

Success through diversity

Hills Industries Limited
Full Annual Report 2007





Hills Industries Limited
Full Annual Report 2007

Principal Registered Office

944-956 South Road
Edwardstown SA 5039

Telephone: (08) 8301 3200

Facsimile: (08) 8297 4468

Email: info@hills.com.au

Share Registry

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
Adelaide, SA 5000

Telephone (within Australia): 1300 556 161

Telephone (outside Australia): +61 3 9415 4000

Facsimile: (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.

ABN 35 007 573 417

The financial statements and other specific disclosures are an extract of, and have been derived from the full financial report of Hills Industries Limited (the Group) for the financial year. Other information included in the concise financial report is consistent with the Group's full financial report.

The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report.

A copy of the Group's 30 June 2007 Annual Financial Report, including the independent audit report, is available to all shareholders, and will be sent to shareholders without charge upon request or can be downloaded from www.hills.com.au

The 30 June 2007 Annual Financial Report can be requested by telephone (Australia: (08) 8301 3200, Overseas: +61 8 8301 3200) or via e-mail at info@hills.com.au


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A low-angle, upward-looking photograph of two children jumping joyfully against a bright blue sky filled with fluffy white clouds. The child on the left is a boy with blonde hair, wearing a dark blue t-shirt with a white soccer ball and wings graphic, and dark shorts. The child on the right is a girl with brown hair, wearing a blue and white striped tank top and pink shorts. Both children have their arms raised and are smiling. The bottom of the frame shows the tops of green trees and bushes.

2007 Overview

**Hills Group achieves its
15th consecutive year of record profit**

The Directors present their report together with the financial report of Hills Industries Limited ('the Company') and of the Group, being the Company and its controlled entities, for the financial year ended 30 June 2007 and the auditor's report thereon.

The Hills Industries Group achieved a group profit after tax attributable to shareholders of \$47.173 million. This was an increase of 9.0% over the previous year and represents the 15th consecutive year of record profits. For the first time sales revenue exceeded \$1.0 billion and the Company's market capitalisation exceeded \$1.0 billion.

Overview 2007

Following two years of growth driven by a significant acquisition programme, the focus this year was to achieve better results from the existing businesses while at the same time looking to make smaller complementary acquisitions. The results of this were somewhat mixed with a significant improvement in profitability from the Building and Industrial Products division and to a lesser extent the Home, Hardware and Eco products division being offset somewhat by a reduced profit achieved by the Electronic Security and Entertainment division. It should be noted that the reduction in profits of the Electronic Security and Entertainment division was following two years of exceptional growth.

Our businesses continue to generate reasonable cash flows and our balance sheet gearing remains under our target levels. We have the capacity to fund future acquisitions.

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, Hardware and Eco 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 remained at strong levels and the relative stability in steel prices and the gradual strengthening of the Australian Dollar saw the Hills Group deliver record results for the 15th consecutive year. Of particular note was the achievement of the milestone of sales revenue exceeding \$1.0 billion for the first time.

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

Vision and Values

Hills Industries Limited is a diversified company operating in three industry segments, namely Building and Industrial; Home, Hardware and Eco; and Electronic Security and Entertainment.

We aim to be market leader in the industries in which we operate, supplying innovative, quality products to our customers and to achieve superior financial performance that provides strong shareholder value.

To achieve this we value and promote:

- A leadership style which encourages autonomy and initiative;
- Commercial acumen with a focus on profitability and value;
- A never ending process of continuous improvement;
- Being open, ethical and earning the trust of those we deal with; and
- A culture of individual development and personal growth.

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 will receive a total of 27.5 cents per share fully franked dividends in respect of the year ended June 2007. Earnings per share for the same period were 27.6 cents. At balance date debt to equity ratio stood at 41.9%.

Hills People

We encourage our managers to direct and operate their businesses with a high degree of autonomy. We find the 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 21,000 to in excess of 22,000.

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 wide spread share ownership by our employees has many positive benefits for the employees, the Company and for you as shareholders.

Likely Developments

Economic conditions continue to remain favourable although the upcoming Australian election may cause some disruption to economic activity. There are challenges in individual businesses, such as the merger of OneSteel and Smorgon and its effects on Orrcon. We do anticipate, in the absence of any significant acquisition opportunity, a modest improvement in profit in the upcoming year.

Five Year Summary



Total revenue

Amount in \$ millions

03	\$669.4
04	\$718.7
05	\$811.0
06	\$931.8
07	\$1,014.0

Net profit attributable to members

Amount in \$ millions

03	\$27.3
04	\$31.3
05	\$35.5
06	\$43.3
07	\$47.2

Earnings per share

Amount in cents

03	20.8c
04	22.6c
05	23.1c
06	25.9c
07	27.6c

In thousands of AUD

	03	04	05	06	07
Total revenue	669,410	718,666	811,046	931,799	1,013,999
Net profit attributable to members	27,315	31,260	35,510	43,261	47,173
Net profit after tax and before minority interest	31,988	38,232	41,720	48,210	52,042
Depreciation, impairment and amortisation	18,042	19,723	20,585	17,566	18,988
Net borrowing costs	4,348	4,539	3,308	5,880	9,105
Shareholders' equity	175,869	199,516	292,528	309,952	331,726
Operating profit attributable to members					
— as a % of shareholders' equity	15.5%	15.7%	12.1%	14.0%	14.2%
Net profit after tax and before minority interest					
— as a % of total revenue	4.8%	5.3%	5.1%	5.2%	5.1%
Earnings per share (cents)	20.8	22.6	23.1	25.9	27.6
Dividends per share (cents)	21.0	22.5	24.0	26.0	27.5
Employees at year end	2,420	2,666	2,694	2,956	2,999
Shareholders at year end	14,263	17,125	20,270	21,748	22,837

2005, 2006 and 2007 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 antennas
- Subscription TV installation services
- Master antenna television systems
- Fibre optic transmission solutions

Revenue

Amount in \$ millions

03	\$163.5
04	\$170.2
05	\$206.3
06	\$263.8
07	\$277.2

EBIT*

Amount in \$ millions

03	\$14.6
04	\$18.6
05	\$23.5
06	\$34.0
07	\$31.7

Home, Hardware and Eco

- Outdoor clothes dryers
- Ladders
- Ironing Boards
- Laundry trolleys
- Security doors
- Playtime equipment
- Garden sprayers
- Wheelbarrows
- Rehabilitation and mobility products
- Water storage solutions
- Aluminium scaffold systems

Revenue

Amount in \$ millions

03	\$167.3
04	\$161.7
05	\$164.9
06	\$168.9
07	\$191.4

EBIT*

Amount in \$ millions

03	\$13.5
04	\$13.3
05	\$9.6
06	\$12.3
07	\$13.8

Building and Industrial

- Structural, precision and large steel 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

03	\$331.9
04	\$385.2
05	\$438.9
06	\$498.2
07	\$544.7

EBIT*

Amount in \$ millions

03	\$21.6
04	\$26.5
05	\$31.0
06	\$26.8
07	\$36.0

* EBIT – Earnings before interest and tax

2005, 2006 and 2007 are in compliance with AIFRS while prior years are in accordance with GAAP.

A photograph of three men in business suits standing behind a wooden table. The man on the left is wearing a dark blue suit and a patterned tie. The man in the center is wearing a dark blue pinstripe suit and a striped tie. The man on the right is wearing a brown suit and a striped tie. They are all smiling and looking towards the camera.

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

Ian Elliott
GAICD
Independent
Non-Executive Director

Board of Directors

David James Simmons
BA (Accountancy) FCPA
Managing Director



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

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

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

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

A photograph of a family consisting of a mother, a father, and a young child, all smiling and looking towards the right side of the frame, presumably watching television. They are all wearing white t-shirts. The background is dark, suggesting a dimly lit room.

Electronic Security and Entertainment

The Electronic Security and Entertainment segment comprises Hills Electronic Security, Hills Antenna & TV Systems, Hills Sound, Vision and Lighting, and Access Television Services. Revenue of \$277.2 million was 5% higher than the previous year, while EBIT of \$31.7 million was 6.8% lower than 2006.

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 through superior customer service, convenient locations and constant flow of new products. This market is characterised by a reasonably predictable level of day to day business, supplemented from time to time by significant project opportunities.

Our position as the leading supplier of domestic alarm panels has continued during the year, although this market continues to exhibit little or no growth. In the larger systems market we are seeing a rapid change as more and more solutions transfer to Internet Protocol (IP) based systems. We are confident that we will provide a compelling product offer in this exciting new market space.

Hills Sound Vision and Lighting

Hills Sound, Vision and Lighting ('SVL') comprises Audio Telex, Australian Audio Supplies, Lighthouse Distribution and Crestron Control Solutions in Australia and New Zealand. We are the leading suppliers to the professional audio market, and through Crestron we distribute a range of advanced control and automation systems for the integration and control of audio, video, data and the internet. During the year we launched the Lighthouse Distribution business in Australia. This is an exciting development for the SVL group, which has now consolidated onto a new site in Sydney where we will shortly be installing a custom built demonstration facility, the first of its type in Australia.

Hills Antenna & TV Systems

This business unit provides a full range of reception and distribution equipment for subscription television, free to air television and the wireless voice and data markets. While the results were slightly below the prior year, this was due to the absence of any major telecommunications projects during the year. Sales to the subscription TV and other target markets continued at levels above the previous year.

The availability of large telecommunications projects is difficult to predict but we remain well placed to win those within our capability.

Access Television Services

Access Television Services ('ATS') is the major supplier of installation services to AUSTAR Entertainment, the leading provider of subscription television in rural and regional Australia. The ongoing success of AUSTAR's marketing campaigns and product offer saw further increases in the volume of work available to ATS. As a result of these increased volumes ATS produced its best result since it has been part of the Hills Group.





Home, Hardware and Eco

The Home, Hardware and Eco segment comprises our branded Consumer Products operations in Australia and New Zealand, the Hills Healthcare rehabilitation and mobility business along with Hills Eco. During the year revenue increased by 13.3% to \$191.4 million and EBIT increased by 12.1% to \$13.8 million.

Branded Products

This business unit distributes a range of predominantly metal based branded hardware products to consumers, trade customers and Government utilities. Increasingly the products distributed are manufactured off shore, although we retain a substantial manufacturing base for our ladder and scaffold operations in Queensland. Our market leading brands include Hills, Bailey, Oldfield Ladders, Alquip and Kelso. The year saw the final closure of our Edwardstown manufacturing facilities relating to this business unit. We are now sourcing more and more of our products from China and other Asian manufacturing centres.

We are committed to a process of continually innovating our outdoor drying products, which saw the release of the New Generation Hills Hoist during the period. The acquisition of the aluminium scaffold business of Alquip in the previous year has not met our expectations, although a plan to improve operations should see improved results in the future. There are opportunities to improve the way in which we distribute our products as a result of our transition to Chinese manufacturing. We expect these improvements to result in reduced costs and lower inventory levels.

Hills Eco

Hills Eco is a growing business unit, at present dominated by the sales of Team Poly. Team Poly is involved in the manufacture of water storage tanks, chemical storage tanks, as well as Smartbar vehicle frontal protection systems. Sales of Team Poly products were at record levels during the period as a result of Government incentives due to the long term drought across Australia. As a result of these incentives demand exceeded our manufacturing capability. Our strategy has been to vertically integrate this business through the installation of a powder compounding and grinding facility and to increase our regional presence through the establishment of satellite manufacturing facilities. The first of these opened in April 2007 in Bathurst. Toowoomba and Ballarat will open in the near future.

Hills Endless Solar products were launched during the year and although sales were modest we have a number of initiatives in place to grow our sales this year. Our challenge is to add complementary products to the Hills Eco range, which will include grey water and further solar heating products.

Hills Healthcare

This business unit comprises K•Care, Kerry Equipment and Air Comfort Seating Systems. This business unit manufactures a range of mobility, rehabilitation and aged care products for domestic and overseas markets. All businesses performed well during the year. In May 2007 we acquired Air Comfort Seating Systems. Following that acquisition we launched the Hills Healthcare brand in July 2007. We have recently released a very innovative nursing home bed which has met with immediate market acceptance. We regard this sector as one exhibiting long term superior growth potential and we will continue to invest in it.





Building and Industrial

The Building and Industrial segment comprises Orrcon, Korvest, Fielders and Woodroffe Equipment. Revenues improved by 9.3% to \$544.7 million while EBIT increased by 34.6% to \$36.0 million.

Orrcon

This business unit manufactures and distributes a comprehensive range of steel tube and piping. Orrcon had a much improved result during the year, although market conditions remain very competitive. Margin management in the face of imports remains an important challenge for Orrcon. There are a large number of water and oil and gas projects proposed around Australia. We regard this market as an important growth opportunity for Orrcon. In the second quarter of the financial year we undertook a major upgrade to the Unanderra manufacturing facility to improve productive output and range capability. We were delighted that this project came in under budget and achieved the operating benefits which were foreshadowed.

In May 2007 Orrcon acquired the Impressive Steel distribution business in Bunbury, Western Australia. This is consistent with our strategy of improving our distribution footprint (particularly in regional Australia) to ensure that we participate in the supply of steel to major infrastructure and mining projects.

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. Fielders' performance during the year was underpinned by a very strong result in Western Australia. 2007 was the first full year that Brisbane Sheet Metal operations were included in the Fielders results. Whilst we achieved our sales objectives the profitability of the business was below our expectation. The plans to improve this are now well underway.

The Centenary Carports and Verandahs business continues to grow, as does the Endurance Sheds business. Having proven the model in these two ranges in South Australia we are now expanding into interstate markets. We are very pleased with the market acceptance of our innovative Angle Cut process, which enables us to cut and assemble a complete steel roof for a home in our factory, thereby cutting down on installation costs on site.

Korvest

Korvest is a publicly listed company involved in the manufacture of cable and pipe support systems and galvanising. Hills hold 46.0% of the shares in Korvest. The Korvest results for the year were pleasing. In particular, the improved results from the galvanising operation were the result of a great deal of management input and planning. We expect Korvest to continue to produce acceptable results.

Woodroffe Equipment

This business unit manufactures and distributes a range of metal products specialising in stainless steel fabrication. Woodroffe continues to reshape its operations from a business focused on subcontract manufacture to a business that has equity in its own products and brands. We expect continuing improvements from Woodroffe in the coming year.



KORVEST LTD

EzyStrut

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: 45

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 23 years and is currently a consultant to Sydney law firm Blessington Judd.

David James Simmons

BA (Accountancy)

Group Managing Director

Age: 53

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: 53

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

Ian Elliot has spent 33 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: 57

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

Roger Flynn has 40 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 34 years of Board experience in ASX listed companies.

Geoffrey Guild Hill

F CPA FAICD F.S.I BEc (Syd) MBA (NSW)

Independent Non-Executive Director based in Hong Kong

Age: 61

Appointed Director in February 1999. Member of the Audit and Compliance, Remuneration and Nomination Committees. Chairman of Pitt Capital Asia Limited. Chairman International Pacific Securities (Group) Limited. Director Brickworks Investments Limited, Huntley Investments Limited, Undercoverwear 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 Merchant Banking 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: 59

Appointed Director in August 2003. Chairman of the Audit and Compliance 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 37 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)

Group Finance Director

Age: 50

Joined the Company in 1993. Appointed Director in July 1993. Director of Korvest Ltd and Fielders Australia Pty Ltd. Graham Twartz is the Group Finance Director and Company Secretary and has over 23 years experience in his field. Mr Twartz held senior management positions in diversified companies before joining Hills in 1993.

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	Board Meetings		Audit & Compliance Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	A	B	A	B	A	B	A	B
J H Hill-Ling	13	13	5	5	3	3	1	1
D J Simmons	13	13	–	–	–	–	–	–
I Elliot	11	13	–	–	3	3	1	1
R B Flynn	12	13	5	5	–	–	–	–
G G Hill	12	13	4	5	3	3	1	1
P W Stancilffe	13	13	5	5	–	–	–	–
G L Twartz	13	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

The corporate governance practices of the Company comply with the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, unless otherwise stated in this Annual Report.

The ASX Principles are set out below, along with information provided in accordance with the Guide to Reporting for Annual Reports included in the ASX Recommendations.

Further details of the corporate governance practices of the Company are available in the Corporate Governance section of the Company website at www.hills.com.au.

6.1 Principle 1

Lay solid foundations for management and oversight

The Company complies with the ASX recommendation of recognising and publishing the respective roles and responsibilities of Board and management.

6.2 Principle 2

Structure the Board to add value

ASX recommends the Company has a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

The Company has substantially complied with this Principle during the reporting period. There has been a departure from the ASX Recommendation 2.2 in that the Chairman Ms Jennifer Hill-Ling is not considered an independent Chairman. The Company considers this departure is appropriate however given:

- The Hill-Ling family's interest in the Hills Group; and
- Ms Hill-Ling's considerable experience within the Hills Group.

(a) Composition of the Board

The names, experience and term of the Directors of the Company in office at the date of this report are set out in Section 2 of the Directors' Report above.

(b) Independent professional advice and access to company information. There is a procedure agreed by the Board whereby each Director is able to obtain independent professional advice at the expense of the Company should the Director require.

(c) Nomination Committee

Membership of the Nomination Committee of the Company and details of meetings for the reporting period are set out in Sections 2 and 5 of the Directors' Report above.

6.3 Principle 3

Promote ethical and responsible decision-making

The Company complies with the ASX recommendation that the Company actively promote ethical and responsible decision-making.

6.4 Principle 4

Safeguard integrity in financial reporting

The Company complies with the ASX recommendation that a structure be in place to independently verify and safeguard the integrity of the Company's financial reporting.

Details of the members and qualifications of the Audit and Compliance Committee of the Company, and of its meetings during the reporting period are set out in Sections 2 and 5 of the Directors' Report above.

6.5 Principle 5

Make timely and balanced disclosure

The Company complies with the ASX recommendation that the Company should promote timely and balanced disclosure of all material matters concerning the Company.

6.6 Principle 6

Respect the rights of shareholders

The Company complies with the ASX recommendation that the Company should respect the rights of shareholders and facilitate the effective exercise of those rights.

6.7 Principle 7

Recognise and manage risk

The Company complies with the ASX recommendation that the Company should establish a sound system of risk oversight and management and internal control.

The Audit and Compliance Committee oversees the operation of the risk management controls established by the Company.

6.8 Principle 8

Encourage enhanced performance

The Company complies with the ASX recommendation that the Company should fairly review and actively encourage enhanced board and management effectiveness.

A performance evaluation for the Board and its members has taken place in the reporting period. Each director meets individually with the Chairman annually to discuss their individual performance and the overall performance of the Board.

6.9 Principle 9

Remunerate fairly and responsibly

The ASX Recommendation is that the Company should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.

The Company has complied with this Principle during the reporting period. For further information, see the Remuneration Report at Section 7 of this Directors' Report.

6.10 Principle 10

Recognise the legitimate interests of stakeholders

The Company complies with the ASX recommendation that the Company should recognise legal and other obligations to all legitimate stakeholders.

7. Remuneration report

7.1 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 Group, including directors of the Company and other executives.

Compensation levels for key management personnel of the Company, and relevant key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration committee obtains independent advice on the appropriateness of compensation packages of both the Company and consolidated group given trends in comparative companies both locally and internationally and the objectives of the Company's compensation strategy.

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 Group's performance including:
 - the Group's earnings
 - the growth in share price and delivering constant returns on shareholder wealth.

In addition to their salaries, the Group 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 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.

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any fringe benefit tax 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 Group. In addition external consultants provide analysis and advice 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 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 Group (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.

7. Remuneration report (continued)**7.1 Principles of compensation – audited (continued)****Performance-linked compensation (continued)**

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.

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. MI Canny, PJ Mellino, S Cope and R Gros received bonus incentives based on a percentage of divisional EBIT.

The bonuses received by DJ Simmons and GL 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 22 executives (24 executives in 2006) 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 fifteen successive years of record profits.

7. Remuneration report (continued)

7.2 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 of performance 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												
J H Hill-Ling [^] ** <i>Chairman</i>	2007	123,807	–	–	–	11,143	–	–	–	134,950	–	–
	2006	93,333	–	–	–	8,400	–	–	–	101,733	–	–
I Elliot [^] **	2007	69,427	–	–	–	6,248	–	–	–	75,675	–	–
	2006	62,916	–	–	–	5,662	–	–	–	68,578	–	–
R B Flynn [^] **	2007	69,427	–	–	–	6,248	–	–	–	75,675	–	–
	2006	62,729	–	–	–	5,646	–	–	–	68,375	–	–
G G Hill [^] **	2007	69,427	–	–	–	6,248	–	–	–	75,675	–	–
	2006	62,916	–	–	–	5,662	–	–	–	68,578	–	–
P W Stancliffe [^] **	2007	79,587	–	–	–	7,163	–	–	–	86,750	–	–
	2006	71,875	–	–	–	6,469	–	–	–	78,344	–	–
Executive Directors												
D J Simmons [^] ** <i>Group Managing Director</i>	2007	444,599	100,000	17,447	10,409	36,203	–	37,911	1,000	647,569	15.4%	5.9%
	2006	393,628	100,000	17,447	9,535	33,249	–	44,824	1,000	599,683	16.7%	7.5%
G L Twartz [^] ** <i>Group Finance Director</i>	2007	342,548	–	32,895	7,718	30,829	–	25,639	1,000	440,629	0.0%	5.8%
	2006	314,985	4,667	32,895	6,766	28,348	–	33,618	1,000	422,279	1.1%	8.0%

7. Remuneration report (continued)

7.2 Directors' and executive officers' remuneration (Company and Consolidated) – audited (continued)

		Salary and fees	Short-term		Post-employment		Termination benefits	Share-based payments		Total	S300A (1)(e)(i) Proportion of remuneration related %	S300A (1)(e)(vi) Value of options as proportion of remuneration %
			STI cash bonus	Non-monetary benefits	Other short-term benefits	Super-annuation benefits		Options	Shares			
		\$	\$(A)	\$	\$	\$	\$	\$(B)	\$	\$	%	%
Executives												
L Andrewatha^ **												
<i>Managing Director – Orrcon Group</i>												
	2007	320,000	–	–	–	28,800	–	16,402	–	365,202	0.0%	4.5%
	2006	320,000	–	–	–	28,800	–	33,618	–	382,418	0.0%	8.8%
A R Oliver^												
<i>Group General Manager – Antenna & TV Systems (C)</i>												
	2007	197,324	101,973	21,500	12,276	17,775	–	20,265	1,000	372,113	27.4%	5.5%
	2006	187,968	122,170	21,500	12,581	16,938	–	25,214	1,000	387,371	31.5%	6.5%
A Muir^ **												
<i>General Manager – Business Development</i>												
	2007	215,023	–	–	–	19,352	–	6,236	1,000	241,611	0.0%	2.3%
	2006	203,823	–	–	–	18,344	–	14,008	1,000	237,175	0.0%	5.9%
J Easling^ **												
<i>Managing Director – Fielders</i>												
	2007	263,669	–	–	–	23,344	–	9,736	1,000	297,749	0.0%	3.3%
	2006	258,482	–	–	–	22,996	–	16,809	1,000	299,287	0.0%	5.6%
R Meachem												
<i>General Manager – DAS</i>												
	2007	148,196	89,845	–	–	10,073	–	4,554	1,000	253,668	35.4%	1.8%
D Walker												
<i>Managing Director – Team Poly</i>												
	2007	190,839	75,790	–	–	17,176	–	2,734	1,000	287,539	26.4%	1.0%
S Cope **												
<i>Group General Manager – Electronics, Security & Entertainment</i>												
	2007	39,206	25,077	–	–	5,785	–	3,882	–	73,950	33.9%	5.3%
R Gros **												
<i>Group General Manager – Home, Hardware & Eco Products (D)</i>												
	2007	171,508	87,833	–	–	23,341	–	3,882	–	286,564	30.1%	1.4%
D M Salvaterra												
<i>General Manager – Ezy Strut</i>												
	2006	110,674	222,224	–	–	27,749	–	–	1,000	361,647	61.4%	0.0%
Former												
R D Hill-Ling^												
<i>Chairman Resigned 28/10/05</i>												
	2006	45,000	–	–	–	4,050	180,000	–	–	229,050	0.0%	0.0%
M I Canny **												
<i>Group General Manager – Home and Hardware Products</i>												
	2007	130,977	92,583	10,800	8,088	10,396	123,266	–	1,000	377,110	24.6%	0.0%
	2006	173,247	107,312	10,800	8,618	13,336	–	33,618	1,000	347,931	30.8%	9.7%
P J Mellino **												
<i>Group General Manager – Hills Electronic Security</i>												
	2007	87,628	110,489	–	–	9,693	167,802	–	600	376,212	29.4%	0.0%
	2006	126,745	147,342	–	–	11,407	–	11,206	1,000	297,700	49.5%	3.8%
Total compensation:												
Key Management Personnel (consolidated) (2007** 2006^)												
	2007	2,426,833	415,982	61,142	26,215	224,793	291,068	103,688	5,600	3,555,321		
	2006	2,377,647	481,491	82,642	37,500	209,307	180,000	212,915	7,000	3,588,502		
Total compensation:												
Key Management Personnel (Company)												
	2007	1,671,656	328,149	61,142	26,215	149,308	291,068	73,668	4,600	2,605,806		
	2006	1,799,165	481,491	82,642	37,500	157,511	180,000	162,488	6,000	2,906,797		

7. Remuneration report (continued)

7.2 Directors' and executive officers' remuneration (Company and Consolidated) – audited (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 2007 financial year using the criteria set out above.

(B) The options granted during the year expire on 31 January 2009 and each option entitles the holder to purchase one ordinary share in the Company. The ability to exercise the options is conditional on the Group achieving certain performance hurdles. Once exercised, the holder is restricted from selling the shares for a period of 3 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.

(C) Included as key management personnel in 2006. Excluded in 2007 as now reports to S Cope.

(D) During the reporting period R Gros transferred from Korvest Pty Limited where he was Managing Director to Hills Industries Limited where he is Group General Manager for Home, Hardware and Eco Products.

7.3 Analysis of bonuses included in remuneration – unaudited

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

7.4 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 Plan.

7.4.1 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 2007	Grant date	No. of options vested during 2007	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date
Directors						
D J Simmons	100,000	Feb 2007	80,000	0.6415	5.53	31/01/29
G L Twartz	60,000	Feb 2007	60,000	0.6415	5.53	31/01/29
Executives						
L Andrewatha	60,000	Feb 2007	60,000	0.6415	5.53	31/01/29
J Easling	30,000	Feb 2007	25,000	0.6415	5.53	31/01/29
A Muir	25,000	Feb 2007	10,000	0.6415	5.53	31/01/29
S Cope	60,000	May 2007	–	0.6415	5.53	31/01/29
R Gros	60,000	May 2007	–	0.6415	5.53	31/01/29

	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
D M Salvaterra	–	–	–	–	–	–

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 Group achieving certain performance hurdles.

Further details, including grant dates and exercise dates regarding options granted to executives under the Executive Share Plan are in note 26 to the full financial statements.

7.4.2 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 or the prior period.

7.4.3 Exercise of options granted as compensation – audited

During the reporting period, the following shares were issued on the exercise of options previously granted as compensation:

	Number of shares	Amount paid \$/share
Directors		
G L Twartz	17,000	2.90
Executives		
M I Canny	60,000	2.73
P J Mellino	20,000	2.70

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

7. Remuneration report (continued)

7.4 Equity instruments (continued)

7.4.4 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.

Directors	Options granted		% vested in year	% forfeited in year (A)	Financial years in which grant vests
	Number	Date			
D J Simmons	80,000	Feb 2005	100%	–	1 July 2006
	80,000	Feb 2006	–	–	1 July 2007
	100,000	Feb 2007	–	–	1 July 2008
G L Twartz	60,000	Feb 2005	100%	–	1 July 2006
	60,000	Feb 2006	–	–	1 July 2007
	60,000	Feb 2007	–	–	1 July 2008
Group Executives					
M I Canny	60,000	Feb 2005	–	100%	–
	60,000	Feb 2006	–	100%	–
A R Oliver	45,000	Feb 2005	100%	–	1 July 2006
	45,000	Feb 2006	–	–	1 July 2007
	45,000	Feb 2007	–	–	1 July 2008
P J Mellino	20,000	Feb 2005	–	100%	–
	20,000	Feb 2006	–	100%	–
L Andrewatha	60,000	Feb 2005	100%	–	1 July 2006
	60,000	Feb 2006	–	–	1 July 2007
	60,000	Feb 2007	–	–	1 July 2008
J Easling	25,000	Feb 2005	100%	–	1 July 2006
	30,000	Feb 2006	–	–	1 July 2007
	30,000	Feb 2007	–	–	1 July 2008
A Muir	10,000	Feb 2005	100%	–	1 July 2006
	25,000	Feb 2006	–	–	1 July 2007
	25,000	Feb 2007	–	–	1 July 2008
D Walker	10,000	Feb 2005	100%	–	1 July 2006
	10,000	Feb 2006	–	–	1 July 2007
	10,000	Feb 2007	–	–	1 July 2008
R Meachem	10,000	Feb 2005	100%	–	1 July 2006
	10,000	Feb 2006	–	–	1 July 2007
	25,000	Feb 2007	–	–	1 July 2008
R Gros	60,000	Feb 2007	–	–	1 July 2008

(A) The % forfeited in the year represents the reduction from the maximum number of options available to vest due to the executives being no longer employed by the Company and consequently forfeiting options in compliance with the Executive Share Plan. No options were forfeited in the prior reporting period.

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 will depend on the market price of shares of the Company on the Australian Securities Exchange at the date the option is exercised.

7.4.5 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 and other key management personnel is detailed below.

	Value of options			
	Granted in year (\$ (A))	Exercised in year (\$ (B))	Lapsed in year (\$ (C))	Total option value in year (\$)
D J Simmons	64,150	–	–	64,150
G L Twartz	38,490	42,500	–	80,990
M I Canny	–	160,000	103,048	263,048
A R Oliver	28,868	–	–	28,868
P J Mellino	–	54,000	37,472	91,472
L Andrewatha	38,490	–	–	38,490
J Easling	19,245	–	–	19,245
D Walker	6,415	–	–	6,415
R Meachem	16,038	–	–	16,038
R Gros	38,490	–	–	38,490
A Muir	16,038	–	–	16,038
	266,224	256,500	140,520	663,244

(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) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

(C) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using the valuation method described above with no adjustments for whether the performance criteria had been achieved.

7.4.6 Payments to persons before taking office – unaudited

There were no payments to persons before taking office.

8. Principal activities

The principal activities of the Group during the course of the year are outlined in Section 1 of the Directors' Report within the Overview of the Group.

Objectives

The Group'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 these objectives the following targets have been set for the 2008 financial year and beyond:

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

9. 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 2007				
Interim 2007 ordinary	13.5	23,059	Franked	26 March 2007
Interim dividend forgone for Share Investment Plan		(3,864)		
Final 2006 ordinary	13.0	21,930	Franked	25 Sept. 2006
Final dividend forgone for Share Investment Plan		(3,803)		
Total Amount		<u>37,322</u>		

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	14.0	24,080	Franked	24 Sept. 2007

The financial effect of these dividends have not been brought to account in the financial statements for the year ended 30 June 2007 and will be recognised in subsequent financial reports.

10. Events subsequent to reporting date

Land and buildings at the manufacturing site at Edwardstown in South Australia have been transferred from Property, Plant and Equipment to assets classified as held for sale prior to reporting date. The progressive transfer of a number of product lines offshore over the last few years has resulted in a substantial under utilisation of the facility. A post year-end sale agreement of \$24.3 million, excluding selling costs, has been executed. The profit will be realised by the Company and a wholly owned subsidiary. In compliance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* the assets are measured at the lower of their carrying value and their fair value less costs to sell.

As announced to the market on July 3 2007, revenues expected from the South East Queensland Water Grid Pipeline project have significantly reduced due to the failure of a supplier to deliver product in accordance with the agreed specification. Recovery action against the supplier has commenced.

Other than those matters discussed above there has not arisen in the interval between the end of the financial 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 Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in subsequent financial years.

11. Likely developments

The Group 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 Group 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 Group.

12. 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 Group and other related bodies corporate, as notified by the Directors to the Australian Securities 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	14,782,908	–	Includes 996,714 shares owned by Hills Associates & Poplar Pty Ltd and 11,970,195 shares owned by Hills Associates Ltd
D J Simmons	369,706	180,000	
I Elliot	1,000	–	
R B Flynn	24,407	–	
G G Hill	70,482	–	
P W Stancliffe	10,202	–	
G L Twartz	205,609	120,000	

13. 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 and the Group as part of their remuneration:

	Number of options granted	Exercise price (\$)	Expiry date
Directors			
D J Simmons	100,000	5.53	31 Jan. 2029
G L Twartz	60,000	5.53	31 Jan. 2029
Officers			
A R Oliver	45,000	5.53	31 Jan. 2029
L Andrewatha	60,000	5.53	31 Jan. 2029
D Walker	10,000	5.53	31 Jan. 2029
R Meachem	25,000	5.53	31 Jan. 2029
R Gros	60,000	5.53	31 Jan. 2029
M I Canny	–	–	–
P J Mellino	–	–	–

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

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	120,000
January 2024	2.90	133,000
January 2025	3.23	210,000
January 2026	3.66	270,000
January 2027	4.16	360,000
January 2028	4.83	420,000
January 2029	5.53	595,000
		2,108,000

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 Group 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 the financial year, for accounting purposes, the Company issued 97,000 ordinary shares at \$2.76 per share, as a result of the exercise of options. There were no issues of shares from options subsequent to the end of the financial year.

14. 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.

Insurance premiums

Since the end of the previous financial year the Company has paid insurance premiums in respect of Directors' and officers' liability and legal expenses' insurance contracts, for current and former Directors and officers, including senior executives of the Company and Directors, senior executives and secretaries of its controlled entities.

The 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 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.

15. Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their 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 F1 Professional 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:

<i>In AUD</i>	Consolidated	
	2007	2006
Audit services:		
Auditors of the Company		
audit and review of financial reports (KPMG Australia)	350,000	360,000
audit and review of financial reports (Overseas KPMG firms)	53,186	49,342
	403,186	409,342
Other Auditors:		
audit and review of financial reports (non-KPMG firms)	12,383	10,000
	415,569	419,342
Services other than statutory audit:		
Other Services:		
Taxation compliance services (KPMG Australia)	122,022	51,300
Taxation compliance services (Overseas KPMG firms)	12,678	13,094
	134,700	64,394

16. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 90 and forms part of the Directors' Report for financial year ended 30 June 2007.

17. Rounding off

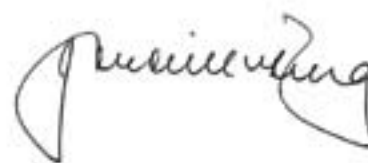
The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the Directors:

Dated at Adelaide on this the 24th day of September 2007.



D J Simmons
Director



J H Hill-Ling
Director

Hills Industries Limited 30 June 2007 Annual Financial Report

Income Statements

For the year ended 30 June 2007

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2007	2006	2007	2006
Revenue	4,5	1,013,999	931,799	295,930	287,493
Other income	6	2,372	3,895	9,034	6,302
		1,016,371	935,694	304,964	293,795
Expenses excluding net financing costs	7	(934,098)	(862,429)	(271,741)	(261,506)
Results from operating activities		82,273	73,265	33,223	32,289
Financial income	8	716	965	3,923	2,983
Financial expenses	8	(9,821)	(6,845)	(10,671)	(7,293)
Net financing costs		(9,105)	(5,880)	(6,748)	(4,310)
Profit before income tax expense		73,168	67,385	26,475	27,979
Income tax expense	11	(21,126)	(19,175)	(5,418)	(7,531)
Net profit		52,042	48,210	21,057	20,448
Attributable to:					
Equity holders of the parent	28	47,173	43,261	21,057	20,448
Minority interest	28	4,869	4,949	-	-
Profit for the year		52,042	48,210	21,057	20,448
Earnings per share for profit attributable to the ordinary equity holders of the Company:					
Basic earnings per share from continuing operations	12	27.6¢	25.9¢		
Diluted earnings per share from continuing operations	12	27.6¢	25.9¢		
Dividends per share					
Ordinary shares paid	28	26.5¢	25.0¢		
Final and interim dividend for the year ended 30 June	28	27.5¢	26.0¢		

The notes on pages 32 to 86 are an integral part of these consolidated financial statements.

Hills Industries Limited 30 June 2007 Annual Financial Report

Statements of Recognised Income and Expense

For the year ended 30 June 2007

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2007	2006	2007	2006
Foreign exchange translation differences	28	1,442	(1,465)	-	-
Net income/(expense) recognised directly in equity		1,442	(1,465)	-	-
Profit for the year		52,042	48,210	21,057	20,448
Total recognised income and expense for the year	28	53,484	46,745	21,057	20,448
Attributable to:					
Equity holders of the parent		48,615	41,796	21,057	20,448
Minority interest		4,869	4,949	-	-
Total recognised income and expense for the year	28	53,484	46,745	21,057	20,448

Other movements in equity arising from transactions with owners as owners are set out in note 28.

The notes on pages 32 to 86 are an integral part of these consolidated financial statements.

Hills Industries Limited 30 June 2007 Annual Financial Report

Balance Sheets

As at 30 June 2007

In thousands of AUD	Note	Consolidated		The Company	
		2007	2006 Restated	2007	2006
Current Assets					
Cash and cash equivalents	13	27,434	20,223	3,177	-
Trade and other receivables	14	172,655	160,716	224,503	201,431
Inventories	15	175,507	135,853	37,565	33,082
Assets classified as held for sale	18	15,946	-	6,209	-
Total current assets		391,542	316,792	271,454	234,513
Non-Current Assets					
Investments	16	2	2	151,212	152,126
Deferred tax assets	19	30,811	28,072	13,849	14,440
Property, plant and equipment	21	173,157	172,047	55,076	58,616
Intangible assets	22	111,369	104,809	-	-
Total non-current assets		315,339	304,930	220,137	225,182
Total assets		706,881	621,722	491,591	459,695
Current Liabilities					
Bank overdraft	13	511	7,419	-	4,813
Trade and other payables	23	133,947	113,882	77,879	84,759
Loans and borrowings	24	1,593	10,370	4,125	10,119
Employee benefits	25	25,741	23,949	8,595	8,882
Income tax payable	17	12,742	5,857	11,833	3,523
Provisions	27	7,099	7,574	4,474	5,474
Total current liabilities		181,633	169,051	106,906	117,570
Non-Current Liabilities					
Loans and borrowings	24	171,582	121,539	171,498	121,498
Employee benefits	25	4,574	6,361	4,300	6,100
Provisions	27	328	360	-	-
Total non-current liabilities		176,484	128,260	175,798	127,598
Total liabilities		358,117	297,311	282,704	245,168
Net assets		348,764	324,411	208,887	214,527
Equity					
Issued capital		178,031	167,525	178,031	167,525
Reserves		26,077	24,911	14,044	13,925
Retained earnings		127,618	117,516	16,812	33,077
Total equity attributable to equity holders of the parent		331,726	309,952	208,887	214,527
Minority interest		17,038	14,459	-	-
Total equity	28	348,764	324,411	208,887	214,527

The notes on pages 32 to 86 are an integral part of these consolidated financial statements.

Hills Industries Limited 30 June 2007 Annual Financial Report

Statements of Cash Flows

For the year ended 30 June 2007

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2007	2006	2007	2006
Cash flows from operating activities					
Cash receipts from customers		1,132,806	1,041,647	328,473	321,504
Cash paid to suppliers and employees		(1,059,403)	(959,450)	(299,784)	(290,671)
Cash generated from operations		73,403	82,197	28,689	30,833
Interest received		716	965	3,923	2,983
Interest paid		(10,585)	(7,310)	(11,441)	(7,765)
Dividends received		-	-	6,400	862
Income taxes paid		(16,712)	(21,454)	(8,730)	(14,480)
Net cash from operating activities	37	46,822	54,398	18,841	12,433
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		4,502	1,119	309	428
Acquisition of property, plant and equipment	21	(38,459)	(30,995)	(8,603)	(14,447)
Proceeds from sale of investments		-	482	-	482
Payments for intangible assets	22	(176)	-	-	-
Disposal of subsidiaries (net of cash)	35(b)	526	609	-	-
Acquisition of business operations (net of cash)	36(a)	(11,422)	(15,802)	-	-
Acquisition of subsidiaries (net of cash)	35(a)	(86)	(13,103)	(86)	(11,675)
Loans to other entities		(297)	(134)	(297)	(134)
Loans to controlled entities		-	-	(11,613)	(38,352)
Rent received		787	1,170	2,498	1,655
Net cash from investing activities		(44,625)	(56,654)	(17,792)	(62,043)
Cash flows from financing activities					
Proceeds from the issue of share capital	28	10,206	9,905	10,206	9,905
Proceeds from borrowings		44,901	29,516	41,502	36,062
Repayment of borrowings		(3,469)	(325)	(560)	(123)
Loans from controlled entities		-	-	-	17,980
Repayment of borrowings to controlled entities		-	-	(6,906)	-
Payment of finance lease liabilities		-	(601)	-	-
Dividends paid by the Company	28	(37,322)	(34,482)	(37,322)	(34,482)
Dividends paid to minority interest	28	(2,343)	(2,593)	-	-
Net cash from financing activities		11,973	1,420	6,920	29,342
Net increase/(decrease) in cash and cash equivalents		14,170	(836)	7,969	(20,268)
Cash and cash equivalents at 1 July		12,804	13,997	(4,813)	15,593
Effect of exchange rate fluctuations on cash held		(51)	(357)	21	(138)
Cash and cash equivalents at 30 June	13	26,923	12,804	3,177	(4,813)

The notes on pages 32 to 86 are an integral part of these consolidated financial statements.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

1. Reporting entity

Hills Industries Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 944-956 South Road Edwardstown SA 5039. The consolidated financial statements of the Company as at and for the year ended 30 June 2007 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group primarily is involved in manufacturing and distribution businesses as detailed in note 4.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board. The Company's financial report does not comply with IFRSs as the Company has elected to apply the relief provided to parent entities by AASB 132 *Financial Instruments: Presentation and Disclosure* in respect of certain disclosure requirements.

The financial statements were approved by the Board of Directors on 24 September 2007.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value
- land and buildings are measured at fair value

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 35 – business combinations
- Note 22 – measurement of the recoverable amounts of cash-generating units
- Note 26 – measurement of share-based payments
- Notes 27 and 32 – provisions and contingencies

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

The entity has elected to early adopt the following amended accounting standard:

- AASB 101 *Presentation of Financial Statements (October 2006)*.

Certain comparative amounts have been restated in compliance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and AASB 3 *Business Combinations*. (See note 20).

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power 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 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.

In the Company's financial statements, investments in subsidiaries are carried at cost, less any impairment charges.

(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.

(b) 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) 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 reporting date. The income 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 currency differences are recognised directly in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the Foreign Currency Translation Reserve is transferred to profit or loss.

(c) Financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

(i) Cash and cash equivalents

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

(ii) Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

(iii) Trade and other receivables

Trade and other receivables are stated at amortised cost less any impairment charges.

(iv) 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 Group.

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

(v) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans 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.

(vi) Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(d) 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 basis of open market values, and in the intervening years are valued by the Directors based on the most recent independent valuation.

Increases in the carrying amounts arising on revaluation of land and buildings are credited to the asset revaluation reserve. To the extent that the increase reverses a decrease previously recognised in profit or loss, for an asset the increase is recognised in profit or loss. Decreases that reverse previous increases for the same asset are first charged against the asset revaluation reserve to the extent of the remaining reserve attributable to the asset; all other decreases are charged directly to the income statement.

(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 construction overheads.

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss 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. These rates are consistent with prior year rates.

Buildings	0.75%
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.

(e) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Acquisitions prior to 1 July 2004

As part of its transition to AASBs, the Group elected to restate only those business combinations that occurred on or after 1 July 2004. In respect of acquisitions prior to 1 July 2004, goodwill represents the amount recognised under the Group's previous accounting framework, Australian GAAP.

Acquisitions on or after 1 July 2004

For acquisitions on or after 1 July 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(e) Intangible assets (continued)

(i) Goodwill (continued)

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Patents and trademarks

Patent and trademark assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

(v) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- Patents and trademarks 10 to 20 years
- Capitalised development costs 20 years

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

The Group adopted Interpretation 4 *Determining whether an Arrangement Contains a Lease*, which is mandatory for annual periods beginning on or after 1 January 2006, in its 2006 consolidated financial statements.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. 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 production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(h) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in 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 the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(i) Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are measured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(j) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

(ii) Long-term benefits

The Group'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 Group's obligations. The calculation is performed using the projected unit credit method.

(iii) Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave 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 Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

Employee Share Bonus Plan

The Employee Share Bonus Plan allows Group 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.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(j) Employee benefits (continued)

(iv) Share-based payment transactions (continued)

Executive Share Plan

The Executive Share Plan allows Group 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.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, 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 the risks specific to the liability.

(i) Claims

A provision for claims is the estimated future liability of the Group's self-insurance arrangements. The value of the provision is determined in consultation with the company's actuaries or legal advisers as appropriate. Claims estimate is based on historical claims data and a weighting of the possible outcomes against their associated probabilities. Outstanding claims are recognised for incidences that have occurred that may give rise to a claim and are measured at the cost that the entity expects to incur in settling the claims, discounted using a Commonwealth government bond rate with a maturity date approximating the terms of the Group's obligations.

(ii) Provision for Contingent Consideration

Provision is made for contingent 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 considered likely to be met. The estimated consideration payable is discounted and the expiration of the discount is recognised as interest expense. Subsequent changes to estimates of contingent consideration are adjusted against the purchase price and goodwill in the period identified.

(l) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Rental

Rental income, including any lease incentives granted, is recognised in the income statement on a straight-line basis over the term of the lease.

(m) Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues. Dividends from subsidiaries are recognised at dividend declaration date.

Finance expenses comprise interest expense on borrowings. Interest paid is recognised as it accrues.

(n) 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 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(o) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss 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 reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) 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.

(ii) 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 receivables/(payables) are at call.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(o) Income tax (continued)

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.

(p) 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.

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related 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. The Group's primary format for segment reporting is based on business segments.

(s) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require extensive additional disclosures with respect to the Group's financial instruments and share capital.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings Per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the consolidated financial report.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(s) New standards and interpretations not yet adopted (continued)

- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Group as the standard is only concerned with disclosures.
- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 102 *Inventories*, AASB 107 *Cash Flow Statements*, AASB 119 *Employee Benefits*, AASB 127 *Consolidated and Separate Financial Statements*, AASB 134 *Interim Financial Reporting*, AASB 136 *Impairment of Assets*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments*. This standard is only expected to impact disclosures contained within the financial report.
- Interpretation 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the Group's 2008 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of AASB 136 and AASB 139 respectively (i.e., 1 July 2004 and 1 July 2005, respectively). The adoption of Interpretation is not expected to have an impact on the financial results of the Company and the Group.
- Interpretation 11 AASB 2 *Share-based Payment -- Group and Treasury Share Transactions* addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another group entity are transferred, in the financial statements of the entity receiving the services. Interpretation 11 will become mandatory for the Group's 2008 financial report. Interpretation 11 is not expected to have any impact on the financial results of the Company and the Group.
- AASB 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation II amends AASB 2 *Share-based Payments* to insert the transitional provisions of AASB 2, previously contained in AASB 1 *First-time Adoption of Australian Equivalents to international Financial Reporting Standards*. AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the Group or Company.
- AASB 123 (revised) *Borrowing costs* and AASB 2007-6 *Amendments to Australian Accounting Standards* [arising from revised AASB 123]. Applicable to annual reporting periods beginning on or after 1 January 2009 and is not expected to impact the Group or the Company.
- AASB 2007-7 *Amendments to Australian Accounting Standards* [arising from AASB 2007-4] and AASB 2007-4 *Amendments to Australian Standards* [arising from ED 151 *Australian Additions to, and Deletions from, IFRSs*]. This is only expected to impact disclosures contained within the financial report.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

4. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group'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.

Prior year assets segments have been restated to reallocate a prior year error. This had the effect of increasing the Building and Industrial asset segment by \$47,670,000 and decreasing the Unallocated/corporate assets segment by the same amount. The Australia asset segment was increased and the Unallocated/corporate segment decreased by the same amount in the reporting by geographical segments.

Business segments

The Group 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 Group'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 30 June 2007 Annual Financial Report

Notes to the financial statements

4. Segment reporting (continued)

Primary reporting by Business Segments

	Electronic, Security and Entertainment		Home, Hardware and Eco		Building and Industrial		Eliminations		Consolidated	
<i>In thousands of AUD</i>	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Revenue										
Sales to external customers	277,174	263,854	191,354	168,933	544,684	498,203	-	-	1,013,212	930,990
Inter-segment revenue	-	-	-	-	7,457	11,021	(7,457)	(11,021)	-	-
Total segment revenue	277,174	263,854	191,354	168,933	552,141	509,224	(7,457)	(11,021)	1,013,212	930,990
Rentals									787	809
Total revenue									1,013,999	931,799
Result										
Segment result (before interest and tax)	31,726	34,024	13,817	12,325	36,025	26,762	-	-	81,568	73,111
Unallocated/corporate result									705	154
									82,273	73,265
Net interest									(9,105)	(5,880)
Profit before income tax									73,168	67,385
Income tax expense									(21,126)	(19,175)
Net profit									52,042	48,210
Depreciation and amortisation	3,098	3,014	5,573	5,023	9,185	8,414	-	-	17,856	16,451
Unallocated/corporate depreciation and amortisation									1,132	1,115
									18,988	17,566
Other non-cash expenses	4,186	2,221	2,132	2,295	11,561	8,196	-	-	17,879	12,712
Unallocated/corporate non-cash expenses									415	1,972
									18,294	14,684
Assets										
Segment assets (2006 restated)	117,506	124,470	125,229	93,183	342,240	248,487	-	-	584,975	466,140
Unallocated/corporate assets (2006 restated)									121,906	155,582
Consolidated total assets									706,881	621,722
Liabilities										
Segment liabilities	32,312	32,272	27,064	22,330	92,393	71,003	-	-	151,769	125,605
Unallocated/corporate liabilities									206,348	171,706
Consolidated total liabilities									358,117	297,311
Acquisitions of non-current assets	4,597	6,838	9,946	9,723	22,183	15,639	-	-	36,726	32,200
Unallocated/corporate assets									1,909	1,593
									38,635	33,793

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

4. Segment reporting (continued)

Secondary reporting by geographical segments

	Australia		Overseas		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenue								
External segment revenue by location of customers	954,953	866,460	58,259	64,530	-	-	1,013,212	930,990
Unallocated/corporate revenue							787	809
Total revenue							1,013,999	931,799
Assets								
Segment assets (2006 restated)	566,134	488,150	18,841	25,660	-	-	584,975	513,810
Unallocated/corporate assets (2006 restated)							121,906	107,912
Consolidated total assets							706,881	621,722
Acquisitions of non-current assets	36,490	31,604	236	596	-	-	36,726	32,200
Unallocated/corporate assets							1,909	1,593
							38,635	33,793

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

5. Revenue

	Consolidated		The Company	
<i>In thousands of AUD</i>	2007	2006	2007	2006
<i>Sales revenue</i>				
Sale of goods	967,435	892,352	287,032	284,976
Services provided	45,777	38,638	-	-
	1,013,212	930,990	287,032	284,976
<i>Other revenue</i>				
Property rentals	787	809	2,498	1,655
Dividends received	-	-	6,400	862
	1,013,999	931,799	295,930	287,493

6. Other income

<i>In thousands of AUD</i>				
Net gain on disposal of property, plant and equipment	-	179	108	153
Net gain on disposal of investments	-	382	-	382
Net gain on disposal of controlled entity	526	-	-	-
Other income	1,846	3,334	8,926	5,767
	2,372	3,895	9,034	6,302

7. Expenses

In thousands of AUD

Profit before income tax includes the following specific expenses:

Expenses from continuing operations, excluding finance costs

Cost of goods sold	646,161	599,887	180,106	172,926
Cost of services provided	37,503	31,912	-	-
Sales and marketing expenses	117,450	107,250	53,207	51,057
Distribution expenses	69,490	66,644	19,712	18,395
Administration expenses	44,760	39,836	15,145	14,892
Occupancy expenses	17,561	15,439	3,499	2,983
Net loss on disposal of property, plant and equipment	347	-	-	-
Other expenses	826	1,461	72	1,253
	934,098	862,429	271,741	261,506

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

8. 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

	Note	Consolidated		The Company	
		2007	2006	2007	2006
Depreciation of buildings	21	731	627	368	301
Depreciation of plant and equipment	21	17,650	16,198	5,364	5,638
Total depreciation		18,381	16,825	5,732	5,939
Impairment of goodwill	22	-	-	-	-
Amortisation of patents and trademarks	22	607	741	-	17
		607	741	-	17
Total depreciation, impairment and amortisation		18,988	17,566	5,732	5,956
Interest paid or payable		9,821	6,843	10,671	7,293
Finance charges on capitalised leases		-	2	-	-
Total financing costs		9,821	6,845	10,671	7,293
Interest received or receivable		(716)	(965)	(3,923)	(2,983)
Net financing costs		9,105	5,880	6,748	4,310
Impairment of trade receivables		291	542	300	-
Impairment of loans receivable		705	-	-	-
Impairment of inventory		3,544	1,711	643	-
Increase in provisions		60	1,747	-	1,509
Decreases in provisions		(1,007)	-	-	-
(Profit)/loss on disposal of non-current assets:					
Net loss/(gain) on disposal of property, plant and equipment		347	(179)	(108)	(153)
Net gain on disposal of investments		-	(382)	-	(382)
Net (gain)/loss on disposal of controlled entity		(526)	344	-	1,200
		(179)	(217)	(108)	665

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

9. Personnel expenses

In thousands of AUD

	Consolidated		The Company	
	2007	2006	2007	2006
Wages and salaries	152,780	145,706	46,502	44,133
Other associated personnel expenses	32,064	21,849	9,191	8,125
Annual leave paid and liability accrued	8,687	7,492	2,357	1,378
Long service leave paid and liability accrued	3,530	3,655	1,356	1,426
Equity-settled transactions	471	568	419	521
	197,532	179,270	59,825	55,583

10. 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

	Consolidated		The Company	
	2007	2006	2007	2006
	350,000	360,000	291,500	160,000
	53,186	49,342	-	-
	403,186	409,342	291,500	160,000
	12,383	10,000	-	-
	415,569	419,342	291,500	160,000
	122,022	51,300	117,522	46,300
	12,678	13,094	-	-
	134,700	64,394	117,522	46,300

Other services

Auditors of the Company

KPMG Australia

Taxation services

Overseas KPMG Firms:

Taxation Services

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

11. Income tax expense Recognised in the income statement

In thousands of AUD

	Consolidated		The Company	
	2007	2006	2007	2006
Current tax expense				
Current year	23,215	19,623	4,827	6,832
Adjustments for prior years	650	278	-	-
	23,865	19,901	4,827	6,832
Deferred tax expense				
Origination and reversal of temporary differences	(2,277)	(726)	591	699
Reduction in tax rate	(57)	-	-	-
Expense of derecognised tax loss	240	-	-	-
Prior year adjustments	(645)	-	-	-
	(2,739)	(726)	591	699
Total income tax expense in income statement	21,126	19,175	5,418	7,531
Attributable to:				
Continuing operations	21,126	19,175	5,418	7,531

Numerical reconciliation between tax expense and pre-tax net profit

In thousands of AUD

	Consolidated		The Company	
	2007	2006	2007	2006
Profit before tax	73,168	67,385	26,475	27,979
Income tax using the domestic corporation tax rate of 30% (2006: 30%)	21,950	20,216	7,943	8,393
Increase in income tax expense due to:				
Non-deductible expenses	1,013	886	156	594
Effect of tax losses derecognised/ (recognised)	(13)	(112)	-	245
Decrease in income tax expense due to:				
Effect on tax rate in foreign jurisdictions (rates decreased)	-	18	-	-
Tax exempt revenues	(1,829)	(2,111)	(2,681)	(1,701)
	21,121	18,897	5,418	7,531
Under / (over) provided in prior years	5	278	-	-
Income tax expense on pre-tax net profit	21,126	19,175	5,418	7,531

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

12. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2007 was based on the profit attributable to ordinary shareholders of \$47.173 million (2006: \$43.261 million) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2007 of 170,822,905 (2006: 166,805,334), calculated as follows:

Profit attributable to ordinary shareholders

In thousands of AUD

Profit attributable to ordinary shareholders

Consolidated

2007	2006
47,173	43,261

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

Weighted average number of ordinary shares at 30 June

2007	2006
168,692	164,570
1,068	1,258
851	756
174	217
38	4
170,823	166,805

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

2007	2006
27.6¢	25.9¢

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

13. Cash and cash equivalents

In thousands of AUD

	Consolidated		The Company	
	2007	2006	2007	2006
Bank balances	20,349	14,848	-	-
Call deposits	7,085	5,375	3,177	-
Cash and cash equivalents	27,434	20,223	3,177	-
Bank overdrafts repayable on demand	(511)	(7,419)	-	(4,813)
Cash and cash equivalents in the statement of cash flows	26,923	12,804	3,177	(4,813)

14. Trade and other receivables

In thousands of AUD

	Consolidated		The Company	
	2007	2006	2007	2006
Current				
Trade receivables	171,590	158,832	46,607	48,024
Less impairment losses	(5,179)	(4,888)	(1,300)	(1,000)
	166,411	153,944	45,307	47,024
Other receivables and prepayments	5,811	6,638	802	118
Loans – other entities	433	134	433	134
Loans – controlled entities	-	-	182,021	158,215
Less impairment losses	-	-	(4,060)	(4,060)
	172,655	160,716	224,503	201,431

15. Inventories

In thousands of AUD

	Consolidated		The Company	
	2007	2006	2007	2006
Raw materials and consumables	58,101	44,646	4,421	5,074
Work in progress	5,017	3,482	16	-
Finished goods	112,389	87,725	33,128	28,008
	175,507	135,853	37,565	33,082
Impairment losses included within inventory:				
Impairment losses related to raw materials	331	151	-	-
Impairment losses related to finished goods	10,495	7,131	4,243	3,600
Total impairment losses	10,826	7,282	4,243	3,600

16. Investments

In thousands of AUD

	Consolidated		The Company	
	2007	2006	2007	2006
Non-current investments				
Listed equity securities	2	2	2	2
Investments in controlled entities - at cost	-	-	151,210	152,124
Total non-current investments	2	2	151,212	152,126

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

17. Current tax assets and liabilities

The current tax liability for the Group of \$12,742,000 (2006: \$5,857,000) and for the Company of \$11,833,000 (2006: \$3,523,000) represent the amount of income taxes payable in respect of current and prior financial periods. 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.

18. Non-current assets held for sale

Land and buildings at the manufacturing site at Edwardstown in South Australia have been reclassified from Property, Plant and Equipment to current assets held for sale prior to the reporting date. The progressive transfer of a number of product lines offshore over the last few years has resulted in a substantial under utilisation of the facility. A post year-end sale agreement of \$24.3 million, excluding selling costs, has been reached. The profit will be shared between the Company and a wholly owned subsidiary. In compliance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* the assets are measured at the lower of their carrying value and their fair value less costs to sell. The sale is expected to be recognised in the 2008 reporting period. These assets are included under the unallocated/corporate segment.

19. 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	2007	2006	2007	2006	2007	2006
Property, plant and equipment	11,489	11,305	(2,828)	(3,085)	8,661	8,220
Inventories	5,386	2,992	(339)	(244)	5,047	2,748
Employee benefits	9,320	9,011	100	83	9,420	9,094
Doubtful debts	1,956	1,784	-	-	1,956	1,784
Other loans and borrowings	1,218	1,218	-	-	1,218	1,218
Provisions	1,627	1,654	-	-	1,627	1,654
Self insurance provisions	848	1,118	-	-	848	1,118
Other accruals	953	588	(25)	(67)	928	521
Software and prepayments	407	815	-	-	407	815
Other items	699	660	-	-	699	660
Tax value of loss carry-forwards recognised	-	240	-	-	-	240
Tax assets / (liabilities)	33,903	31,385	(3,092)	(3,313)	30,811	28,072

The Company

	Assets		Liabilities		Net	
In thousands of AUD	2007	2006	2007	2006	2007	2006
Property, plant and equipment	3,265	3,367	(1,352)	(1,166)	1,913	2,201
Inventories	2,812	2,068	-	-	2,812	2,068
Employee benefits	4,606	5,201	-	-	4,606	5,201
Doubtful debts	750	750	-	-	750	750
Other loans and borrowings	1,218	1,218	-	-	1,218	1,218
Provisions	938	1,376	-	-	938	1,376
Other accruals	634	528	-	-	634	528
Software and prepayments	205	554	-	-	205	554
Other items	773	544	-	-	773	544
Tax assets / (liabilities)	15,201	15,606	(1,352)	(1,166)	13,849	14,440

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Notes to the financial statements

19. 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	
	2007	2006	2007	2006
Capital tax losses	11,166	11,354	10,468	10,814
	11,166	11,354	10,468	10,814

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 capital gains will be available against which the Group 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 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)
Restatement recognised	4,969	-	4,969	-	-	-
Recognised in equity	-	-	-	175	-	175
Closing balance 30 June 2006	31,385	(3,313)	28,072	15,606	(1,166)	14,440

<i>In thousands of AUD</i>	Consolidated			The Company		
	Asset	Liability	Net	Asset	Liability	Net
Opening balance 1 July 2006	31,385	(3,313)	28,072	15,606	(1,166)	14,440
Increase through acquisition of subsidiaries	-	-	-	-	-	-
Recognised in income	2,518	221	2,739	(405)	(186)	(591)
Closing balance 30 June 2007	33,903	(3,092)	30,811	15,201	(1,352)	13,849

20. Restatement of prior year goodwill on consolidation and deferred tax assets

Prior period goodwill on consolidation and deferred tax assets have been restated. Goodwill has been decreased by \$4,969,000 and deferred tax assets increased by \$4,969,000 owing to the recognition of a deferred tax asset arising from the acquisition of the Orrcon Group on 1 March 2005. The nature of the adjustment was known at the time of the acquisition, however the amount was not determinable until the current period. In accordance with AASB 3 *Business Combinations*, adjustments in respect of business combinations cannot be made after 12 months of the acquisition date and therefore the adjustment is now recognised as an error. In accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, prior period goodwill and deferred tax assets are accordingly restated. There is no effect on net profit, net assets or earnings per share.

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21. Property, Plant and equipment

	Consolidated				The Company			
	Land	Buildings	Plant and equipment	Total	Land	Buildings	Plant and equipment	Total
<i>In thousands of AUD</i>	Fair value	Fair value	Cost		Fair value	Fair value	Cost	
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
Balance at 1 July 2006	27,213	51,889	185,505	264,607	15,156	32,131	61,414	108,701
Acquisitions through business combinations/operations	-	-	1,232	1,232	-	-	-	-
Additions	1	1,929	36,529	38,459	1	504	8,098	8,603
Disposals	(1,710)	(3,134)	(7,644)	(12,488)	-	-	(5,848)	(5,848)
Transfer to assets held for sale	(9,585)	(6,532)	-	(16,117)	(4,305)	(1,945)	-	(6,250)
Effect of movements in foreign exchange rates	121	381	337	839	-	-	-	-
Balance at 30 June 2007	16,040	44,533	215,959	276,532	10,852	30,690	63,664	105,206

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21. 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 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)
Balance at 1 July 2006	-	(2,396)	(90,164)	(92,560)	-	(1,146)	(48,939)	(50,085)
Depreciation charge for the year	-	(731)	(17,650)	(18,381)	-	(368)	(5,364)	(5,732)
Disposals	-	256	7,384	7,640	-	-	5,647	5,647
Transfer to assets held for sale	-	171	-	171	-	40	-	40
Effect of movements in foreign exchange	-	(11)	(234)	(245)	-	-	-	-
Balance at 30 June 2007	-	(2,711)	(100,664)	(103,375)	-	(1,474)	(48,656)	(50,130)
Carrying amounts								
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
At 1 July 2006	27,213	49,493	95,341	172,047	15,156	30,985	12,475	58,616
At 30 June 2007	16,040	41,822	115,295	173,157	10,852	29,216	15,008	55,076

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Notes to the financial statements

21. Property, plant and equipment – (continued)

Valuation land and buildings

Fair value at 30 June 2007 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 2006 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, excluding assets held for sale, at cost at 30 June 2007 if not revalued would be \$34,542,000 (2006: \$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.

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22. Intangible assets

In thousands of AUD

Cost

	Goodwill on consolidation	Goodwill purchased	Consolidated Development costs	Patents and trademarks	Total	Goodwill purchased	The Company Patents and trademarks	Total
Balance at 1 July 2005	90,288	3,223	-	8,051	101,562	3,149	50	3,199
Reduction arising from restatement of deferred tax assets not previously recognised	(4,969)	-	-	-	(4,969)	-	-	-
Acquisitions through business combinations	11,251	8,189	-	-	19,440	-	-	-
Balance at 30 June 2006	96,570	11,412	-	8,051	116,033	3,149	50	3,199
Balance at 1 July 2006	96,570	11,412	-	8,051	116,033	3,149	50	3,199
Acquisition through business combinations	-	7,072	-	87	7,159	-	-	-
Reduction arising from realisation of assets not previously recognised	(355)	-	-	-	(355)	-	-	-
Acquisition - internally developed	-	-	176	-	176	-	-	-
Additions	-	-	-	1	1	-	-	-
Increase in provision for contingent consideration	186	-	-	-	186	-	-	-
Fully amortised eliminated against amortisation	(85)	(1,791)	-	-	(1,876)	(1,791)	-	(1,791)
Balance at 30 June 2007	96,316	16,693	176	8,139	121,324	1,358	50	1,408

Amortisation and impairment losses

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)
Balance at 1 July 2006	(4,314)	(3,223)	-	(3,687)	(11,224)	(3,149)	(50)	(3,199)
Amortisation for the year	-	-	-	(607)	(607)	-	-	-
Fully amortised eliminated against cost	85	1,791	-	-	1,876	1,791	-	1,791
Balance at 30 June 2007	(4,229)	(1,432)	-	(4,294)	(9,955)	(1,358)	(50)	(1,408)

Carrying amounts

At 1 July 2005	85,974	-	-	5,105	91,079	-	17	17
At 30 June 2006	92,256	8,189	-	4,364	104,809	-	-	-
At 1 July 2006	92,256	8,189	-	4,364	104,809	-	-	-
At 30 June 2007	92,087	15,261	176	3,845	111,369	-	-	-

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Notes to the financial statements

22. Intangible assets (continued)

Amortisation and impairment charge

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

	Consolidated		The Company	
<i>In thousands of AUD</i>	2007	2006	2007	2006
Other operating expenses	607	741	-	17

Impairment loss and subsequent reversal

During the year ended 30 June 2007 the Group 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 Group'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:

	Consolidated		The Company	
<i>In thousands of AUD</i>	2007	2006	2007	2006
Building and Industrial	56,760	55,459	-	-
Electronic Security and Entertainment	17,076	15,977	-	-
Home and Hardware & Eco	33,512	29,009	-	-
	107,348	100,445	-	-

23. Trade and other payables

	Consolidated		The Company	
<i>In thousands of AUD</i>	2007	2006	2007	2006
Trade payables	101,289	76,727	21,451	18,943
Other payables and accrued expenses	32,493	36,990	12,795	12,212
Loans from controlled entities	-	-	43,633	53,604
Other loans - unsecured	165	165	-	-
	133,947	113,882	77,879	84,759

24. Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings.

	Consolidated		The Company	
<i>In thousands of AUD</i>	2007	2006	2007	2006
Current liabilities				
Current portion of unsecured bank loans	1,593	10,370	-	10,119
Loans – controlled entities	-	-	4,125	-
	1,593	10,370	4,125	10,119
Non-current liabilities				
Unsecured bank loans	171,044	121,001	145,000	95,000
Other loans - unsecured	538	538	498	498
Loans – controlled entities	-	-	26,000	26,000
	171,582	121,539	171,498	121,498

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Notes to the financial statements

24. Loans and borrowings (continued)

Financing facilities

In thousands of AUD

	Consolidated		The Company	
	2007	2006	2007	2006
Bank overdraft	2,945	4,899	1,000	1,000
Unsecured bank loans	199,903	173,310	160,000	130,000
Standby letters of credit	300	300	-	-
Short term money market	21,000	21,000	21,000	21,000
	224,148	199,509	182,000	152,000
Facilities utilised at reporting date				
Bank overdraft	511	7,419	-	4,813
Unsecured bank loans	172,637	122,311	145,000	95,000
Short term money market	-	8,500	-	8,500
	173,148	138,230	145,000	108,313
Facilities not utilised at reporting date				
Bank overdraft	2,434	(2,520)	1,000	(3,813)
Unsecured bank loans	27,266	50,999	15,000	35,000
Standby letters of credit	300	300	-	-
Short term money market	21,000	12,500	21,000	12,500
	51,000	61,279	37,000	43,687

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 subsidiaries have a net bank overdraft facility of \$2,945,000 (disclosed above). The Company's and Group's overdraft were within their limits.

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. Facilities are secured over periods greater than twelve months from reporting date.

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 2007.

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

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25. Employee benefits

In thousands of AUD

Current

Employee benefits

Non Current

Employee benefits

Consolidated		The Company	
2007	2006	2007	2006
25,741	23,949	8,595	8,882
4,574	6,361	4,300	6,100

26. Share based payments

In October 1997, the Group 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 exercised the shares are forfeited if the holder ceases to be an employee of the Group 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	120,000	-
February 2002	245,000	133,000	-
February 2003	280,000	210,000	-
February 2004	370,000	270,000	-
February 2005	460,000	360,000	-
February 2006	510,000	420,000	420,000
February 2007	595,000	595,000	595,000
Total share options	2,655,000	2,108,000	1,015,000

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 2007								
Feb 01	Jan 2023	Jan 03	\$2.50	155,000	-	-	(35,000)	120,000
Feb 02	Jan 2024	Jan 04	\$2.90	195,000	-	-	(62,000)	133,000
Feb 03	Jan 2025	Jan 05	\$3.23	270,000	-	(60,000)	-	210,000
Feb 04	Jan 2026	Jan 06	\$3.66	360,000	-	(90,000)	-	270,000
Feb 05	Jan 2027	Jan 07	\$4.16	450,000	-	(90,000)	-	360,000
Feb 06	Jan 2028	Jan 08	\$4.83	510,000	-	(90,000)	-	420,000
Feb 07	Jan 2029	Jan 09	\$5.53	-	595,000	-	-	595,000
				1,940,000	595,000	(330,000)	(97,000)	2,108,000
Weighted average exercise price				\$3.83	\$5.53	\$4.04	\$2.76	\$4.35

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Notes to the financial statements

26. Share-based payments (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 2006								
Feb 01	Jan 2023	Jan 03	\$2.50	155,000	-	-	-	155,000
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
				1,440,000	510,000	-	(10,000)	1,940,000
Weighted average exercise price				\$3.48	\$4.83		\$3.14	\$3.83

The fair value of services received in return for share options granted during the year was \$382,000 (2006: \$286,000). 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	
	2007	2006	2007	2006
Share options granted in 2001	-	4	-	4
Share options granted in 2002	8	16	8	16
Share options granted in 2003	3	21	3	21
Share options granted in 2004	4	32	4	32
Share options granted in 2005	23	44	23	44
Share options granted in 2006	42	29	42	29
Share options granted in 2007	50	-	39	-
Expense arising from employee share scheme	341	422	300	375
Total expense recognised as employee costs	471	568	419	521

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Notes to the financial statements

27. Provisions

In thousands of AUD

Consolidated

	Outstanding claims	Contingent consideration	Other	Total
Balance at 1 July 2006	6,119	1,000	815	7,934
Provisions made during the period	-	1,698	59	1,757
Provisions reversed during the period	(1,007)	(914)	-	(1,921)
Provisions used during the period	-	(86)	(257)	(343)
Balance at 30 June 2007	5,112	1,698	617	7,427
Current	5,112	1,698	289	7,099
Non-current	-	-	328	328
	5,112	1,698	617	7,427

The Company

Balance at 1 July 2006	4,474	1,000	-	5,474
Provisions made during the period	-	-	-	-
Provisions reversed during the period	-	(914)	-	(914)
Provisions used during the period	-	(86)	-	(86)
Balance at 30 June 2007	4,474	-	-	4,474
Current	4,474	-	-	4,474
Non-current	-	-	-	-
	4,474	-	-	4,474

Outstanding claims

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

Contingent consideration

The contingent consideration provision represents the component, on acquisition of subsidiaries or business operations, of consideration payable only if the acquiree meets certain performance criteria over a specified period of time. Refer also to note 36.

Other

Other provisions comprise mainly a provision for site restoration.

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28. Capital and reserves

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

Consolidated

In thousands of AUD

	Share capital	Equity compens- ation reserve	Trans- lation reserve	Asset revaluation reserve	Asset realisation reserve	Retained earnings	Total	Minority interest	Total equity
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

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28. Capital and reserves (continued)

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

Consolidated

In thousands of AUD

	Share capital	Equity compens- ation reserve	Trans- lation reserve	Asset revaluation reserve	Asset realisation reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 July 2006	167,525	313	(1,183)	22,956	2,825	117,516	309,952	14,459	324,411
Total recognised income and expense	-	-	1,442	-	-	47,173	48,615	4,869	53,484
Shares issued under the Executive Share Plan	80	124	-	-	-	-	204	-	204
Shares issued under the Employee Share Bonus Plan	300	-	-	-	-	-	300	-	300
Shares issued under the Dividend Investment Plan	10,126	-	-	-	-	-	10,126	-	10,126
Dividends to shareholders	-	-	-	-	-	(37,322)	(37,322)	-	(37,322)
Minority interest in dividends paid or payable by controlled entities	-	-	-	-	-	-	-	(2,343)	(2,343)
Minority increase in controlled entities	-	-	-	-	-	-	-	53	53
Transfer from/to reserves and other	-	-	-	(400)	-	251	(149)	-	(149)
Balance at 30 June 2007	178,031	437	259	22,556	2,825	127,618	331,726	17,038	348,764

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28. 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

Balance at 1 July 2006	167,525	308	11,763	1,854	33,077	214,527
Total recognised income and expense	-	-	-	-	21,057	21,057
Shares issued under the Executive Share Plan	80	119	-	-	-	199
Shares issued under the Employee Share Bonus Plan	300	-	-	-	-	300
Shares issued under the Dividend Investment Plan	10,126	-	-	-	-	10,126
Dividends to shareholders	-	-	-	-	(37,322)	(37,322)
Balance at 30 June 2007	178,031	427	11,763	1,854	16,812	208,887

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Notes to the financial statements

28. Capital and reserves (continued)

Share capital

<i>In thousands of shares</i>	The Company Ordinary shares	
	2007	2006
On issue at 1 July	168,692	164,560
Issued under the Dividend Investment Plan	2,128	2,209
Issued under the Share Investment Plan	1,618	1,541
Issued under the Employee Share Bonus Plan	292	372
Issued under the Executive Share Plan	97	10
On issue at 30 June – fully paid	<u>172,827</u>	<u>168,692</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.

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Notes to the financial statements

28. 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 Group 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 Group'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
2007				
Interim 2007 ordinary	13.5	23,059	Franked	26 March 2007
Interim dividend forgone for Share Investment Plan		(3,864)		
Final 2006 ordinary	13.0	21,930	Franked	25 September 2006
Final dividend forgone for Share Investment Plan		(3,803)		
Total amount		<u>37,322</u>		
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>		

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	14.0	24,080	Franked	24 September 2007

The financial effect of this dividend has not been brought to account in the financial statements for the financial year ended 30 June 2007 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: 10 September 2007.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

28. 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	
2007	2006
41,103	41,955
71,827	76,098

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.

29. Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the Group'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 Group 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 Group 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 Group enters into interest rate swaps to manage funding costs or to alter interest rate exposures arising from mismatches in repricing dates between assets and liabilities. Interest rate swaps allow the Group 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 Group'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 6.87 per cent. At 30 June 2007, the Group had interest rate swaps with a notional contract amount of \$80,000,000 (2006: \$81,000,000).

The net fair value of swaps at 30 June 2007 was \$1,943,000 (2006: \$1,030,000), comprising assets of \$1,951,000 (2006: \$1,030,000) and liabilities of \$8,000 (2006: \$Nil).

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Notes to the financial statements

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29. 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

In thousands of AUD

	2007							2006						
	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	5.83%	27,434	27,434	-	-	-	-	5.41%	20,223	20,223	-	-	-	-
Short term money market - unsecured	-	-	-	-	-	-	-	6.00%	(8,500)	(8,500)	-	-	-	-
Bank loans/bill facilities - unsecured	6.46%	(146,593)	(146,593)	-	-	-	-	5.90%	(96,310)	(96,310)	-	-	-	-
NZD bill facilities - unsecured	6.84%	(26,044)	(26,044)	-	-	-	-	6.33%	(26,001)	(26,001)	-	-	-	-
Effect of interest rate swaps	(0.60)%	-	74,000	(9,000)	(3,000)	(52,000)	(10,000)	(0.21)%	-	75,000	(10,000)	(15,000)	(45,000)	(5,000)
Other loans	-	(538)	-	-	-	-	(538)	4.02%	(1,098)	(560)	-	-	-	(538)
Bank overdrafts	11.70%	(511)	(511)	-	-	-	-	9.00%	(7,419)	(7,419)	-	-	-	-
		<u>(146,252)</u>	<u>(71,714)</u>	<u>(9,000)</u>	<u>(3,000)</u>	<u>(52,000)</u>	<u>(10,538)</u>		<u>(119,105)</u>	<u>(43,567)</u>	<u>(10,000)</u>	<u>(15,000)</u>	<u>(45,000)</u>	<u>(5,538)</u>

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

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

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29. Financial instruments (continued)

Effective interest rates and repricing analysis

The Company

In thousands of AUD

	2007							2006						
	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*	6.15%	3,177	3,177	-	-	-	-	-	-	-	-	-	-	-
Loans from controlled entity	8.90%	(30,125)	(4,125)	-	-	(26,000)	-	8.50%	(27,060)	(1,060)	-	-	(26,000)	-
Sort term money market - unsecured*	-	-	-	-	-	-	-	6.00%	(8,500)	(8,500)	-	-	-	-
Bank loans/bill facilities - unsecured	6.49%	(145,000)	(145,000)	-	-	-	-	5.90%	(95,000)	(95,000)	-	-	-	-
Effect of interest rate swaps	(0.54)%	-	71,000	(6,000)	(3,000)	(52,000)	(10,000)	(0.18)%	-	69,000	(10,000)	(9,000)	(45,000)	(5,000)
Other loans	6.00%	(498)	-	-	-	-	(498)	4.02%	(1,057)	(560)	-	-	-	(497)
Bank overdrafts	-	-	-	-	-	-	-	9.00%	(4,813)	(4,813)	-	-	-	-
		<u>(172,446)</u>	<u>(74,948)</u>	<u>(6,000)</u>	<u>(3,000)</u>	<u>(78,000)</u>	<u>(10,498)</u>		<u>(136,430)</u>	<u>(40,933)</u>	<u>(10,000)</u>	<u>(9,000)</u>	<u>(71,000)</u>	<u>(5,497)</u>

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

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

29. Financial instruments (continued)

Foreign currency risk

The Group 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 Group'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 (\$289,000) (2006: \$346,000), comprising assets of \$13,000 (2006: \$317,000) and liabilities of \$302,000 (2006: \$29,000).

Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group'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 2007, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately \$450,000 (2006: \$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.

30. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2007	2006	2007	2006
Less than one year	13,785	13,625	1,904	1,213
Between one and five years	33,828	34,039	2,562	1,891
More than five years	5,814	12,116	-	-
	53,427	59,780	4,466	3,104

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

31. Capital and other commitment

In thousands of AUD

Capital expenditure commitments

Plant and equipment

Contracted but not provided for and payable:

Within one year

	Consolidated		The Company	
	2007	2006	2007	2006
	11,827	17,197	1,272	2,440

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

32. 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.

<i>In thousands of AUD</i>	Consolidated		The Company	
	2007	2006	2007	2006
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.	-	-	193,168	191,209
(ii) Under the terms of a Deed of Cross Guarantee, described in note 33, 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.	27,071	10,668	-	10,418
(iv) Bank guarantees in favour of customers and suppliers.	18,170	-	8,514	-
There are no contingent assets where the probability of future receipts is not considered remote.				

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

33. 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
- Greenwattle Investments Pty Ltd (Alquip)
- Audio Telex Communications 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.

Greenwattle Investments Pty Ltd (Alquip) and Audio Telex Communications Pty Ltd became parties to the deed on 25 June 2007.

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 2007 is set out on below.

Summarised income statement and retained profits

<i>In thousands of AUD</i>	Consolidated	
	2007	2006
<i>Profit before tax</i>	54,564	43,220
<i>Income tax expense</i>	(11,590)	(10,801)
<i>Profit after tax</i>	42,974	32,419
<i>Retained profits at beginning of year</i>	86,127	82,565
<i>Transfer from reserves</i>	251	-
<i>Adjustment to retained profits at the beginning of the year on inclusion of additional company in the Class Order</i>	4,458	5,625
<i>Dividends recognised during the year</i>	(37,322)	(34,482)
<i>Retained profits at end of year</i>	96,488	86,127

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

33. Deed of cross guarantee (continued)

Balance Sheet

In thousands of AUD

Assets

Cash and cash equivalents
Trade and other receivables
Inventories
Assets classified as held for sale

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
Loans and borrowings
Employee benefits
Income tax payable
Provisions

Total current liabilities

Loans and borrowings
Employee benefits

Total non-current liabilities

Total liabilities

Net assets

Equity

Issued capital
Reserves
Retained earnings

Total equity

Consolidated

	2007	2006
Cash and cash equivalents	12,593	6,347
Trade and other receivables	179,774	178,295
Inventories	127,490	90,219
Assets classified as held for sale	15,946	-
Total current assets	335,803	274,861
Investments	21,046	52,172
Deferred tax assets	24,103	16,860
Property, plant and equipment	130,664	127,185
Intangible assets	86,986	62,770
Total non-current assets	262,799	258,987
Total assets	598,602	533,848
Bank overdraft	-	5,767
Trade and other payables	84,766	87,908
Loans and borrowings	4,125	10,120
Employee benefits	15,977	14,132
Income tax payable	11,833	3,523
Provisions	6,209	5,511
Total current liabilities	122,910	126,961
Loans and borrowings	171,498	121,498
Employee benefits	4,319	6,100
Total non-current liabilities	175,817	127,598
Total liabilities	298,727	254,559
Net assets	299,875	279,289
Issued capital	178,031	167,525
Reserves	25,356	25,637
Retained earnings	96,488	86,127
Total equity	299,875	279,289

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Notes to the financial statements

34. Consolidated entities

		Country of Incorporation	Ownership interest	
	Note		2007	2006
Parent entity				
Hills Industries Limited		Australia		
Subsidiaries				
Hills Finance Pty Ltd		Australia	100	100
Hills Industries Limited		New Zealand	100	100
Spraygen Sprayers Limited (<i>deregistered</i>)		United kingdom	-	100
Korvest Ltd	(a) (b)	Australia	46.4	46.4
Korvest NZ Limited	(a)	New Zealand	46.4	46.4
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 (<i>deregistered</i>)		Australia	-	100
Tube Specialist Pty Ltd (<i>deregistered</i>)		Australia	-	100
Access Television Services Pty Ltd (Formerly ATS 2005 Pty Ltd)		Australia	100	100
ATS 2004 Pty Ltd (<i>deregistered</i>)		Australia	-	100
Universal Communications Corp Pty Ltd (<i>deregistered</i>)		Australia	-	100
ACN 089 140 134 Pty Ltd (<i>deregistered</i>)		Australia	-	100
Techlife Solutions Pty Ltd (Formerly Access Television Services Pty Ltd (Shelved))		Australia	100	100
Audio Telex Communications Pty Ltd		Australia	100	100
Crestron Control Solutions Pty Ltd		Australia	100	100
Team Poly Pty Ltd		Australia	100	100
KDB Engineering Pty Ltd		Australia	100	100
Kerry Equipment (Aust) Pty Ltd		Australia	100	100
Step Electronics 2005 Pty Ltd	(a)	Australia	50	50
Greenwattle Investments Pty Ltd		Australia	100	100
Access Scaffolding (Aust) Pty Ltd		Australia	100	100
Greenwattle Equipment Pty Ltd		Australia	100	100
Alquip Holdings Pty Ltd		Australia	100	100
Alquip Pty Ltd		Australia	100	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

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

34. Consolidated entities (continued)

	Country of Incorporation	Ownership interest	
		2007	2006
CBS Hardware Pty Ltd	Australia	100	100
Step Electronics Pty Ltd	Australia	100	100

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 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.
- (b) During the year Korvest Ltd issued 19,553 (2006: 27,318) 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.

35. Acquisitions/disposals of subsidiaries and minority interests

(a) Acquisitions of subsidiaries and minority interests

The Group did not acquire any subsidiaries during the current reporting period. During the current reporting period the Group paid \$86,000 deferred payment in respect of the Alquip Group acquired in January 2006.

The Group acquired one entity and increased control in one other entity during the prior reporting period. During the prior reporting period the Group 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
2007				
• Alquip Group – deferred payment	01/01/2006	86		
Total		<u>86</u>		
2006				
• 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		<u>13,103</u>		

*Excludes an estimated contingent consideration of \$1,000,000. The 2007 actual payment was \$86,000.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

35. Acquisitions/disposals of subsidiaries and minority interests (continued)

(a) Acquisitions of subsidiaries and minority interests (continued)

In the current reporting period the difference between the actual and estimated contingent consideration for the Alquip Group resulted in a decrease of \$914,000 in goodwill on consolidation.

In the prior reporting period the acquisition of the Alquip Group had the following effect on the Group's assets and liabilities.

2006

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		
Contingent consideration	(1,000)		
Consideration paid, satisfied in cash*	3,562		
Bank overdraft (acquired)	1,428		
Net cash outflow	4,990		

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

The goodwill arose 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 reflected the synergies of the assets. The goodwill also stemmed from the synergies that resulted from the combination of the Hills and Alquip Groups. The goodwill arose on acquisition because certain intangible assets did not meet the AASB 3 *Business Combinations* criteria for recognition as intangible assets at the date of acquisition.

The consideration for the acquisition included a contingent amount of \$1,000,000. The amount was payable provided certain performance criteria were met.

In the prior reporting period it was not practicable to estimate the effect on the income statement had the business been acquired at the beginning of the reporting period, nor was it practicable to individually estimate the profit or loss since acquisition. The business would undergo a number of changes as a result of the ownership by Hills, including new product initiatives.

In the prior reporting period there was no material effect on profit for the period as a result of the Alquip acquisition.

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Notes to the financial statements

35. Acquisitions/disposals of subsidiaries and minority interests (continued)

(a) Acquisitions of subsidiaries and minority interests (continued)

Aggregated details of the acquisitions are as follows:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2007	2006	2007	2006
Consideration paid for new and increased control entities	-	8,275	-	8,275
(Cash)/bank overdraft acquired	-	1,428	-	-
Outflow of cash for new and increased control entities	-	9,703	-	8,275
Contingent consideration paid	86	3,400	86	3,400
Total outflow of cash	86	13,103	86	11,675

(b) Disposals of subsidiaries

In the prior reporting period we reported on the disposal of Hills Industries Limited (UK). During the current year the terms of the sale contract were renegotiated resulting in increased proceeds of \$526,000. This had the effect of changing the previously reported loss on disposal of \$344,000 to a profit on disposal of \$182,000.

During the prior reporting period the Group 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. Details of the disposals are as follows:

Hills Industries Limited (UK)

<i>In thousands of AUD</i>	Consolidated		The Company	
	2007	2006	2007	2006
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 Group.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

35. Acquisitions/disposals of subsidiaries and minority interests (continued)

(b) Disposals of subsidiaries and minority interests (continued)

During the prior reporting period the Pacom SE Asia Group was liquidated, as it was no longer an operating entity. There was no gain or loss on liquidation.

Deregistrations

During the current reporting period the Group deregistered a number of non-trading companies. These deregistrations had no effect on profit or loss. The deregistered companies are listed below:

Company	Country of Incorporation
Spraygen Sprayers Limited	United Kingdom
Precision Tube Company Ltd	Australia
Tube Specialist Pty Ltd	Australia
ATS 2004 Pty Ltd	Australia
Universal Communications Corp Pty Ltd	Australia
ACN 089 140 134 Pty Ltd	Australia

36. Acquisitions/disposals of business operations

(a) Acquisitions of business operations

During the current reporting period the Group acquired two business operations. A contingent payment of \$261,000 was made in respect of the Australian Audio Supplies business acquired in the previous reporting period. Provision for future contingent payments for the Australian Audio Supplies business was increased in the current year by \$839,000. This resulted in an increase in goodwill of \$1,100,000. Results for the businesses since the date of their respective acquisitions have been included in the consolidated results.

During the prior reporting period the Group acquired two business operations. 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
2007			
• Air Comfort Seating Systems	01/05/2007	*6,537	Manufacturer of pressure care seating for the aged care sector.
• Impressive Steel	01/05/2007	4,624	Steel distribution business based in Bunbury in Western Australia.
• Australian Audio Supplies – contingent consideration		**261	
Total		11,422	
2006			
• Brisbane Sheet Metal	01/12/2005	14,841	Roll forming of metal building products in Brisbane and Coolumb.
• Australian Audio Supplies (AAS)	01/04/2006	961	Distribution of professional audio equipment.
Total		15,802	

*Excludes contingent consideration payable of \$859,000.

**Excludes contingent consideration payable of \$839,000.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

36. Acquisitions/disposals of business operations (continued)

(a) Acquisitions of business operations (continued)

Aggregated details of the acquisitions are as follows:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2007	2006	2007	2006
Fair value of assets acquired				
Cash	-	212	-	-
Inventories	2,782	2,141	-	-
Trade and other receivables	981	2,906	-	-
Property, plant and equipment	1,233	4,606	-	-
Patents	87	-	-	-
Goodwill purchased	7,072	8,189	-	-
Employee benefits	(105)	(208)	-	-
Trade and other payables	(30)	(1,832)	-	-
Fair value of assets and liabilities acquired	12,020	16,014	-	-
Less: cash acquired	-	(212)	-	-
Less: contingent consideration	(859)	-	-	-
Add: AAS contingent consideration	261	-	-	-
Cash flow on acquisition net of cash acquired	11,422	15,802	-	-

The goodwill arose on acquisition because certain intangible assets did not meet the AASB 3 *Business Combinations* 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.

It is not practicable to estimate the effect on the income statement had the businesses been acquired at the beginning of the financial year, nor is it practicable to individually estimate each businesses' profit or loss since acquisition. 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.

The consideration for Air Comfort Seating Systems includes a contingent consideration of \$859,000. The amount is payable provided certain performance criteria are met. The contingent consideration of \$839,000 in respect of Australian Audio Supplies is payable provided certain performance criteria are met. The contingent consideration provision has been increased by \$1,698,000. (Refer to note 27).

Details of the individual businesses acquired in the current period are detailed below. At acquisition, due diligence procedures, applying applicable AASBs, identified no difference between fair values and the acquiree's book values.

<i>In thousands of AUD</i>	Consolidated		
	Air Comfort Seating Systems	Impressive Steel	Total
Fair value of assets acquired			
Inventories	568	2,214	2,782
Trade and other receivables	981	-	981
Property, plant and equipment	65	1,168	1,233
Patents	87	-	87
Goodwill purchased	5,772	1,300	7,072
Employee benefits	(48)	(57)	(105)
Trade and other payables	(30)	-	(30)
Fair value of assets and liabilities acquired	7,395	4,625	12,020
Less contingent consideration	(859)	-	(859)
Cash flow on acquisition net of cash acquired	6,536	4,625	11,161

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

37. Reconciliation of cash flows from operating activities

<i>In thousands of AUD</i>	Consolidated		The Company	
	2007	2006	2007	2006
Cash flows from operating activities				
Profit for the period	52,042	48,210	21,057	20,446
<i>Adjustments for:</i>				
Depreciation	18,381	16,825	5,732	5,939
Amortisation of intangibles	607	741	-	17
Impairment of trade receivables	291	542	300	-
Impairment of inventory	3,544	1,711	643	-
Impairment of loans	705	-	-	-
Tax payable transferred to head entity of tax consolidation group	-	-	(12,193)	(7,260)
Foreign exchange gains	(38)	(463)	(23)	-
Dilution of interest in controlled entity	24	(29)	-	-
(Gain)/loss on sale of property, plant and equipment	347	(179)	(108)	(152)
(Gain)/loss on sale of entities	(526)	344	-	1,200
(Gain)/loss on sale of investments	-	(381)	-	(381)
Rent received	(787)	(809)	(2,498)	(1,655)
Finance charges on capitalised leases	-	2	-	-
Equity-settled share-based payment expenses	471	568	419	521
Add/(less) amounts set aside to provisions:				
- employee benefits	12,217	11,147	3,713	2,804
- outstanding claims	(1,007)	597	-	508
- other	60	150	-	-
Operating profit before changes in working capital and provisions	86,331	78,976	17,042	21,987
(Increase)/decrease in trade and other receivables	(6,209)	(15,295)	561	395
Decrease in income taxes receivable	-	1,197	-	-
(Increase)/decrease in inventories	(41,210)	(4,330)	(4,483)	(5,077)
(Increase)/decrease in deferred tax assets	(2,739)	(1,929)	591	699
(Decrease)/increase in trade and other payables	16,402	5,835	2,619	(3,201)
(Decrease)/increase in income taxes payable	7,085	(1,810)	8,391	(386)
Increase in provisions and employee benefits	(12,838)	(8,246)	(5,880)	(1,984)
Net cash from operating activities	46,822	54,398	18,841	12,433

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

38. Related parties

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

Non-executive Directors

Jennifer Helen Hill-Ling (Chairman)
 Ian Elliot
 Roger Baden Flynn
 Geoffrey Guild Hill
 Peter William Stancliffe

Executives

L Andrewatha (Managing Director - Orrcon Group)
 A Muir (General Manager - Business Development)
 J Easling (Managing Director - Fielders)
 S Cope (Group General Manager – Electronics, Security and Entertainment)
 R Gros (Group General Manager – Home, Hardware & Eco Products)
 P J Mellino (Former Group General Manager - Hills Electronics & Security – resigned 28 February 2007)
 M I Canny (Former Group General Manager – Home & Hardware Products – resigned 30 March 2007)

Executive Directors

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

Key management personnel compensation

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

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Short-term employee benefits	2,930,011	2,979,280	2,087,001	2,405,959
Post-employment benefits	224,779	209,307	149,294	152,350
Termination benefits	291,068	180,000	291,068	180,000
Share based payments	258,993	219,915	161,768	168,488
	3,704,851	3,588,502	2,689,131	2,906,797

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 Group 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 30 June 2007 Annual Financial Report

Notes to the financial statements

38. 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	
			2007	2006	2007	2006
Key management persons	Transaction					
J Easling	Property rental	(i)	899,047	680,061	-	-

- (i) The Group 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 this transaction. (2006: \$nil)

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

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

38. 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 2006 AIFRS	Granted as compen- sation	Exercised	Forfeited	Held at 30 June 2007 AIFRS	Held at 30 June 2007 ASX	ASX Vested and exercised during the year ended 30 June 2007
Directors							
D J Simmons	440,000	100,000	-	-	540,000	180,000	(80,000)
G L Twartz	280,000	60,000	(17,000)	-	323,000	120,000	(60,000)
Executives							
M I Canny	280,000	-	(60,000)	(220,000)	-	-	-
A R Oliver	235,000	45,000	-	-	280,000	90,000	(45,000)
P J Mellino	100,000	-	(20,000)	(80,000)	-	-	-
L Andrewatha	120,000	60,000	-	-	180,000	120,000	(60,000)
J Easling	80,000	30,000	-	-	110,000	60,000	(25,000)
S Cope	-	60,000	-	-	60,000	60,000	-
R Gros	-	60,000	-	-	60,000	60,000	-
A Muir	45,000	25,000	-	-	70,000	50,000	(10,000)

	Held at 1 July 2004 AIFRS	Granted as compen- sation	Held at 30 June 2005 AIFRS	Granted as compen- sation	Held at 30 June 2006 AIFRS	Held at 30 June 2006 ASX	ASX Vested and 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	25,000	25,000	50,000	30,000	80,000	55,000	(15,000)
A Muir	10,000	10,000	20,000	25,000	45,000	35,000	(10,000)

Options are 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.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

38. Related parties (continued)

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 2006	Purchases	Received on exercise of options	Employee Share Bonus Plan	Sales	Held at 30 June 2007
Directors						
JH Hill-Ling	14,289,414	541,494	-	-	(48,000)	14,782,908
DJ Simmons	9,500	-	-	206	-	9,706
I Elliot	1,000	-	-	-	-	1,000
GG Hill	66,704	3,778	-	-	-	70,482
RB Flynn	23,098	1,309	-	-	-	24,407
PW Stancliffe	9,654	548	-	-	-	10,202
G L Twartz	12,403	-	17,000	206	(27,000)	2,609
Executives						
M I Canny**	28,976	-	60,000	206	(49,678)	39,504
A R Oliver	37,908	2,150	-	206	-	40,264
P J Mellino**	5,306	-	20,000	131	-	25,437
L Andrewatha	-	-	-	-	-	-
J Easling	4,896	281	-	206	-	5,383
A Muir	1,705	-	-	206	-	1,911

	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

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.

**Held at the date of cessation of classification of KMP.

Hills Industries Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

38. Related parties (continued)

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 34), 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 \$32,756,000 (2006: \$32,557,000). 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 \$7,978,000 (2006: \$6,826,000). 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 \$1,711,000 (2006: \$1,917,000). Group entities charge an administration fee for services rendered which during the year was \$8,296,000 (2006: \$4,632,000). Inter entity dividends paid and received during the year amounted to \$11,434,000 (2006: \$6,486,000).

Group entity trading transactions and borrowings result in balances arising in respect of current and non-current assets and liabilities. At 30 June 2007 the current assets and liabilities was \$150,592,000 (2006: 150,631,000) and the non-current assets and liabilities were \$137,158,000 (2006: \$121,500,000)

39. Subsequent events

Land and buildings at the manufacturing site at Edwardstown in South Australia have been reclassified from Property, Plant and Equipment to current assets held for sale prior to reporting date. The progressive transfer of a number of product lines offshore over the last few years has resulted in a substantial under utilisation of the facility. A post year-end sale agreement of \$24.3 million, excluding selling costs, has been reached. The profit will be realised by the Company and a wholly owned subsidiary. In compliance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* the assets are measured at the lower of their carrying value and their fair value less costs to sell.

As announced to the market on July 3 2007, revenues expected from the South East Queensland Water Grid Pipeline project have significantly reduced due to the failure of a supplier to deliver product in accordance with the agreed specification. Recovery action against the supplier has commenced.

Other than those matters discussed above there has not arisen in the interval between the end of the financial 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 Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years.

Directors' Declaration

- 1 In the opinion of the Directors of Hills Industries Limited ('the Company'):
 - (a) the financial statements and notes set out on pages 28 to 86 and the remuneration disclosures that are contained in sections 7.1, 7.2, 7.4.1, 7.4.2, and 7.4.3 of the Remuneration Report in the Directors' Report, 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 Group as at 30 June 2007 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 (including Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a);
 - (c) the remuneration disclosures that are contained in sections 7.1, 7.2, 7.4.1, 7.4.2, and 7.4.3 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and
 - (d) 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 33 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 2007 pursuant to Section 295A of the Corporations Act 2001.

Dated at Adelaide this 24th day of September 2007.

Signed in accordance with a resolution of the Directors:



David Simmons
Director

Independent Audit Report to the Members of Hills Industries Limited Report on the financial report and AASB 124 remuneration disclosures contained in the Directors' Report

We have audited the accompanying financial report of Hills Industries Limited (the Company), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 39 and the Directors' declaration set out on pages 28 to 87, of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the *Corporations Regulations 2001*, the Company has disclosed information 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 7.1, 7.2, 7.4.1, 7.4.2 and 7.4.3 of the Directors' report and not in the financial report. We have audited these remuneration disclosures.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the Directors' Report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards but that the financial report of the Company does not comply.

The Directors of the Company are also responsible for the remuneration disclosures contained in the Directors' Report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is also to express an opinion on the remuneration disclosures contained in the Directors' Report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the Directors' Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the Directors' Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the Directors' report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance and whether the remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of Hills Industries Limited is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Auditor's opinion on AASB 124 remuneration disclosures contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in sections 7.1, 7.2, 7.4.1, 7.4.2 and 7.4.3 of the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KAMG

KPMG



A Santin
Partner

Dated at Adelaide on this the 24th day of September 2007.

KPMG, an Australian partnership, is part of the KPMG International network. KPMG International is a Swiss cooperative.

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

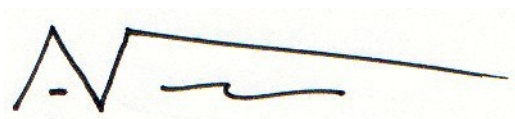
To: the Directors of Hills Industries Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 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

Dated at Adelaide on this the 24th day of September 2007.



ASX Additional information

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

Shareholdings (as at 24 August 2007)

Substantial shareholders

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

Shareholder	Number
Poplar Pty Limited	18,316,146
Hills Associates Limited	12,966,909

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	4,446	-
1,001 - 5,000	11,687	2
5,001 - 10,000	4,155	3
10,001 - 100,000	2,423	15
100,001 and over	66	3
	<u>22,777</u>	<u>23</u>

The number of shareholders holding less than a marketable parcel of ordinary shares is 268.

Securities Exchange

The Company is listed on the Australian Securities 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 Limited	17,319,432	10.0
Hills Associates Limited	11,970,195	6.9
Jacaranda Pastoral Pty Limited	5,665,250	3.3
Australian Foundation Investment Company Limited	4,161,675	2.4
Argo Investments Limited	3,828,470	2.2
J P Morgan Nominees Australia Limited	2,589,115	1.5
Donald Cant Pty Limited	1,759,165	1.0
HSBC Custody Nominees (Australia) Limited	1,750,622	1.0
Colleen Sims Nominees Pty Limited	1,692,362	1.0
Hills Associates Limited & Poplar Pty Limited	996,714	0.6
Tamarisk Pty Limited	549,366	0.3
Citicorp Nominees Pty Limited	536,082	0.3
Gowing Bros Limited	525,060	0.3
Fortis Clearing Nominees Pty Limited	370,477	0.2
Mr David James Simmons	360,000	0.2
National Nominees Limited	340,973	0.2
Choiseul Investments Limited	338,039	0.2
Mrs Jill Christine Thygesen	317,736	0.2
Milton Corporation Limited	311,956	0.2
RBC DEXIA Investor Services Australia Nominees Pty Limited	300,949	0.2
	55,683,638	32.2

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 9415 4000
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.