306
Financial expenses		(4,345)	-	(4,345)	(3,176)	-	(3,176)
Net financing (costs)/income		(3,308)	-	(3,308)	130	-	130
Profit before tax		60,674	(271)	60,403	42,465	(542)	41,923
Income tax expense	d, e	(18,211)	(472)	(18,683)	(7,593)	(230)	(7,823)
Profit for the period		42,463	(743)	41,720	34,872	(772)	34,100
Attributable to:							
Equity holders of the parent		36,217	(707)	35,510	34,872	(772)	34,100
Minority interest		6,246	(36)	6,210	-	-	-
Profit for the period		42,463	(743)	41,720	34,872	(772)	34,100
Basic earnings per share from continuing operations		23.5¢		23.1¢			
Diluted earnings per share from continuing operations		23.5¢		23.1¢			

Directors' Declaration

- 1 In the opinion of the directors of Hills Industries Limited ('the Company'):
 - (a) the financial statements and notes and the remuneration disclosures that are contained in sections 6.4.1, 6.4.2, 6.4.4.1, 6.4.4.2, and 6.4.4.3 of the Remuneration Report in the Directors' Report, set out on pages 32 to 94, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) the remuneration disclosures that are contained in sections 6.4.1, 6.4.2, 6.4.4.1, 6.4.4.2 and 6.4.4.3 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the controlled entities identified in Note 29 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.
- 3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Managing Director and Finance Director for the financial year ended 30 June 2006 pursuant to Section 295A of the Corporations Act 2001.

Dated at Adelaide this 12th day of September 2006.

Signed in accordance with a resolution of the directors:

David Simmons
Director

Independent Audit Report to the members of Hills Industries Limited

Scope

We have audited the financial report of Hills Industries Limited ('the Company') for the financial year ended 30 June 2006, consisting of the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes 1 to 35 and the directors' declaration set out on pages 32 to 95. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. We have audited information disclosed by the Company, as permitted by the Corporations Regulations 2001, about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration report" in sections 6.4.1, 6.4.2, 6.4.4.1, 6.4.4.2 and 6.4.4.3 of the directors' report and not in the financial report. The Company's directors are responsible for the financial report and the remuneration disclosures. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. The Remuneration report also contains information in sections 6.4.3, 6.4.4.4, 6.4.4.5 and 6.4.5 not required by AASB 124 which is not subject to our audit. We have conducted an independent audit of the financial report and the remuneration disclosures in order to express an opinion on them to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and that remuneration disclosures comply with AASB 124. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the remuneration disclosures, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

1. In our opinion, the financial report of Hills Industries Limited is in accordance with:
 - (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date, and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) other mandatory professional reporting requirements in Australia.
2. The remuneration disclosures that are contained in sections 6.4.1, 6.4.2, 6.4.4.1, 6.4.4.2 and 6.4.4.3 of Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

KPMG



A Santin
Partner

Adelaide
12th September 2006

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the directors of Hills Industries Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

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



KPMG



A Santin
Partner

Adelaide
12th September 2006



ASX Additional information

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings (as at 24 August 2006)

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number
Poplar Pty Limited	17,566,272
Hills Associates Limited	12,433,233

Voting rights

Ordinary shares

On a show of hands, every person present in one or more of the following capacities, namely, that of a member or the proxy attorney or representative of a member, shall have one vote.

On a poll, every member present in person or by proxy attorney or representative shall have one vote for every ordinary share held.

Direct payment to shareholders' 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 registry in writing.

Distribution of equity security holders

Category	NUMBER OF EQUITY SECURITY HOLDERS	
	Ordinary shares	Options
1 - 1,000	4,040	-
1,001 - 5,000	11,420	-
5,001 - 10,000	4,079	2
10,000 - 100,000	2,333	16
100,000 and over	64	3
	<u>21,936</u>	<u>21</u>

The number of shareholders holding less than a marketable parcel of ordinary shares is 330.

Stock Exchange

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

Other information

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

On-market buy back

There is no current on-market buy-back.



ASX Additional information (continued)

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
Poplar Pty Ltd	16,622,672	9.8
Hills Associates Limited	11,489,633	6.7
Jacaranda Pastoral Pty Ltd	5,665,250	3.3
Australian Foundation Investment Company Limited	4,053,527	2.4
Agro Investments Limited	3,228,470	1.9
J P Morgan Nominees Australia Limited	2,607,347	1.5
National Nominees Limited	2,160,482	1.3
Donald Cant Pty Ltd	1,792,861	1.1
Colleen Sims Nominees Pty Ltd	1,692,362	1.0
Bond Street Custodians Limited	1,393,262	0.8
Invia Custodian Pty Limited	1,232,394	0.7
Milton Corporation Limited	1,094,563	0.7
Hills Associates Limited & Poplar Pty Limited	943,600	0.6
Citicorp Nominees Pty Limited	872,498	0.5
Tamarisk Pty Limited	526,207	0.3
Gowing Bros limited	525,060	0.3
Westpac Custodian Nominees Limited	504,547	0.3
Choiseul Investments Limited	468,000	0.3
ANZ Nominees Limited	457,710	0.3
RBC Global Services Australia Nominees Pty Limited	369,482	0.2
	57,699,927	34.0

Offices and officers

Company Secretary

Mr Graham L Twartz BA (Adel) DipAcc (Flinders)

Principal Registered Office

944-956 South Road
Edwardstown SA 5039
Telephone: (08) 8301 3200
Facsimile: (08) 8297 4468
Email: info@hills.com.au

Locations of Share Registries

Adelaide

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
Adelaide, SA 5000
Telephone (within Australia): 1300 556 161
Telephone (outside Australia): +61 3 9615 5970
Facsimile: (08) 8236 2305
Email: web.queries@computershare.com.au
Internet address: www.computershare.com

Shareholder enquires/change of address

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