Hills

Better Lives. Better Business.

Concise
Annual Report
2010

At Hills Industries,
we believe that
there will always
be a market for
clever products and
services which make
people's lives better.
And so we look for
companies and
people who share
this belief and
who want to work
together to build
better businesses.

Hills Industries Limited
Concise Annual Report 2010

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Edwardstown SA 5039

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ABN 35 007 573 417

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Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
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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.

Relationship of the Concise Annual Financial Report to the full Annual Financial Report
The Concise Annual Financial Report is an extract from the full Annual Financial Report for the year ended 30 June 2010. The financial statements and specific disclosures included in the Concise Annual Financial Report have been derived from the full Annual Financial Report.

The Concise Annual Financial Report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Hills Industries Limited and its subsidiaries (the Group) as the full Annual Financial Report. Further information can be obtained from the full Annual Financial Report.

A copy of the Group's 30 June 2010 full 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 2010 full Annual Financial Report can be requested by telephone:
Australia: (08) 8301 3200
Overseas: +61 8 8301 3200
Or via email at info@hills.com.au.

The paper used to print this Concise Annual Report is made from wood grown in sustainable forests.

Contents

Operating and Financial Review

The Hills Group of companies achieved a profit after tax attributable to shareholders of $40.2 million, which was a 43.3% improvement compared to the previous year's result (excluding unusual and significant items).

The Year in Review

The much-improved 2009-2010 result – including solid contributions from all of our operating divisions – was achieved despite trading conditions remaining difficult in a number of markets during the year.

Most pleasing was the turnaround in the Lifestyle & Sustainability division (formerly Home Hardware and Eco) as a result of significant and successful restructuring initiatives implemented in the prior year.

Your directors were pleased to increase the full year dividend by 25% to a total of 12.5 cents per share fully franked.

Cash flows from operations were at record levels during the year due to a more disciplined and focussed approach on the control of working capital, and a reduction in capital expenditure.

The capital raisings during the year, combined with the strong operating cash flows, resulted in our gearing (measured as debt divided by equity) significantly lower at just over 10% at balance date. The very strong nature of our balance sheet provides us with confidence that we can implement our growth initiatives for the benefit of Hills shareholders.

Group Strategy

Our strategy is to consistently grow shareholder value over time by investing in businesses that deliver superior service and/or innovative products, and which are exposed to high growth markets.

This approach is built on a commitment to diversification in order to mitigate the impact of short-term changes to individual markets and economies.

Consistent with this overall strategy, we are seeking approval at the upcoming Annual General Meeting to change the Company's name to Hills Holdings Limited. This proposed change reflects the transition of the Hills Group from an industrial company to a diversified investment company.

Trading Conditions

The impact of the global financial crisis continued during the year under review and led to quite patchy trading conditions across Australia and New Zealand. The New Zealand economy remained generally weak, while Australia performed relatively well compared to other global economies. The at times subdued conditions in the commercial building sector led to a reluctance on the part of corporations to commit to certain projects, which in turn affected demand in our electronics businesses and some of our building and industrial operations.

Vision and Values

Hills is a diversified company operating mainly in Australia and New Zealand. We aim for the company to be recognised as a superior investment by developing a portfolio of profitable and growing businesses.

To achieve this we value and promote:

- A culture of individual development, personal growth and safety;
- Being open, ethical and earning the trust of those we deal with;
- An emphasis on commercial acumen designed to deliver superior shareholder returns;
- A leadership style that encourages autonomy and initiative; and
- A never ending process of continuous improvement designed to deliver reliable, quality and innovative products and services.

Dividend

Given the increased full-year profit, the Hills Board was pleased to announce a 25% increase in the annual dividend to a fully franked 12.5 cents per share. This comprised an interim dividend of 5.0 cents per share paid in March 2010 and a final dividend of 7.5 cents per share to be paid in September 2010. This represents 75% of the earnings per share for the year.

Given Hills' strong balance sheet position, the Dividend Reinvestment Plans have remained suspended for both the interim and final dividend.

Shareholders

We value the support of our shareholders at all times, and in particular during the more difficult environment of recent years.

We have continued our practice of offering employees who meet the relevant criteria to participate in our Employee Share Plan. This is in line with our belief that widespread share ownership by our employees has many positive benefits for the employees, the company and all of our shareholders.

Likely Developments

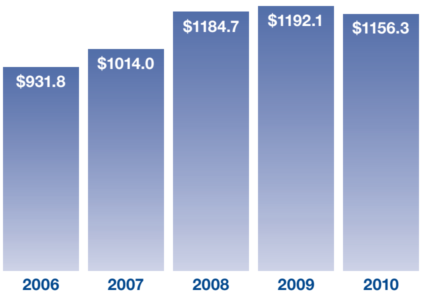
The outlook for the new financial year continues to revolve around much comment and debate on the timing and recovery of local and global economies. We expect trading conditions to remain fragile in the current year as we continue to experience subdued activity in the Australian large contract market and the commercial building sector.

Notwithstanding these challenges, we have a number of growth initiatives in place and remain focussed on retaining the business improvements successfully implemented in the past two years. We expect to deliver a modest improvement in profits in the current year.

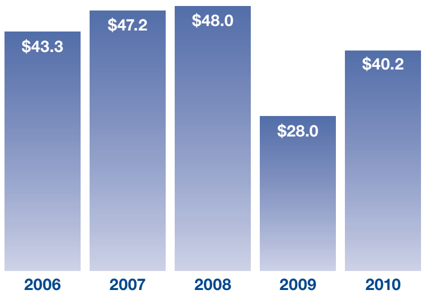
> The much-improved 2009-2010 result – including solid contributions from all of our operating divisions – was achieved despite trading conditions remaining difficult in a number of markets during the year.

Five Year Summary

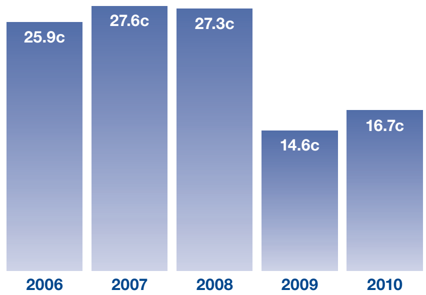
Total revenue
Amount in $ millions



Net profit after tax attributable to members (before unusual items)
Amount in $ millions



Earnings per share (before unusual items)
Amount in cents



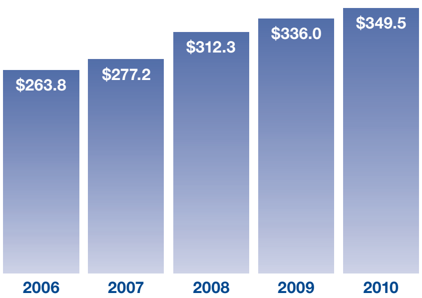
In thousands of AUD	2006	2007	2008	2009	2010
Total revenue	931,799	1,013,999	1,184,737	1,192,081	1,156,326
Net profit after tax attributable to members	43,261	47,173	46,807	9,506	40,188
Net profit after tax attributable to members (before unusual items)	43,261	47,173	48,036	28,052	40,188
Net profit after tax and before non-controlling interests	48,210	52,042	52,360	15,655	43,095
Depreciation, impairment and amortisation	17,566	18,988	21,784	23,107	23,913
Net borrowing costs (before unusual items)	5,880	9,105	14,374	12,531	3,409
Shareholders' equity	309,952	331,726	408,219	402,535	480,601
Operating profit attributable to members					
—as a % of shareholders' equity	12.1%	14.0%	11.8%	7.0%	8.4%
Net profit after tax and before non-controlling interests					
—as a % of total revenue	5.1%	5.2%	4.4%	1.3%	3.7%
Earnings per share (cents)	25.9	27.6	26.6	4.9	16.7
Earnings per share (before unusual items) (cents)	25.9	27.6	27.3	14.6	16.7
Dividends per share (cents)	26.0	27.5	27.5	10.0	12.5
Employees at year end	2,956	2,999	3,140	2,608	2,832
Shareholders at year end	21,748	22,837	23,841	23,716	23,449

Group Profile

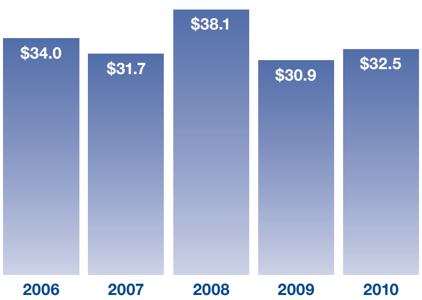
Electronic Security and Entertainment

- Electronic security systems
- Closed circuit television systems
- Home and business automation and control systems
- Satellite dishes
- Consumer electronic equipment
- Communications-related products and services
- Domestic and commercial antennas
- Professional audio equipment
- Communications antennas
- Subscription TV installation services
- Master antenna television systems
- Fibre optic transmission solutions
- Fibre to the home / Fibre to the node

Revenue
Amount in $ millions



EBIT*
Amount in $ millions

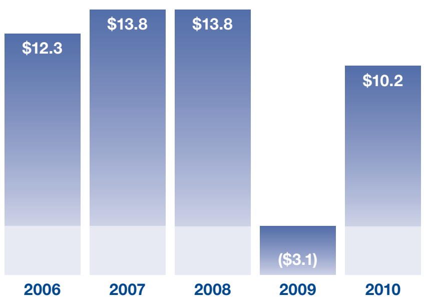


Home, Hardware and Eco

- Outdoor clothes dryers
- Laundry trolleys
- Ironing boards
- Barrier doors
- Garden sprayers
- Ladders
- Rehabilitation and mobility products
- Water storage solutions
- Plumbing products

Revenue
Amount in $ millions

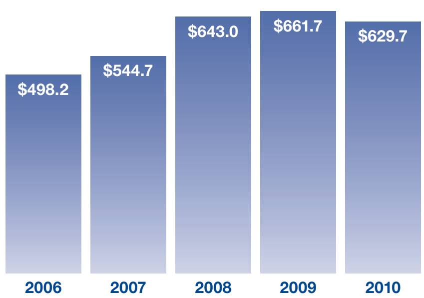
EBIT*
Amount in $ millions



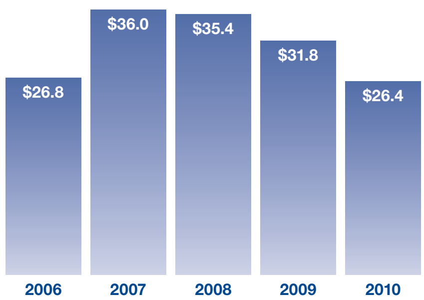
Building and Industrial

- Structural, precision and large steel tubing
- Metal roofing, flooring and fencing
- Carports and shed systems
- Steel door frames
- Cable and pipe support systems
- Hot-dip galvanising

Revenue
Amount in $ millions



EBIT*
Amount in $ millions



* EBIT – Earnings before interest and tax (before unusual / significant items).

Electronic Security and Entertainment

The Electronic Security and Entertainment division comprises Hills Electronic Security, Hills Antenna & TV Systems, Hills Sound, Vision and Lighting, Access Television Services, Step Electronics, UHS, Opticomm and Cygnus Satellite.

Revenue of $349.5 million was 4.0% higher than the previous year, while underlying EBIT of $32.5 million (statutory EBIT of $32.5 million) was 5.4% higher than in 2009 (6.2% higher than statutory EBIT in 2009).

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. Our ongoing strategy for this expanding business is to develop the core range of products including our own intellectual property, while at the same time representing many of the world's leading electronic security companies. We believe this mix of products provides us with a sustainable competitive advantage.

The market is characterised by a reasonably predictable level of day to day sales supplemented by larger project opportunities. While the overall level of activity in the project market continued to be subdued during the year, the steady improvement in the Australian Dollar in the second half of the year saw margins return to historic levels.

Highlights of the year included the successful launch of our EVO range of camera domes and monitors in the CCTV market as well as the market success of our VoiceNav security control panel. We also benefited from the first full year of our majority ownership of Ultra High Speed Pty Ltd (UHS), and although UHS export markets were quiet as a result of trading conditions in Europe, we were very pleased with their contribution to this business unit.

Hills Sound, Vision and Lighting

Hills Sound, Vision and Lighting (SVL) is the leading supplier to the professional audio markets in Australia and New Zealand. This includes our distribution of a range of advanced control automation systems under the Crestron brand for the integrated control of audio, video and data. During the year, we launched our range of Australian Monitor Revolution Series digital audio products, and also added new products to become the one-stop-shop for all of our customers' needs. Overall, despite a quite weak market, Hills SVL grew its market share and profitability during the course of the year.

Hills Antenna & TV Systems

This business unit provides a full range of reception and distribution equipment for:

- subscription television;
- free to air television;
- the wireless voice and data market;
- the DGTEC range of consumer electronics.

The unit increased its market share during the year and capitalised on product opportunities as a result of the Australian Federal Government's decision to progressively shut down the analogue television signal. We continue to develop innovative new products, and partner with leading overseas suppliers to provide the most comprehensive range of television reception equipment to the market.

Access Television Services

Access Television Services (ATS) is the exclusive supplier of installation services to AUSTAR Entertainment, the leading provider of subscription TV in rural and regional Australia. During the past year, the ATS contract to provide services to AUSTAR was renewed for a further three years and we were also successful in obtaining a Federal Government contract to install digital television solutions for certain qualifying customers as part of the Government's plan to close the analogue spectrum over the next three years. ATS has further diversified its business to provide installation services in the rollout of Fibre to the Home networks, including Stage 1 of the National Broadband Network in Tasmania.

OptiComm

OptiComm provides infrastructure and services to the Fibre to the Node and Fibre to the Home market. Our open platform offer is generally the preferred solution for customers and developers and we were particularly pleased during the period to open our network operation centre in Hobart in support of NBN Tasmania's Stage 1 rollout of its network. During the year, we also signed further contracts with major developers, which will deliver improved results over the medium-term for the OptiComm business.

Home, Hardware and Eco

The Home, Hardware and Eco division comprises our branded Consumer Products operations in Australia and New Zealand, the Hills Healthcare rehabilitation and mobility business, LW Gemmell, Hills Solar and Team Poly.

During the year revenue decreased by 8.9% to $176.3 million, and the division produced an underlying profit of $10.2 million (statutory profit of $10.2 million), an increase of 429.5% (statutory increase of 164.1%) on 2009.

Consumer Products

Our market leading brands - including Hills, Bailey and Oldfield Ladders – are among a range of predominantly metal based branded hardware products distributed by this business unit to our consumer and trade customers. The Home, Hardware and Eco business unit, which produced a much-improved and most pleasing result during the period, is now focussed on a smaller range of products and has achieved significant efficiencies and improvements in supply chain and customer service. There were small but pleasing contributions from Hills Solar and LW Gemmell businesses during the year.

Hills Healthcare

Hills Healthcare, which manufactures a range of mobility, rehabilitation and aged care products for domestic and overseas markets, comprises K•Care, Kerry Equipment and Air Comfort Seating Systems. Both sales and profitability were affected during the year by a very low level of activity in the building of new nursing homes. The results and outlook for Hills Healthcare improved towards the end of the year and we have continued with our strategy of introducing new products in this growing market sector.

Team Poly

Team Poly is Australia's leading manufacturer of rotationally moulded polyethylene water tanks. The level of activity in the water tank industry remains below historical levels as a result of wide-spread rainfall and a significant reduction in Government subsidies. We note that a number of market players have experienced financial difficulties during the period, including insolvency.

As a result of lower sales volumes, we have since the end of the past year implemented further restructuring initiatives, with profit improvement plans in place.

Building and Industrial

The Building and Industrial division comprises Orrcon, Korvest and Fielders.

Revenues decreased by 4.8% to $629.7 million, while underlying EBIT of $26.4 million (statutory EBIT of $26.4 million), was 17.3% lower than 2009 (14.9% lower than statutory EBIT in 2009).

Orrcon Steel

Orrcon Steel is a leading manufacturer and distributor of steel, tube and pipe in Australia, specialising in the manufacture of precision tube, structural pipe, rectangular hollow sections and water, oil and gas pipelines. Orrcon continued its improvement over the prior year and benefited from improved demand for our precision and structural products and a steady volume of activity in our large pipe business.

A number of important profit improvement initiatives were initiated during the year, designed to increase our structural steel capacity and lower manufacturing costs.

In June 2010, we were pleased to acquire the branch operations of The Steel Barn business located in Brisbane, Cairns, Mareeba, Townsville and Bundaberg as a part of Orrcon Steel's long-term plan to expand its distribution network.

Fielders

Fielders manufactures and distributes a range of roll-formed metal building products (roof and gutter material, downpipes, steel flooring systems, carports, sheds and purlins) for commercial and domestic building markets throughout Australia. Fielders is a leader in new and innovative products in a market that is generally not known for innovation.

During the year Hills was pleased to have acquired the balance of shares in Fielders that we did not own. This transaction was completed in April 2010.

Fielders' results over the course of the year have been in line with our expectations and the business continued to increase its market share.

Whilst we have not yet seen a full recovery in commercial building activity, Fielders' sales to domestic customers remain strong and we continue with the launch of our market leading Endurance Sheds, Centenary Carports and Angle Cut technology. Growth in our eastern states' operations remains a key area of focus for the new financial year.

Korvest

Korvest is a publicly-listed company involved in the manufacture of cable and pipe support systems, guarding and walkway systems and galvanising. Hills' interest in the shares of Korvest was 46% at balance date.

Korvest's results for the year were lower than in the previous period. Korvest is a separately listed public company and further details of its results are obtainable from korvest.com.au.

Sustainability

As a diversified company operating businesses spanning the Electronic Security and Entertainment segment, the Home, Hardware and Eco segment and the Building and Industrial segment, Hills recognises its responsibility to consider the different needs of its stakeholders to ensure sustainable outcomes for its business.

Hills sustainability efforts are centred around four key areas:

- the importance of Hills people;
- Hills' commitment to ensuring the health and safety of the workforce;
- the impact on the environment in which Hills operates; and
- the communities that Hills works with.

As part of this approach, Hills' Code of Conduct sets out those matters which Hills values to ensure its ongoing success. The Code requires all Hills employees to conduct themselves with the highest standards of behaviour and professionalism, and everything they do must uphold Hills as a company of integrity.

People

Hills aims to attract develop and retain the best people throughout the organisation to deliver its goals.

As at 30 June 2010, the Hills Group employed 2,832 staff in full-time, part-time and casual positions across Australia and New Zealand representing an increase of 8.6% on the prior year.

A key human resource strategy for Hills is to create an environment where all staff are treated equally, with fairness and respect, free from harassment and discrimination. Hills' Equity and Diversity Policy underpins this objective.

At Hills we recognise the needs of our employees to maintain work-life balance. Hills supports flexible work practices and communicates this through its Flexible Work Practices Policy. Subject to the specific requirements of the position and the needs of the business at any given time, Hills employees can elect how they work at Hills from a number of flexible work options including working from home, adjusting working hours and job-sharing. An increase in the number of women returning to work in a part-time capacity following parental leave and part-time male employees at Hills is in part due to these flexible work practices.

Just as Hills considers that recruiting the best people into the business is integral to its success, so too is the ongoing learning and development of all Hills people. Hills recognises that having the skills to do the job well increases job satisfaction, productivity and improves retention.

Hills' performance management process has a strong emphasis on targeted personal and professional development, supporting all people to be the best they can be today and into the future.

The majority of Hills' employees participate in learning activities specific to their development needs and the needs of the business. Working closely with third party education providers and Hills' internal learning and development staff, a number of compliance, skills and leadership development programs and traineeships are being delivered across the business.

With a focus on increasing leadership strength Hills has also introduced programs to identify and develop emerging leaders in the business.

Health and safety

Hills' policies and procedures on health and safety reflect its commitment to providing a healthy, safe and friendly environment for its employees. There is a focus on hazard management and staff are widely consulted on health and safety matters. This includes providing both staff and contractors with the information necessary to perform their jobs safely. For those employees who do sustain injuries in the workplace, Hills provides an equitable claims management process and workplace rehabilitation programs to ensure the earliest possible return to meaningful and productive work.

Hills' strategic health and safety objective is to achieve Zero Harm. This 5 step strategy seeks to:

- integrate the Hills' health and safety management systems;
- achieve compliance against recognised health and safety standards consistently across the business;
- implement a risk management based approach to health and safety management;
- ensure there is a high degree of awareness and a culture of continuous improvement throughout the business; and
- develop a customer driven health safety culture in Hills.

In the last two years the Hills Group has seen a 63% reduction in its Lost Time Injury Frequency Rate, and a 46% reduction in the Total Recordable Incident Frequency Rate.

There are a number of business units that are currently injury free.

Our Environment

Where appropriate in the conduct of its business, Hills cares for the environment and cultural heritage, provides advice to its customers on the responsible use of its products, complies with all relevant environmental laws, regulations and standards, and is committed to developing standards that minimise any adverse environmental impacts resulting from its operations, products and services.

Hills has not triggered the National Greenhouse and Energy Reporting 2009-10 corporate group reporting threshold for energy consumption of 350TJ.

Hills encourages responsible energy management. Hills offers resource efficiency workshops across the business units which identify energy, water and waste reduction opportunities. Hills has its own "Green Team", a staff led initiative that aims to establish a culture of continuous sustainability and improvement.

Hills is a signatory to the Australian Packaging Covenant, the successor to the National Packaging Covenant (APC). The focus of signatories to the APC is the reduction of the waste that is created by excessive packaging of products at a wholesale and retail level.

The Community

Hills has a long established culture of encouraging staff participation in community activities where it operates. This includes sponsorship of employee teams in local charitable events such as the "Walk to Cure Diabetes", donations of Hills' products for fund raising events and charitable donations.

Through the Hills Charity Support Scheme, where employee contributions are matched dollar for dollar by Hills, donations in excess of $100,000 were made during the year.

These donations included the continuation of the sponsorship of one guide dog in each state with a dog "Hillsy" in WA, the purchase of a mini bus for the Bridge Builders Youth Organisation (Vic), four heart monitors for the Mater Children's Hospital (Qld), two Medtronic Infusion pumps for the CF Clinic, Children's Hospital Westmead (NSW) to improve the quality of life for children with cystic fibrosis and a contribution to the costs of the establishment of Ronald McDonald House in Adelaide.

Since the Scheme's inception some 10 years ago the Group has made donations in excess of $900,000.

Board of Directors


Jennifer Hill-Ling


Graham Twartz


Ian Elliot


Roger Flynn

Jennifer Helen Hill-Ling
LLB (Adel) FAICD
Chairman, Non-Independent Non-Executive Director
Age: 48

Experience and expertise
Appointed Director in August 1985. Appointed Deputy Chairman in June 2004. Appointed Chairman 28 October 2005.

Jennifer Hill Ling has extensive experience in corporate and commercial law, specialising in corporate and business structuring, mergers and acquisitions, joint ventures and related commercial transactions. She practiced law for some 25 years. In addition to any listed company directorships she is also currently a director of Hills Associates Limited, Argent Pty Ltd and Hills Industries NZ Limited and was formerly a director of Tower Trust Limited. She is also a fellow of the Australian Institute of Company Directors.

Other current listed company directorships
None.

Former listed company directorships in the last 3 years
None.

Special responsibilities
Chairman of the Board, Chairman of the Remuneration Committee, Member of the Nomination Committee.

Interests in shares and options at the date of this report
16,512,469 ordinary shares in Hills Industries Limited (including 1,188,918 shares owned by Hills Associates Limited and Poplar Pty Ltd (jointly held) and 13,455,689 shares owned by Hills Associates Limited of which JH Hill-Ling is a Director).

Nil options over ordinary shares in Hills Industries Limited.

Graham Lloyd Twartz
BA (Adel) DipAcc (Flinders)
Group Managing Director
Age: 53

Experience and expertise
Appointed Director in July 1993. Appointed as Group Managing Director 1 July 2008.

Graham Twartz is the Group Managing Director and is responsible for Group operations, including business strategy and acquisitions. He was formerly the Finance Director and Company Secretary and has over 24 years experience in his field. Mr Twartz held senior management positions in diversified companies before joining Hills in 1993.

Other current listed company directorships
Director of Korvest Ltd (since 1999).

Former listed company directorships in the last 3 years
None.

Special responsibilities
Managing Director.

Interests in shares and options at the date of this report
212,036 ordinary shares in Hills Industries Limited and 29,115 ordinary shares in Korvest Ltd.
60,000 options over ordinary shares in Hills Industries Limited.

Ian Elliot
FAICD
Independent Non-Executive Director
Age: 56

Experience and expertise
Appointed Director in August 2003.

Ian Elliot has spent 37 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. In addition to his listed company directorships he was formerly a director of Zenith Media Pty Ltd and Cordiant Communications Group and former Chairman of Allied Brands Limited, Artist & Entertainment Group Limited and Chairman and CEO of George Patterson Advertising.

Other current listed company directorships
Director of Salmat Limited (since 2005).

Former listed company directorships in last 3 years
Former Chairman of Promentum Limited (2003 - 2007).

Special responsibilities
Chairman of the Nomination Committee, Member of the Remuneration Committee.

Interests in shares and options at the date of this report
6,235 ordinary shares in Hills Industries Limited.

Nil options over ordinary shares in Hills Industries Limited.

Roger Baden Flynn
BEng (Hons) MBA FIE (Aust) FAICD
Independent Non-Executive Director
Age: 60

Experience and expertise
Appointed Director in November 1999 (Lead independent Director).

Roger Flynn has extensive experience in manufacturing and distribution industries in Australia and the United States, including over 40 Board years of experience in ASX listed companies. He has been Managing Director of four ASX listed companies over an 18 year period.

Other current listed company directorships
Executive Chairman of Coventry Group Limited (since 2001).

Former listed company directorships in last 3 years
None.

Special responsibilities
Member of the Audit and Compliance Committee.

Interests in shares and options at the date of this report
35,665 ordinary shares in Hills Industries Limited.

Nil options over ordinary shares in Hills Industries Limited.

Geoffrey Hill

Peter Stancliffe

Fiona Bennett

David Spence

Geoffrey Guild Hill

FCPA FAICD F.S.I BEc (Syd) MBA (NSW)
Independent Non-Executive Director
Age: 64

Experience and expertise
Appointed Director in February 1999.

Geoffrey Hill is a merchant banker, based in Hong Kong, with over 33 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. In addition to his listed company directorships he is the Chairman of International Pacific Securities (Group) Limited and Asian Property Investments Limited and was formerly the Chairman of Fielders Australia Pty Ltd. He was formerly a Director of Biron Apparel Limited and Pacific Strategic Investments Limited.

Other current listed company directorships
Chairman of Metals Finance Limited (Director since 2006), Heritage Gold NZ Limited (Director since 1998) and Centrex Metals Limited (Director since 2008). Director of Outback Metals Limited (since 2010).

Former listed company directorships in last 3 years
Former Director of Undercoverwear Limited (from 2006 to 2007), Brickworks Investment Company Limited (from 2005 to 2009) and Huntley Investment Company Limited (from 1998 to 2009).

Special responsibilities
Member of the Audit and Compliance Committee, the Nomination Committee and the Remuneration Committee.

Interests in shares and options at the date of this report
92,505 ordinary shares in Hills Industries Limited.

Nil options over ordinary shares in Hills Industries Limited.

Peter William Stancliffe

BE (Civil) FAICD
Independent Non-Executive Director
Age: 62

Experience and expertise
Appointed Director in August 2003.

Peter Stancliffe has over 40 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. In addition to his listed company directorships he is a director of Harris Scarfe Pty Ltd.

Other current listed company directorships
Chairman of Korvest Ltd (since 2009). Director of Automotive Holdings Group Limited (since 2005).

Former listed company directorships in last 3 years
Former Chairman of View Resources Limited (from 2006 to 2009).

Special responsibilities
Chairman of the audit and compliance committee.

Interests in shares and options at the date of this report
19,104 ordinary shares in Hills Industries Limited and 1,000 ordinary shares in Korvest Limited.

Nil options over ordinary shares in Hills Industries Limited.

Fiona Rosalyn Vivienne Bennett

BA (Hons) FCA FAICD FAIM.
Independent Non-Executive Director.
Age: 54

Experience and expertise
Appointed Director on 31 May 2010.

Fiona Bennett is a Chartered Accountant with over 30 years experience in business and financial management, corporate governance, risk management and audit. She has previously held senior executive positions at BHP Billiton Limited and Coles Group Limited and has been a Chief Financial Officer at several organisations in the health sector. Ms Bennett is a graduate of The Executive Program at the University of Virginia's Darden Graduate School and the AICD Company Directors' course.

Other current listed company directorships
Director of Boom Logistics Limited (since March 2010).

Former listed company directorships in last 3 years
None.

Special responsibilities
None.

Interests in shares and options at the date of this report
4,000 ordinary shares in Hills Industries Limited.

Nil options over ordinary shares in Hills Industries Limited.

David Moray Spence

BCom CA (SA)
Independent Non-Executive Director.
Age: 58

Experience and expertise
Appointed Director on 1 September 2010.

David Spence has experience in a number of industries and more recently in the technology and communications industry. He has over 25 years of senior management experience, including as CFO of Freedom Furniture and OPSM, where he also assumed responsibility for manufacturing and logistics. He has been directly involved in many internet and communications companies including the building of Australia's first and largest dial up ISP, OzEmail.

Mr Spence was the chief executive officer of Unwired Australia until February this year. He has been involved in a number of listed and non-listed boards including WebCentral, uuNet, Access1, Emitch, Commander Communications, Chaosmusic, ubowireless, Vividwireless and is a past chairman of the Internet Industry Association. He is currently a non-executive Director of AWA Limited.

Other current listed company directorships
Chairman of VOCUS Communications Limited (since June 2010).

Former listed company directorships in last 3 years
Director of Unwired Group Limited (to December 2007).

Special responsibilities
None.

Interests in shares and options at the date of this report
19,000 ordinary shares in Hills Industries Limited.

Nil options over ordinary shares in Hills Industries Limited.

Executive Management Group


Andrew Muir


Daniel Edgecombe


Keith Middleton


Leon Andrewartha

Andrew Muir
BEc (Adel) MBA (Adel)
General Manager Finance
Age: 41

Joined the Company in July 2004 as General Manager Business Development responsible for the Mergers and Acquisitions activity for the Group. Andrew was appointed General Manager Finance in May 2008 and was Company Secretary from July 2008 to January 2010.

Daniel Edgecombe
BComm (Adel) MBA (Adel) FCA
General Manager Business Development
Age: 37

Daniel joined the Group in April 2005 as CFO at Fielders before moving into a national sales operations role within the business. He commenced in his current role in January 2009. Daniel's role involves strategy development and execution, particularly relating to our portfolio of businesses. Daniel has previous experience in the consumer electronics industry and as an external auditor/accountant.

Keith Middleton
BA (Flinders), Dip Corporate Management
Chief Executive Officer, Fielders
Age: 48

Keith joined Fielders Steel Roofing in 2004, appointed Chief Operating Officer in March 2005. Keith has previously held overall responsibility for all sales and manufacturing activities undertaken at Fielders and was appointed Chief Executive Officer in April 2009. Keith has extensive experience at the Senior Executive level within large customer orientated FMCG companies.

Leon Andrewartha
BEng MBA
Managing Director, Orrcon
Age: 55

Appointed Managing Director Orrcon in May 2005. Previously Director, Manufacturing for Electrolux Australia and Executive General Manager Manufacturing for Email Major Appliances. Prior to these roles, Leon worked in the automotive industry for 11 years. Leon Andrewartha has over 35 years of experience working in a range of technical, commercial and engineering roles in product development, manufacturing and distribution industries in Australia.

Ric Gros

Steve Cope

David Lethbridge

Ric Gros
FAICD
Group General Manager – Home, Hardware and Eco
Age: 52

Joined the Company in June 2007 having previously been the Managing Director of Korvest Ltd for 2 years. A Fellow of the Australian Institute of Company Directors, Ric was born in Chile and educated in Australia, with extensive international commercial background in servicing industrial, mining and distribution related industries.

Stephen Cope
Group General Manager – Electronic Security and Entertainment
Age: 52

Joined the Company in April 2007 as Group General Manager, Electronic Security and Entertainment and is responsible for all of the diverse electronics businesses in the Hills portfolio. Steve has over 30 years experience in the management of large technology and contracting companies in Australia and overseas and has held various executive management positions. He has extensive experience in technology development and commercialisation strategy.

David Lethbridge
LLB (Otago, NZ), Grad Dip ACG, FCIS, GAICD
Company Secretary
Age: 51

David Lethbridge was appointed to the position of Company Secretary in January 2010. Mr Lethbridge was previously the company secretary of NIB Holdings Limited and prior to that was Board Secretary and Legal Counsel for the New Zealand Apple and Pear Marketing Board.

Consolidated Income Statement

For the year ended 30 June 2010	Note	Consolidated	
In thousands of AUD		**2010**	**2009**
Revenue from continuing operations	3	1,156,326	1,192,081
Other income		1,921	2,983
		1,158,247	1,195,064
Expenses excluding finance costs	4	(1,092,778)	(1,149,134)
Results from operations		65,469	45,930
Finance income	4	4,166	767
Finance expenses	4	(7,575)	(23,438)
Net finance expense	4	(3,409)	(22,671)
Profit before income tax		62,060	23,259
Income tax expense		(18,965)	(7,604)
Profit for the year		43,095	15,655
Profit is attributable to:			
Owners of Hills Industries Limited		40,188	9,506
Non-controlling interests		2,907	6,149
Profit for the year		43,095	15,655
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	9	16.7¢	4.9¢
Diluted earnings per share	9	16.7¢	4.9¢

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

Discussion and Analysis of the Consolidated Income Statement

For the year ended 30 June 2010

The Group's total revenue (excluding financial revenues) for 2010 decreased by 3.0% to $1,156.3 million. Group underlying profit after tax (before unusual / significant items) attributable to shareholders increased by 43.3% to $40.2 million (statutory profit of $40.2 million (2009: $9.5 million)).

Details of revenue and results by segment are set out in Note 2. A brief summary of the performance of Hills key operating divisions for the year ended 30 June 2010 is as follows:

- Electronic Security and Entertainment revenue increased by 4.0% to a record of $349.5 million. Underlying profit before interest and tax (EBIT) of $32.5 million was 5.4% higher than 2009 (6.3% higher than statutory profit in 2009 of $30.6 million). These results are attributable to:

– Margins increased slightly during the financial year;

– Hills SVL and Pacom grew their market share and profitability as a consequence of the release of a number of new products, despite the market for large projects in general and in Europe remaining quite weak;

– The Antenna and TV Systems business was able to increase its market share and capitalise on product opportunities as a result of the Australian federal government's decision to progressively shut down the analogue television signal; and

– The softness in the volume of new major infrastructure projects awarded continued due to a lack of spending on capital expenditure undertaken by Australian businesses generally.

- Home, Hardware and Eco Products revenue decreased by 8.9% to $176.3 million while underlying EBIT increased by 429.5% to $10.2 million (164.1% higher than statutory loss in 2009 of $16.0 million). These results are attributable to:

– Sales revenue was lower due to the closure of certain operations and the exit of a number of product categories towards the end of the prior year;

– The Home and Hardware Products business recorded a much improved earnings contribution. The closure of certain operations and focussing the business on a smaller range of products has achieved significant efficiencies and improvements in supply chain and customer service;

– The Hills Healthcare business sales and profit were affected by the very low level of activity in the building of new nursing homes;

– The Hills Solar and LW Gemmell businesses performed in line with expectations during the year; and

– Team Poly recorded lower sales volumes because the level of activity in the water tank business remains below historical levels.

- Building and Industrial Products revenue decreased by 4.8% to $629.7 million while underlying EBIT decreased by 17.3% to $26.4 million (14.9% lower than statutory profit in 2009 of $30.9 million). These results are attributable to:

– Reduced demand in the commercial building sector generally as well as the impact of lower steel prices contributed to the decrease in sales and EBIT;

– The Orrcon Steel business continued to improve over the previous financial year, with improved demand for precision and structural products and steady volumes in the large pipe business;

– Fielders sales to domestic customers remained strong throughout the year and the launch of the Centenary Carport, Endurance Sheds and Angle Cut technology continues to grow market share; and

– The Korvest business, saw reduced revenue and profit during the period due to subdued levels of project work, particularly in the mining sector.

Profits for the year attributable to non-controlling interests decreased by 52.7% to $2.9million due to the acquisition of the remaining 40% of Fielders Australia Pty Ltd and lower profit for the year from Korvest Ltd.

Earnings per share before unusual / significant items increased from 14.6¢ to 16.7¢ (earnings per share after unusual / significant items increased from 4.9¢ to 16.7¢).

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010	**Note**	**Consolidated**	
In thousands of AUD		**2010**	**2009**
Profit for the year		43,095	15,655
Other comprehensive income			
Loss on revaluation of land and buildings	7(a)	–	(7,407)
Changes in the fair value of cash flow hedges	7(a)	(707)	329
Exchange differences on translation of foreign operations	7(a)	318	110
Income tax relating to components of other comprehensive income		212	2,064
Other comprehensive income for the year, net of tax		(177)	(4,904)
Total comprehensive income for the year		42,918	10,751
Total comprehensive income for the year is attributable to:			
Owners of Hills Industries Limited		40,011	4,602
Non-controlling interests		2,907	6,149
		42,981	10,751

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

Consolidated Statement of Financial Position

As at 30 June 2010	Note	Consolidated	
In thousands of AUD		**2010**	**2009**
Assets			
Current Assets			
Cash and cash equivalents	5	56,915	67,978
Trade and other receivables		186,002	197,480
Inventories		181,496	196,569
Derivative financial instruments		800	–
Total Current Assets		425,213	462,027
Non-Current Assets			
Investments		2	2
Property, plant and equipment		219,658	227,494
Deferred tax assets		23,771	25,828
Intangible assets		116,300	114,326
Derivative financial instruments		–	333
Total Non-Current Assets		368,731	367,983
Total Assets		784,944	830,010
Liabilities			
Current Liabilities			
Trade and other payables		128,048	120,902
Borrowings		1,384	3,852
Current tax liabilities		10,622	8,186
Provisions		33,445	32,835
Derivative financial instruments		262	5,924
Total Current Liabilities		172,761	172,699
Non-Current Liabilities			
Borrowings		105,684	218,498
Provisions		6,318	5,975
Derivative financial instruments		2,682	4,318
Total Non-Current Liabilities		114,684	228,791
Total Liabilities		288,445	401,490
Net Assets		496,499	428,520
Equity			
Contributed equity	6	306,595	248,598
Reserves	7(a)	47,899	46,495
Retained earnings		126,107	107,442
Capital and reserves attributable to owners of Hills Industries Limited		480,601	402,535
Non-controlling interests		15,898	25,985
Total Equity		428,499	428,520

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

Discussion and Analysis of the Consolidated Statement of Financial Position

As at 30 June 2010

During the year the Group's net assets increased by 15.9% to $496.5 million.

The decrease in the Group's total assets of $45.1 million to $784.9 million principally comprises:

- A decrease in cash of $11.1 million, as explained in the analysis and discussion on the consolidated statement of cash flows;
- A decrease in total receivables of $11.5 million due to slightly lower sales volumes and improved collections, with debtors days declining by 4.6%;
- A decrease in the value of inventories of $15.1 million due to improved inventory management and the impact on the current financial year's balances of business operations and product lines closed at the end of the previous financial year and lower steel prices, with inventory days declining by 3.2%;
- A decrease in property, plant and equipment due to capital expenditure below annual depreciation expense;
- An increase in intangible assets due to the acquisition of intellectual property in relation to the Electronic Security and Entertainment business; and
- A decrease in net deferred tax assets of $2.1 million due movements in the deferred tax asset in relation to financial derivatives.

The decrease in the Group's total liabilities of $113.0 million to $288.4 million principally comprises:

- A decrease in loans and borrowings of $115.3 million due to the utilisation of proceeds from the share capital raising, share purchase plan and net cash generated by operations to repay debt. As a result, the Group's debt to equity ratio at 30 June 2010 was 10.1%, compared to 36.0% at 30 June 2009;
- An increase in trade and other payables of $7.1 million due to the timing of payments to creditors;
- An increase in current tax liabilities of $2.4 million due to higher profitability; and
- A decrease in derivative financial instruments of $7.3 million due to stabilisation of foreign exchange rates reducing the fair value adjustment in relation to forward foreign exchange contracts and the increase in interest rates reducing the fair value adjustment on interest rate swaps.

Contributed equity increased by $58.0 million as explained in the analysis and discussion on the consolidated statement of changes in equity.

Reserves increased by $1.4 million as explained in the analysis and discussion on the consolidated statement of changes in equity.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2010 *In thousands of AUD*	**Note**	Attributable to owners of Hills Industries Limited **Contributed Equity**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 July 2008		**223,091**	**51,369**	**133,759**	**408,219**	**21,298**	**429,517**
Total comprehensive income for the year		**–**	**(4,904)**	**9.506**	**4,602**	**6,149**	**10,751**
Transactions with owners in their capacity as owners:							
Contributions of equity net of transaction costs and tax	6	25,507	–	–	25,507	–	25,507
Non-controlling interest in share capital issued by subsidiary		–	–	–	–	38	38
Non-controlling interest on acquisition of subsidiary		–	–	–	–	(83)	(83)
Dividends provided for or paid	8	–	–	(35,863)	(35,863)	–	(35,863)
Dividends paid to non-controlling interests in subsidiaries		–	–	–	–	(1,431)	(1,431)
Executive share options – value of employee services	7	–	70	–	70	14	84
Transfers to/(from) reserves		–	(40)	40	–	–	–
Balance at 30 June 2009		**248,598**	**46,495**	**107,442**	**402,535**	**25,985**	**428,520**
Balance at 1 July 2009		**248,598**	**46,495**	**107,442**	**402,535**	**25,985**	**428,520**
Total comprehensive income for the year		**–**	**(177)**	**40,188**	**40,011**	**2,907**	**42,918**
Transactions with owners in their capacity as owners:							
Contributions of equity net of transaction costs and tax	6	57,997	–	–	57,997	–	57,997
Non-controlling interest in share capital issued by subsidiary		–	–	–	–	640	640
Change in non-controlling interest on acquisition of subsidiary		–	1,551	–	1,551	(11,551)	(10,000)
Dividends provided for or paid	8	–	–	(21,523)	(21,523)	–	(21,523)
Dividends paid to non-controlling interests in subsidiaries		–	–	–	–	(2,083)	(2,083)
Executive share options – value of employee services	7	–	30	–	30	–	30
Balance at 30 June 2010		**306,595**	**47,899**	**126,107**	**480,601**	**15,898**	**496,499**

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

Discussion and Analysis of the Consolidated Statement of Changes in Equity

During the year the Group's total equity increased by 15.9% to $496.5 million.

- Contributed equity increased by $58.0 million to $306.6 million principally due to proceeds received from the capital raising of $40.9 million and the share purchase plan of $16.7 million completed during the year;
- Reserves increased by $1.4 million due to the impact of the Group acquiring the remaining 40 % of Fielders Australia Pty Ltd, resulting in the recognition of a non-controlling interests acquisition reserve of $1.5 million;
- Retained earnings increased by $18.7 million due to the profit earned for the year of $40.2 million reduced by dividends paid to shareholders of $21.5 million; and
- Non-controlling interests decreased by $10.1 million due to the acquisition of the remaining 40% of Fielders Australia Pty Ltd (reducing non-controlling interests by $11.5 million) and payments of dividends by subsidiaries of the Group to non controlling interests of $2.1 million, offset by total comprehensive income attributable to non controlling interests of $2.9 million and proceeds from share capital issued by subsidiaries to non controlling interests of $0.6 million (principally Opticomm Co Pty Ltd $0.4 million).

Consolidated Statement of Cash Flows

For the year ended 30 June 2010	**Note**	**Consolidated**	
In thousands of AUD		**2010**	**2009**
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		1,281,583	1,374,725
Payments to suppliers and employees (inclusive of goods and services tax)		(1,160,308)	(1,288,577)
Cash generated from operations		121,275	86,148
Interest received		1,596	763
Interest paid		(7,575)	(13,318)
Income taxes paid		(13,748)	(11,260)
Net cash inflow from operating activities		101,548	62,333
Cash flows from investing activities			
Payments for acquisition of subsidiary, net of cash acquired	11	–	(3,980)
Payment for acquisition of business operations, net of cash acquired	11	(3,953)	(619)
Payments to increase ownership interest in subsidiary		(10,064)	–
Payments for property, plant and equipment		(19,094)	(32,047)
Payments for patents, trademarks and intellectual property		(3,010)	–
Proceeds from sale of property, plant and equipment		4,138	903
Proceeds from disposal of assets held for sale		–	20,850
Rent received		864	842
Net cash (outflow) from investing activities		(31,119)	(14,051)
Cash flows from financing activities			
Proceeds from issue of shares		57,098	25,238
Proceeds from borrowings		374	36,707
Repayment of borrowings		(115,465)	(26,865)
Loans (paid to) / received from other entities		(1,058)	272
Proceeds from share issues to non-controlling interests in subsidiaries		640	–
Dividends paid to the Company's shareholders	8	(21,523)	(35,863)
Dividends paid to non-controlling interests in subsidiaries		(2,630)	(1,431)
Net cash (outflow) from financing activities		(82,564)	(1,942)
Net (decrease)/increase in cash and cash equivalents		(12,135)	46,340
Cash and cash equivalents at the beginning of the financial year		67,650	21,310
Effects of exchange rate changes on cash and cash equivalents		16	–
Cash and cash equivalents at the end of the financial year	5	55,531	67,650

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

Discussion and Analysis of the Consolidated Statement of Cash Flows

Cash flows provided by operating activities increased by $39.2 million to a record of $101.5 million (2009: increase of $68.3 million to $62.3 million). This is primarily due to the continued implementation of working capital reduction initiatives, an increase in interest received due to the level of funds on deposit during the year, and a reduction in interest paid due to lower debt levels, offset by an increase in tax paid due to improving profitability.

The Outflow of cash flows from investing activities increased by $17.0 million to $31.1 million due to a combination of payments to acquire the remaining interest in Fielders Australia Pty Ltd of $10.0 million and payments to acquire intellectual property in the Electronic Security and Entertainment business of $3.0 million, offset by a reduction in payments for the acquisition of property, plant and equipment of $13.0 million, and an increase in proceeds from the sale of property, plant and equipment of $3.2 million. In addition, in the previous financial year the Group received $20.8 million being the proceeds on the sale of the Edwardstown site.

The Outflow of cash flows from financing activities increased by $80.6 million due to a combination of a net increase in the repayment of borrowings of $125.0 million and an increase in dividends paid to non-controlling interests in subsidiaries of $1.2 million, partially offset by an increase in the proceeds received on share issues of $31.9 million and a decrease in dividend payments of $14.3 million.

1. Summary of significant accounting policies

The concise financial report includes the financial statements for the consolidated entity consisting of Hills Industries Limited (the "Company" or "parent entity") and its subsidiaries (together referred to as the "Group" or "Consolidated Entity" and individually as "Group Entities").

(a) Basis of preparation

The concise financial report has been prepared in accordance with the *Corporations Act 2001* and Accounting Standard AASB 1039 *Concise Financial Reports* (AASB 1039). The financial statements and specific disclosures required by AASB 1039 have been derived from the Group's full financial report 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 full description of the accounting policies adopted by the Group may be found in the Group's full financial report.

These accounting policies have been consistently applied by each entity in the Group to all periods presented, except as noted in the changes of accounting policy set out below.

Historical cost convention

These financial statements have been prepared on the basis of historical costs, except for the following:

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

Functional and presentation currency

These 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 Group 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.

Critical accounting estimates

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 11 - business combinations
- Note 13 of the Full Financial Report - measurement of the recoverable amounts of cash-generating units containing goodwill
- Note 25 of the Full Financial Report - measurement of share-based payments
- Note 10 and notes 18 and 20 of the Full Financial Report - provisions and contingencies
- Note 14 of the Full Financial Report – financial instruments

Financial statement presentation

During the current year the allocation of expenses by function and the allocation of sales rebates was reviewed. The comparative information has been adjusted to be consistent with the allocations for the current financial year.

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

Early adoption of standards

The Group has not elected to early adopt any accounting standards or amendments.

(b) Principles of consolidation

Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB 127 *Consolidated and Separate Financial Statements* became operative. The revisions to AASB 127 contained consequential amendments to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*.

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously when the Group ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date control, joint control or significant influence ceased became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 July 2009. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements, and there was no material impact on earnings per share.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Group Managing Director.

Operating segments that exhibit similar long-term economic characteristics, and have similar products, processes, customers, distribution methods and regulatory environments are aggregated.

Change in accounting policy

The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. Comparatives for 2009 have been restated. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(d) Business combinations

Change in accounting policy

A revised AASB 3 *Business Combinations* became operative on 1 July 2009.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets. There is no material impact on earnings per share.

2. Segment Information

(a) Description of segments

The Group has four reportable segments, based upon reports reviewed by the Group Managing Director that are used to make strategic decisions. The following summary describes the operations in each of the Group's reportable segments:

Electronic Security and Entertainment – includes electronic security systems, closed circuit television systems, home and commercial automation and control systems, professional audio products, consumer electronic equipment, fibre optic transmission solutions, communications related products and services, domestic and commercial antennas, master antenna television systems, communications antennas, amplifiers, and subscription TV installation services.

Home, Hardware and Eco – includes outdoor clothes driers, ladders, ironing boards, laundry trolleys, security doors, garden sprayers, rehabilitation and mobility products, water tanks and other rotationally moulded products, solar hot water products, stainless steel products and plumbing products.

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

Korvest – comprises the business of Korvest Ltd and includes electrical and cable support systems, pipe support systems, walkway systems, steel fabrication, associated metal treatment and galvanising services.

The Group principally considers the business from a products and services perspective. The Electronic Security and Entertainment and Home, Hardware and Eco divisions are each managed separately by Group General Managers.

The Electronic Security and Entertainment businesses meet the aggregation criteria of the Standard because of similarities of products, markets, distribution and regulatory environments.

The Home, Hardware and Eco division comprises a number of business units, which individually would not comprise reportable segments, however, rather than reporting these businesses as "other operations" they are reported as Home, Hardware and Eco as this reflects the manner in which the Group manages these businesses.

In previous financial years the Building and Industrial segment comprised the operations of Orrcon, Fielders and Korvest. These businesses are run by separate General Managers and the Group considers them separate operating segments. However, for the purposes of disclosure under AASB 8 *Operating Segments*, the Orrcon and Fielders businesses meet the aggregation criteria of the Standard because of similarities of products, markets, distribution and regulatory environments. However, Korvest does not meet the aggregation criteria, and as a consequence is reported separately.

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

Australia

Manufacturing facilities and sales offices and customers in all states and territories.

Overseas

Manufacturing facilities and sales offices in New Zealand.

2. Segment Information (continued)

(b) Segment information provided to the Group Managing Director

2010 *In thousands of AUD*	**Electronic Security and Entertainment**	**Home, Hardware and Eco**	**Building and Industrial**	**Korvest Ltd**	**Total**
Segment revenue	**349,506**	**176,311**	**574,366**	**55,279**	**1,155,462**
Segment EBIT	**32,525**	**10,235**	**20,622**	**5,706**	**69,088**
Segment assets	**143,955**	**128,840**	**372,623**	**35,882**	**681,300**
Segment liablilities	**33,099**	**26,989**	**81,830**	**7,070**	**148,988**

2009 *In thousands of AUD*	Electronic Security and Entertainment	Home, Hardware and Eco	Building and Industrial	Korvest Ltd	Total
Segment revenue	336,019	193,517	598,811	62,892	1,191,239
Segment EBIT	30,852	(3,106)	23,790	8,044	59,580
Segment assets	145,299	152,544	370,783	33,712	702,338
Segment liablilities	31,885	30,680	73,472	6,977	143,014

(c) Notes to, and forming part of, the segment information

(i) Accounting policies

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. Segment assets do not include income taxes.

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on a ''cost plus'' basis and are eliminated on consolidation.

(ii) Segment revenue

In thousands of AUD	**Consolidated**	
	2010	**2009**
Total segment revenue	**1,155,462**	1,191,239
Other revenue	**864**	842
Total revenue from continuing operations (note 3)	**1,156,326**	1,192,081

The Group is domiciled in Australia. The amount of its revenue from external customers in Australia is $1,116,159,000 (2009: $1,149,652,000), and the total of revenue from external customers in other countries is $39,303,000 (2009: $41,587,000). Segment revenues are allocated based on the country in which the customer is located.

The Group does not derive 10% or more of its revenues from any single external customer.

2. Segment information (continued)

(iii) Segment EBIT

Segment EBIT reconciles to operating profit before income tax as follows:

In thousands of AUD	Consolidated 2010	2009
Segment EBIT	**69,088**	59,580
Interest revenue	**1,596**	767
Interest expense	**(7,575)**	(13,298)
Fair value profit/(loss) on interest rate swaps and forward exchange contracts	**2,570**	(10,140)
Restructuring costs	–	(14,048)
Impairment of other assets	**(1,680)**	–
Other	**(1,939)**	398
Profit before income tax from continuing operations	**62,060**	23,259

(iv) Segment assets

The amounts provided to the Group Managing Director with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segment assets are reconciled to total assets as follows:

In thousands of AUD	Consolidated 2010	2009
Segment assets	**681,300**	702,338
Cash	**56,915**	67,978
Deferred tax assets	**23,771**	25,828
Investments	**2**	2
Derivative financial instruments	**800**	333
Corporate assets	**22,156**	33,531
Total assets as per the consolidated statement of financial position	**784,944**	830,010

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is $327,890,000 (2009: $333,776,000), and the total of these non-current assets located in other countries is $8,070,000 (2009: $8,046,000). Segment assets are allocated to countries based on where the assets are located.

(v) Segment liabilities

The amounts provided to the Group Managing Director with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

The Group's borrowings and derivative financial instruments are not considered to be segment liabilities but rather managed by the treasury function.

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

In thousands of AUD	Consolidated 2010	2009
Segment liabilities	**148,988**	143,014
Tax liabilities (including GST payable)	**15,646**	16,528
Borrowings	**107,068**	222,350
Derivative financial instruments	**2,944**	10,242
Corporate liabilities	**13,799**	9,356
Total liabilities as per the consolidated statement of financial position	**288,445**	401,490

3. Revenue

In thousands of AUD	Consolidated	
	2010	**2009**
From continuing operations		
Sales revenue		
Sale of goods	**1,094,540**	1,122,199
Services	**60,922**	69,040
	1,155,462	1,191,239
Other revenue		
Rents and sub-lease rentals	**864**	842
	1,156,326	1,192,081

4. Expenses

In thousands of AUD	Consolidated	
	2010	**2009**
Classification of expenses by function		
Cost of goods sold	**756,558**	791,128
Cost of services provided	**53,143**	58,381
Distribution expenses	**87,337**	88,576
Sales and marketing expenses	**129,091**	132,707
Administration expenses	**64,486**	63,263
Other expenses	**2,163**	14,994
Net loss on disposal of property plant & equipment	–	85
	1,092,778	1,149,134

During the current year the allocation of expenses by function and the allocation of sales rebates was reviewed. The comparative information has been adjusted to be consistent with the allocations for the current financial year.

In thousands of AUD	Consolidated	
	2010	**2009**
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	**1,644**	1,199
Plant and equipment	**21,233**	21,341
Total depreciation	**22,877**	22,540
Amortisation		
Patents and trademarks	**996**	567
Development costs	**40**	–
Total amortisation	**1,036**	567
Total depreciation and amortisation	**23,913**	23,107

4. Expenses (continued)

In thousands of AUD	Consolidated	
	2010	**2009**
Finance income		
Interest income	**1,596**	763
Fair value gains on derivatives	**2,504**	–
Ineffectiveness in fair value of cash flow hedges	**66**	4
	4,166	767
Other expenses		
Interest and finance charges paid/payable	**(7,575)**	(13,298)
Fair value loss on derivatives	–	(10,140)
	(7,575)	(23,438)
Net finance costs expensed	**(3,409)**	(22,671)

In thousands of AUD	Consolidated	
	2010	**2009**
Profit after tax for the year includes the following items that are unusual because of their nature and size:		
Financial expenses		
(a) Net fair value loss on derivatives	–	(10,140)
Less: Applicable income tax benefit	–	3,042
	–	(7,098)
Other expenses		
(b) Restructuring costs	–	(14,048)
Less: Applicable income tax benefit	–	2,600
	–	(11,448)

(a) Net fair value loss on derivatives

The Group manages its financial risk relating to interest rates and currency through the use of fixed interest rate swaps and forward exchange contracts, respectively. The Group does not trade in these instruments and does not speculate on movements in rates. In the previous financial year the significant movements in the Australian dollar resulted in a non cash fair value loss before tax on forward exchange contracts of $5,822,000 and the significant reduction in interest rates over the previous financial year resulted in a non cash fair value loss before tax on interest rate swaps of $4,318,000.

In the current reporting period, all existing forward exchange contracts from 1 July 2009 and all new forward exchange contracts from inception were designated into hedge relationships and hedge accounting applied. All new interest rate swaps from inception and all existing interest rate swaps from during the first quarter of the current financial year are designated into hedge relationships and hedge accounting applied. This is in accordance with the Group's existing accounting policy.

(b) Restructuring costs

In the previous financial year, the Group undertook a detailed review of operations with particular emphasis on the Home, Hardware and Eco Products division. A number of restructuring initiatives were implemented during that year, including a reduction in headcount in all businesses, the closure of the Alquip business and satellite manufacturing operations of Team Poly in Toowoomba. Furthermore, a number of non performing product lines were rationalised and discontinued. The total after tax cost of these restructuring initiatives was $11,448,000, of which the cash cost was $2,564,000. Included in the non cash costs was the impairment of the goodwill associated with the Alquip business. This totalled $5,380,000.

5. Current assets – Cash and cash equivalents

In thousands of AUD	Consolidated	
	2010	**2009**
Cash at bank and in hand	10,610	63,931
Deposits at call	46,305	4,047
	56,915	67,978

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

In thousands of AUD	Consolidated	
	2010	**2009**
Balances as above	56,915	67,978
Bank overdrafts (note 16 of the Full Financial Report)	(1,384)	(328)
Balances per consolidated statement of cash flows	55,531	67,650

6. Contibuted equity

	Company		Company	
	2010 Shares '000	**2009 Shares '000**	**2010 $'000**	**2009 $'000**
(a) Share capital				
Ordinary shares fully paid	247,697	204,601	306,595	248,598

(b) Movements in ordinary share capital

Date	**Details**	**Number of shares '000**	**$'000**
1 July 2008	Opening balance	185,789	223,091
	Issued under the Dividend Investment Plan	4,648	9,342
	Issued under the Share Investment Plan	3,006	–
	Issued under the Employee Share Bonus Plan	554	270
	Issued under the Executive Share Plan	320	1,022
	Issued under the Share Placement Plan	10,284	14,912
	Less: Transaction costs arising on share issue	–	(39)
30 June 2009	Balance	204,601	248,598
1 July 2009	Opening balance	204,601	248,598
	Issued under the capital raising	29,185	40,859
	Issued under the Share Purchase Plan	11,956	16,738
	Issued under the Dividend Investment Plan	674	1,255
	Issued under the Share Investment Plan	382	–
	Issued under the Employee Share Bonus Plan	899	373
	Issued under the Executive Share Plan	–	–
	Less: Transaction costs arising on share issue	–	(1,228)
30 June 2010	Balance	247,697	306,595

6. Contributed equity (continued)

(c) Ordinary shares

During the year the Company conducted a placement of ordinary fully paid shares to institutional and sophisticated investors. The share issue price was $1.40 per share.

Following completion of the institutional placement the Company invited shareholders to participate in a Share Purchase Plan. Each shareholder was entitled to purchase up to $5,000 worth of shares at a share issue price of $1.40 per share, the same as the issue price for the institutional placement. The Share Purchase Plan was oversubscribed and shares allotted were scaled back by approximately 50%.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

(d) Dividend investment plan and share investment plan

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.

(e) Employee share scheme

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.

(f) Executive Shares and Options

Information relating to the Executive Share Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 25 of the Full Financial Report.

(g) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio in conjunction with its review of the Group's banking covenants. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings as shown in the statement of financial position less cash and cash equivalents. Total equity is equity as shown in the statement of financial position (including non controlling interests).

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain a target gearing ratio less than 45%. The gearing ratios at 30 June 2010 and 30 June 2009 were as follows:

In thousands of AUD	**Consolidated**	
	2010	**2009**
Total borrowings	107,068	222,350
Less: cash and cash equivalents	(56,915)	(67,978)
Net debt	50,153	154,372
Total equity	496,499	428,520
Gearing ratio	10.1%	36.0%

The decrease in the gearing ratio during 2010 resulted primarily from the capital raising and from cash from operations generated during the year.

The Group is not subject to externally imposed capital requirements.

7. Reserves

In thousands of AUD	Consolidated	
(a) Reserves	**2010**	**2009**
Asset revaluation reserve	35,634	44,828
Hedging reserve – cash flow hedges	(265)	230
Asset realisation reserve	12,019	2,825
Foreign currency translation reserve	(1,653)	(1,971)
Equity compensation reserve	613	583
Non-controlling interests acquisition reserve	1,551	–
	47,899	46,495
Movements		
Asset revaluation reserve		
Balance 1 July	44,828	50,112
Revaluation – gross	–	(7,407)
Deferred tax	–	2,163
Transfers to / from retained earnings	–	(40)
Transfer to asset realisation reserve	(9,194)	–
Balance 30 June	35,634	44,828
Hedging reserve – cash flow hedges		
Balance 1 July	230	–
Revaluation – gross	(707)	329
Deferred tax	212	(99)
Balance 30 June	(265)	230
Foreign currency translation reserve		
Balance 1 July	(1,971)	(2,081)
Currency translation differences arising during the year	269	110
Disposal of foreign subsidiary	49	–
Balance 30 June	(1,653)	(1,971)
Asset realisation reserve		
Balance 1 July	2,825	2,825
Transfer from asset revaluation reserve	9,194	–
Balance 30 June	12,019	2,825
Equity compensation reserve		
Balance 1 July	583	513
Executive share option plan expense	30	70
Balance 30 June	613	583
Non-controlling interests acquisition reserve		
Balance 1 July	–	–
Adjustment to non-controlling interest upon increase in Group shareholding	1,551	–
Balance 30 June	1,551	–

7. Reserves (continued)
(b) Nature and purpose of reserves

(i) Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of property, plant and equipment, as described in note 1 of the Full Financial Report.

(ii) Hedging reserve – cash flow hedges

The hedging reserve is used to record changes in the fair value of derivative financial instruments designated in a cash flow hedge relationship that are recognised in other comprehensive income, as described in note 1 of the Full Financial Report. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

(iii) Asset realisation reserve

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

(iv) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1 of the Full Financial Report and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(v) Equity compensation reserve

The equity compensation reserve represents the value of options 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 options are exercised and 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.

(v) Non-controlling interests acquisition reserve

The non controlling interests acquisition reserve arises upon changes in the Group's ownership interest in subsidiaries after control is obtained. The reserve represents the difference between the fair value of consideration paid or received, and the amount of the change in the non controlling interest's share of net assets of the subsidiary.

8. Dividends

In thousands of AUD	Company	
	2010	**2009**
(a) Ordinary shares		
Final dividend for the year ended 30 June 2009 of 2.0 cents (year ended 30 June 2008: 14.0 cents) per fully paid share paid on 23 November 2009 (year ended 30 June 2008: 29 September 2008)		
Fully franked based on tax paid @ 30%	4,917	26,149
Final dividend foregone for Share Investment Plan	(713)	(3,993)
	4,204	22,156
Interim dividend for the year ended 30 June 2010 of 7.0 cents (2009: 8 cents) per fully paid share paid on 3 March 2010 (2009: 7 April 2009)		
Fully franked based on tax paid @ 30%	17,319	15,986
Final dividend foregone for Share Investment Plan	–	(2,279)
	17,319	13,707
Total dividends provided for or paid	21,523	35,863

(b) Dividends and share reinvestment plan

The Dividend Investment Plan and Share Investment Plan will not operate in respect of the proposed final dividend.

c) Dividends not recognised at year end

In thousands of AUD	Company	
	2010	**2009**
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 5.5 cents per fully paid ordinary share (2009: 2.0 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 27 September 2010 out of retained profits at 30 June 2010, but not recognised as a liability at year end, is	13,623	4,876

8. Dividends (continued)

(d) Franked dividends

The franked portions of the final dividends recommended after 30 June 2010 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2011.

In thousands of AUD	Company	
	2010	**2009**
Franking credits available for subsequent financial years based on a tax rate of 30% (2009: 30%)	41,240	19,505

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the Company if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $5,838,000 (2009: $2,090,000).

9. Earnings per share

In cents	Consolidated	
	2010	**2009**
(a) Basic earnings per share		
Profit attributable to the ordinary shareholders of the Company	16.7	4.9
Profit before unusual / significant items attributable to the ordinary shareholders of the Company	16.7	14.6
(b) Diluted earnings per share		
Profit attributable to the ordinary shareholders of the Company	16.7	4.9
Profit before unusual / significant items attributable to the ordinary shareholders of the Company	16.7	14.6

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

In thousands of AUD	Consolidated	
	2010	**2009**
Basic Earnings per share		
Profit attributable to the ordinary shareholders of the Company used in calculating basic earnings per share	40,188	9,506
Diluted Earnings per share		
Profit attributable to the ordinary shareholders of the Company used in calculating diluted earnings per share	40,188	9,506
Basic Earnings per share before unusual / significant items		
Profit attributable to the ordinary shareholders of the Company used in calculating basic earnings per share	40,188	9,506
Adjusted for unusual / significant items		
Fair value loss on derivatives	–	7,098
Restructuring costs	–	11,448
Profit attributable to the ordinary shareholders of the Company before unusual / significant items used in calculating basic earnings per share	40,188	28,052

9. Earnings per share (continued)

(d) Weighted average number of shares used as the denominator

In thousands of shares	Consolidated	
	2010	**2009**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	240,481	192,623
Adjustments for calculation of diluted earnings per share:		
Effect of share options on issue	523	703
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	241,004	193,326

10. Contingencies

(a) Contingent liabilities

The Group had contingent liabilities at 30 June 2010 in respect of:

Guarantees

(a) Letters of credit established in favour of suppliers / creditors amounting to $6,831,000 (2009: $331,000).

(b) Bank guarantees in favour of customers and suppliers amounting to $18,557,000 (2009: $13,721,000).

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required.

Claims

Other than guarantees listed above, the Group did not have any contingent liabilities as at 30 June 2010. At 30 June 2009, certain legal claims for damages had been made against 413 King William Street Pty Ltd (a company in which Hills Industries Limited has a 50% interest) and the Company in relation to a property development for the Hills head office in Adelaide. These claims were settled during the year ended 30 June 2010.

(b) Contingent assets

There are no contingent assets where the probability of future receipts is not considered remote.

11. Business combinations

Current period

(a) Summary of acquisition

On 31 May 2010 the Group acquired certain assets of the operations of The Steel Barn Pty Ltd in Queensland.

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

In thousands of AUD	
Purchase consideration	
Cash paid	3,558
Total purchase consideration	3,558
Fair value of net identifiable assets acquired (refer to (b) below)	3,558
Goodwill (refer to (b) below)	–

(b) Assets and liabilities acquired

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

In thousands of AUD	**Fair Value**
Inventories	2,359
Property, plant & equipment	1,463
Other assets	12
Provision for employee benefits	(276)
Net identifiable assets required	3,558
Add: goodwill	–
Net assets acquired	3,558

11. Business combination (continued)

(c) Purchase consideration – cash outflow

In thousands of AUD	Consolidated	
	2010	2009
Outflow of cash to acquire business operation		
Cash consideration	3,558	–
Direct costs realting to acquisition	395	–
Outflow of cash – investing activities	3,958	–

Acquisition-related costs

Acquisition-related costs of $395,000 are included in expenses in profit or loss and in investing cash flows in the statement of cash flows.

Prior Period

(a) Summary of acquisition

On 1 April 2009, the Company acquired 51% of the issued share capital of UHS Systems Pty Ltd (UHS).

The acquired business contributed revenues of $3,857,000 and net profit after tax of $280,000 for the period from 1 April 2009 to 30 June 2009. Had the business been acquired at the beginning of the reporting period it would have contributed revenues of approximately $10,500,000 and net profit of approximately $1,500,000.

In thousands of AUD	
Purchase consideration (refer to (b) below):	
Cash paid	5,100
Direct costs relating to the acquisition	107
Total purchase consideration	5,207
Fair value of net identifiable assets acquired (refer to (c) below)	(86)
Goodwill	5,293

(b) Cash flow information

In thousands of AUD	Consolidated	
	2010	2009
Outflow of cash to acquire business operation, net of cash acquired		
Cash consideration	–	5,100
Less cash balances acquired	–	1,120
Outflow of cash – investing activities	–	3,980

(c) Assets and liabilities acquired

The assets and liabilities arising from the aquisition are as follows:

In thousands of AUD	**Fair Value**
Cash and cash equivalents	1,120
Receivables	3,016
Inventories	1,111
Property, plant and equipment	73
Net deferred tax asset	28
Intangible assets: research and development	200
Payables	(1,789)
Borrowings	(2,863)
Employee benefit liabilities, including superannuation	(221)
Current tax liability	(211)
Provisions	(550)
Net identifiable assets acquired	(86)
Add: Goodwill	5,293
Net assets acquired	5,207

The goodwill recognised on the acquisition is attributable mainly to the skills, technical talent and product portfolio of the acquired business and its workforce and to the synergies expected to be achieved from integrating UHS into the Group's existing Electronic Security and Entertainment business,

12 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Directors' Report

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Hills Industries Limited (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2010, and the independent auditor's report thereon.

Directors

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

Jennifer Helen Hill-Ling
Graham Lloyd Twartz
Ian Elliot
Roger Baden Flynn
Geoffrey Guild Hill
Peter William Stancliffe

Fiona Rosalyn Vivienne Bennett and David Moray Spence were appointed as Directors on 31 May 2010 and 1 September 2010 respectively and continue in office at the date of this report.

Review of Operations

Refer Operating and Financial Review on pages 2 to 7.

Information on Directors

Refer to pages 10 to 11.

Company Secretary

Mr David Lethbridge, LLB (Otago, NZ), Grad Dip ACG, FCIS, GAICD was appointed to the position of Company Secretary in January 2010. Mr Lethbridge was previously the company secretary of NIB Holdings Limited and prior to that was Board Secretary and Legal Counsel for the New Zealand Apple and Pear Marketing Board.

Mr Andrew Muir, BEc, MBA (Adelaide) was appointed to the position of Company Secretary in July 2008 and held this position until January 2010. Mr Muir is the Company's General Manager of Finance and was formerly the General Manager of Business Development for five years.

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each Director were:

Director	Full Meetings of Directors		Audit & Compliance Committee Meetings		Nomination Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B	A	B
J Hill-Ling	19	19	–	–	7	7	6	6
G Twartz*	19	19	–	–	–	–	–	–
I Elliot^	15	19	–	–	7	7	6	6
R B Flynn	19	19	5	5	–	–	–	–
G G Hill	16	19	3	5	7	7	5	6
P W Stancliffe	19	19	5	5	–	–	–	–
F Bennett	2	2	–	–	–	–	–	–

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year

* = An executive Director

^ = Granted a leave of absence as a consequence of serious illness

Remuneration report – audited

Below is a summary of Hills Industries Limited's (Hills or the Group) executive and non-executive Director remuneration arrangements in place for the year ended 30 June 2010.

During the year, with the assistance of external advisers, Hills undertook a review of the executive remuneration strategy and the remuneration framework to ensure the approach meets Hills' business needs, shareholder expectations and contemporary market practice. The outcomes of this review are set out in this report in Section A (e).

This Remuneration report forms part of the Directors Report and has been prepared in accordance with section 300A of the *Corporations Act 2001* for the Group. The information provided in this Remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001.*

For the purposes of this report, the remuneration arrangements disclosed in this report apply to the non-executive Directors, the Managing Director and other senior executives set out below and include the five highest remunerated executives of the Group and the Company during the reporting period.

The following sections covered in this Remuneration report are:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Share-based compensation

E Additional information.

Remuneration report – audited (continued)

A Principles used to determine the nature and amount of remuneration

(a) Role of the Remuneration Committee

Information on the composition and functions of the Remuneration Committee ("the Committee") are set out in the Corporate Governance Statement in this Annual Report. The charter of the Committee is available from the Hills' internet site at www.hills.com.au.

As an overview, the Board established the Committee to provide advice to the Board on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive Directors, other senior executives and non-executive Directors.

The Board regularly reviews the remuneration, strategy and framework to assess its effectiveness in achieving its objectives. As part of these reviews, the Board relies on external and independent remuneration consultants.

(b) Executive remuneration policy

Hills' remuneration strategy is designed to attract, motivate and retain senior executives and Hills' employees generally. The key principles on which the Hills' remuneration strategy is based are as follows:

Market competitive and fair

Executive remuneration is reviewed annually.

Hills' aim is to provide market competitive remuneration against jobs of comparable size and responsibility. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role.

Performance driven

Remuneration is designed to reward executives for performance against business plans and longer term shareholder returns to a level that is appropriate for the results delivered.

A portion of the executive remuneration is at risk and performance dependent.

The variable components of the remuneration are driven by targets that focus on external and internal measures of financial and non financial performance.

Alignment with shareholder interests

Incentive plans and performance measures are aligned with Hills' short and long term success.

(c) Executive remuneration framework

The executive pay and reward framework has the following components:

Fixed remuneration:

- Base pay
- Superannuation
- Other short term benefits

Variable remuneration:

- Short-term incentives
- Long-term incentives (suspended for the time being from the commencement of the 2009 / 2010 financial year)

The combination of these comprises an executive's total remuneration. The Board considers that the performance linked remuneration structure is generating the desired outcome for Hills.

Fixed remuneration

Fixed remuneration is targeted at or above the median of the market for jobs of comparable size and responsibility. In some cases, superior performance or strong market demands for specific job categories may justify above median fixed remuneration.

Structured as a total employment cost package, the base pay may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

There are no guaranteed base pay increases included in any executives' contracts.

Salaries of all senior executives have been frozen across the Group since 1 October 2008, except in accordance with promotions or limited special circumstances.

Retirement benefits comprise employer contributions to superannuation funds.

Short-term incentives

Hills' executives all participate in a short-term incentive (STI) Plan. The plan is broadly the same for all executives. Features of all executive's STI plans are as follows:

Purpose of the STI plan

To drive individual and team performance to deliver annual business plans and increase shareholder value.

Frequency and timing

Participation is determined on an annual basis with performance measured over the financial year ending 30 June.

Payment is usually made in September following the release of the annual results to the market.

Performance measures used

Each year the Remuneration Committee recommends to the Board the key performance indicators (KPIs) for the key management personnel. KPIs generally include measures relating to the Group, the relevant business segment and the individual, and may include a mix of financial and non financial performance measures. These performance measures are chosen to drive divisional and individual performance designed to deliver value to shareholders.

Financial measures used

A principal focus of Hills is earnings before interest and tax (EBIT). The measures used in the STI plan are;

- For senior executive roles: EBIT and return on funds employed (ROFE); and
- For the Managing Director: ROFE and earnings per share (EPS).

Non financial measures

Non financial measures vary with position and responsibility and are chosen because they are critical to Hills' short term and long term success, and are aligned to the business plan. The measures typically cover areas including:

- Safety;
- Strategic outcomes;
- Operational improvements;
- Restructuring and rationalisation; and
- Other discretionary performance targets.

Achievement levels

The percentage of variable remuneration awarded as an STI varies depending on the role and responsibility of the senior executives.

Remuneration report – audited (continued)

A Principles used to determine the nature and amount of remuneration (continued)

(c) Executive remuneration framework (continued)

Short-term incentives (continued)

Assessment of performance

At the end of the financial year each executive's performance is assessed based on the actual performance of the Group and the relevant segment and individual performance overall and against KPIs set at the beginning of the financial year. The Managing Director makes recommendations in respect of each senior executive to the Remuneration Committee who in turn makes recommendations to the Board in relation to the payment of individual short term bonuses.

Service condition

New executives may be eligible to participate in the STI plan on a pro-rata entitlement basis. The Board retains the discretion in awarding payment to executives who retire, die or are retrenched during the financial year. No payments are made to executives who have their employment terminated for inadequate performance or misconduct, before the end of the financial year.

Long-term incentives

Long-term incentives have been provided in previous years to certain employees as options over ordinary shares of the Company under the rules of the Executive Share Option Plan. The Group established a share option plan in October 1997 that entitles selected senior managers and executives to acquire shares in the Company subject to the successful achievement of performance targets related to improvements in total shareholder returns.

Prior to 2008 the options were exercisable if the total shareholder return (measured as share price growth plus dividends paid) over a two-year period from the grant date exceeded ten percent plus CPI per annum. Once exercised the shares were forfeited if the holder ceased to be an employee of the Group within a further three-year period.

The shareholders approved an amendment to this plan as part of the 2007 Annual General Meeting (AGM) such that the option period over which the shareholder return must be achieved was extended to three years. The three-year period during which the shares were restricted has now been removed. This amendment is applicable for all share options granted after the resolution was passed. No changes were made to the rules governing options already granted.

Executives who acquired shares through the exercise of options were provided with 20-year interest free loans by the Company in accordance with the rules of the Executive Share Option 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.

In relation to the financial year ended 30 June 2010, the Board suspended the long term incentive bonus scheme and accordingly no long term incentive bonus was allocated to the Managing Director or senior executives.

The Board has determined to establish a new long term incentive plan (see Section (e) for more details).

In accordance with Hills' Securities Trading Policy, participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements.

Employee share plan

The Hills Employee Share Bonus Plan provides that eligible employees may receive $1,000 of Hills' ordinary shares for no consideration. Shares are allotted under the plan in two tranches, (one of $400 usually in March/April and one of $600 in September/October). Shares issued under the Hills Employee Share Bonus Plan cannot be sold until seven years after issue. The number of Hills Shares each eligible employee receives is the value of the allotment divided by the weighted average price at which the Company's shares are traded on the ASX on the five business days prior to the date of the allotment, rounded down to the nearest whole share.

Link between remuneration and Group performance

As mentioned above, a key underlying principle of the executive reward strategy is that remuneration should be linked to performance.

Also as discussed earlier, STI payments are based on a variety of performance conditions, both financial and non financial. The key financial measures are EBIT and ROFE, at a business unit and divisional level for some executives and at a Group level for other executives. The non financial measures include safety, strategic outcomes, operational improvements, restructuring and rationalisation and other discretionary performance targets.

In the financial year ended 30 June 2010 the Group performance improved on the prior year, with EBIT (before significant items) increasing 9.2% to $65.469 million and net profit after tax (before significant items) increasing 26% to $43.095 million. Individual division results varied though, with the Home, Hardware and Eco division increasing EBIT whilst EBIT declined in the Building and Industrial division.

As a result, the STI payments in relation to financial performance for the year ended 30 June 2010, either increased or decreased depending upon whether each executive was measured on business unit, divisional or Group EBIT and ROFE results.

The following table summarises financial and share price information over the last five years:

Key Financials	FY10	FY09	FY08	FY07	FY06
Earnings before interest and tax (EBIT) ($'000)	65,469	59,978	87,772	82,273	73,265
Shareholders' funds ($'000)	496,499	428,520	429,517	348,764	324,411
Return on funds employed (ROFE) based on year end Funds Employed	12.0%	10.3%	14.2%	16.6%	16.5%
Net profit before significant items ($'000)	43,095	34,201	53,539	52,042	48,210
Net profit after significant items ($'000)	43,095	15,655	52,360	52,042	48,210
Basic earnings per share before significant items (cents)	16.7	14.6	27.3	27.6	25.9
Dividends (cents)	12.5	10.0	27.5	27.5	26.0
Share price ($)	2.15	1.57	3.34	5.33	4.80

Remuneration report – audited (continued)

A Principles used to determine the nature and amount of remuneration (continued)

(d) Non-executive Director remuneration

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board. Non-executive Directors do not receive performance-based pay. The Board has also considered the advice of independent remuneration consultants to ensure non-executive Directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive Directors based on comparative roles in the external market.

Directors' Fees

The current base remuneration for Directors was last reviewed in August 2008. Non-executive Directors who chair a committee receive an additional $10,000 per annum. Directors' fees were not increased during the period.

Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $950,000 per annum, and was last approved by shareholders at the annual general meeting on 31 October 2008.

The following fees have applied:

Base fees	
Chairman	$200,000
Other non-executive directors	$100,000
Additional fees	
Committee - Chairman	$10,000

Retirement allowances for directors

Superannuation contributions required under the Australian superannuation guarantee legislation are made and are deducted from the Directors' overall fee entitlements.

In addition, certain non-executive Directors are entitled to receive benefits on retirement under a scheme that has since 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.

(e) Outcomes of the review of executive remuneration

A review of the Hills' remuneration framework was undertaken in order to improve alignment of reward with business goals and shareholder expectations. In particular the objectives of the review included developing a remuneration strategy that:

- reinforces the key objectives set by the Hills' business plans;
- facilitates the attainment of the Hills' commercial goals;
- reinforces the corporate values and behaviours identified as core to a successful culture at Hills;
- is logical, transparent and easily understood by all levels of staff and stakeholders;
- is proactive by incorporating market trends rather than reacting to lagging indicators; and
- is flexible for future business opportunities.

The outcomes of the review are proposed to be implemented from 1 July 2010 onwards, including the establishment of a new long term incentive scheme for nominated senior executives.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the Directors, the key management personnel of the Company and the Group (as defined in AASB 124 *Related Party Disclosures*) and the five highest paid executives of the Company and the Group are set out in the following tables.

The key management personnel of the Group includes the Directors as per page 34 above and the following executive officers who report directly to the Managing Director and have authority and responsibility for planning, directing and controlling the activities of the Group:

- L Andrewartha - Managing Director - Orrcon Operations Pty Ltd
- S Cope - Group General Manager - Electronic Security and Entertainment
- D Edgecombe - General Manager - Business Development (from 1 July 2009)
- R Gros - Group General Manager - Home, Hardware & Eco
- A Kachellek - Managing Director - Korvest Ltd
- D Lethbridge - Company Secretary (from 6 January 2010)
- K Middleton - CEO - Fielders Australia Pty Ltd
- A Muir - General Manager - Finance

During the year the Group conducted a review of executives classified as key management personnel and determined that only those personnel that report directly to the Managing Director should be classified as key management personnel. Accordingly, G Daher, R Meacham and A Oliver, who were classified as key management personnel during the year ended 30 June 2009, are not classified as key management personnel in the year ended 30 June 2010.

In addition, the following persons must be disclosed under the *Corporations Act 2001* as they are among the 5 highest remunerated group and/or company executives:

- G Daher - General Manager - Direct Alarm Supplies
- A Oliver - General Manager - Antenna and TV Systems

Changes since the end of the reporting period

There have been no changes in key management personnel since year-end.

Payments to persons before taking office

There were no payments to persons before taking office.

Remuneration report – audited (continued)

B Details of remuneration (continued)

Key management personnel of the Group and other executives of the Company and the Group

	Short-term employee benefits				Post-employment benefits	Long-term benefits	Share-based payments (B)		
2010	Cash salary and fees $	Cash bonus (A) $	Non-monetary benefits $	Other $	Super-annuation benefits $	Long Service Leave $	Options $	Shares $	Total $
Non Executive Directors									
J Hill-Ling+	192,661	–	–	5,600	17,339	–	–	–	215,600
I Elliot	100,917	–	–	–	9,083	–	–	–	110,000
R Flynn	91,743	–	–	–	8,257	–	–	–	100,000
G Hill*	199,743	–	–	–	8,257	–	–	–	208,000
P Stancliffe*	150,917	–	–	–	13,583	–	–	–	164,500
F Bennett	8.009	–	–	–	721	–	–	–	8,730
Sub-total non-executive Directors	**743,990**	–	–	**5,600**	**57,240**	–	–	–	**806,830**
Executive Director									
G Twartz	724,943	211,795	13,113	16,009	72,215	18,349	3,399	999	1,060,822
Other key management personnel (Group)									
L Andrewartha^	335,079	48,223	–	1,400	33,356	–	3,399	999	422,456
S Cope^#	299,393	60,516	–	1,400	33,399	–	1,976	999	397,683
D Edgecombe	239,061	4,497	–	350	21,468	–	–	999	266,375
R Gros^#	285,539	57,289	–	1,400	30,183	–	1,976	999	377,386
D Lethbridge	103,598	–	–	–	8,650	–	–	–	112,248
A Kachellek	221,129	67,114	–	350	25,587	–	5,635	999	320,813
K Middleton^	326,903	45,608	–	700	33,413	–	659	998	408,282
A Muir#	293,578	24,497	–	1,400	29,369	–	1,060	999	350,903
Total key management personnel compensation (Group)	**3,573,213**	**519,539**	**13,113**	**28,609**	**344,880**	**18,349**	**18,104**	**7,991**	**4,523,798**
Other Company and Group executives									
G Daher#	197,693	73,843	–	3,150	23,733	3,269	659	999	303,346
A Oliver^#	227,581	111,150	–	15,849	28,295	3,640	1,890	999	389,404

(A) The short-term incentive bonus is for performance during the respective financial year using the criteria set out above.

(B) Share based payment remuneration comprises options in the Executive Share Option Plan and shares under the Employee Share Plan.

No options were granted during the year. Options granted in the previous two years expire three years after the grant date 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. For all options granted prior to 2008, once the option is exercised, the holder was restricted from selling the shares for a period of three years.

The fair 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 below.

^ denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

# denotes one of the 5 highest paid executives of the Company, as required to be disclosed under the *Corporations Act 2001*.

* G Hill remuneration includes Board fees from Fielders Australia Pty Ltd (Chairman until April 2010) and P Stancliffe remuneration includes Board fees from Korvest Ltd.

+ J Hill-Ling remuneration includes a dividend of $5,600 paid as a shareholder of Hills Associates Limited.

Remuneration report – audited (continued)

B Details of remuneration (continued)

Key management personnel of the Group and other executives of the Company and the Group

	Short-term employee benefits				Post-employment benefits		Share-based payments (B)		
	Cash salary and fees	Cash bonus (A)	Non-monetary benefits	Other	Super-annuation benefits	Termination benefits	Options	Shares	Total
2009	$	$	$	$	$	$	$	$	$
Non-executive Directors									
J Hill-Ling	181,957	–	–	–	16,433	–	–	–	198,390
I Elliot	94,801	–	–	–	8,532	–	–	–	103,333
R Flynn	88,685	–	–	–	7,982	–	–	–	96,667
G Hill*	157,585	–	–	–	7,982	–	–	–	165,567
P Stancliffe*	122,859	–	–	–	11,057	–	–	–	133,916
Sub-total non-executive Directors	**645,887**	**–**	**–**	**–**	**51,986**	–	**–**	**–**	**697,873**
Executive Director									
G Twartz	673,012	50,459	23,550	9,535	66,483	–	14,276	998	838,313
Other key management personnel (Group)									
L Andrewartha^	330,000	52,661	–	–	34,439	–	11,729	998	429,827
S Cope^#	280,833	67,954	–	–	31,448	–	8,884	998	390,117
G Daher	185,115	82,285	–	–	24,066	–	2,583	998	295,047
J Easling	215,290	–	–	–	19,421	–	–	998	235,709
R Gros#	273,359	33,770	–	–	27,642	–	8,884	998	344,653
A Kachellek	210,941	105,786	–	–	27,996	–	5,374	–	350,097
R Meacham#	188,139	80,129	–	–	24,201	–	4,600	998	298,067
K Middleton^	314,183	16,133	–	–	29,728	–	1,678	998	362,720
A Muir#	259,939	32,110	–	–	26,342	–	4,600	998	323,989
A Oliver^#	218,423	92,047	–	8,301	27,942	–	10,312	998	358,023
Total key management personnel compensation (Group)	**3,795,121**	**613,334**	**23,550**	**17,836**	**391,694**	**–**	**72,920**	**9,980**	**4,924,435**
D Salvaterra^	88,390	100,849	–	–	24,288	154,074	–	500	368,101

Remuneration report – audited (continued)

B Details of remuneration (continued)

Key management personnel of the Group and other executives of the Company and the Group (continued)

The relative proportions of remuneration for the year ended 30 June 2010 (30 June 2009) as set out above that are linked to performance and those that are fixed are as follows:

	Fixed remuneration %		At risk – STI %		Value of options as proportion of remuneration %	
	2010	2009	**2010**	2009	**2010**	2009
Executive Directors of Hills Industries Limited						
G Twartz	**80**	94	**20**	6	**0.33**	1.75
Other key management personnel of Group						
L Andrewartha	**89**	88	**11**	12	**0.81**	2.73
S Cope	**85**	83	**15**	17	**0.50**	2.28
J Easling	**–**	100	**–**	–	**–**	–
D Edgecombe	**98**	–	**2**	–	**–**	–
R Gros	**85**	90	**15**	10	**0.53**	2.58
A Kachellek	**79**	71	**21**	29	**1.76**	–
D Lethbridge	**100**	–	**–**	–	**–**	–
K Middleton	**89**	96	**11**	4	**0.16**	0.46
A Muir	**93**	90	**7**	10	**0.30**	1.42
Other Company and Group Executives						
G Daher	**76**	72	**24**	28	**0.22**	0.88
R Meacham	**–**	73	**–**	27	**–**	1.54
A Oliver	**71**	74	**29**	26	**0.49**	2.88

C Services agreements

Executives

The details of the contracts of Hills' senior executives named in the remuneration tables (excluding the Managing Director) can be summarised as follows:

- All executives have ongoing contracts of no fixed term;
- The period of notice required to be given to terminate a contract varies depending upon an executive's contract, with an executive's period of notice to the Company ranging from one to six months, and the Company's period of notice to an executive ranging from three to six months or payment in lieu of that notice;
- Upon termination, executives are entitled to payment of annual and long service leave;
- If an executive is retrenched, the executive is not entitled to contractual termination payments other than those generally applicable to all staff.

Managing Director

Graham Twartz was appointed as Managing Director effective 1 July 2008. The details of the Managing Director's contract and the remuneration package for the financial year are as follows:

Term

The contract is for indefinite duration.

The contract can be terminated by the Company or the Managing Director giving three month's notice to the other.

Fixed remuneration

The Managing Director has received an annual base salary, inclusive of superannuation, for the year ended 30 June 2010 of $800,000.

The Managing Director's remuneration has been fixed since 1 October 2008.

Short-term incentive

An annual maximum STI opportunity of $325,000.

The performance of the Managing Director against performance measures, as discussed in Section A, is assessed and the payment determined by the Board.

Remuneration report – audited (continued)

D Share based compensation

Options

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

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

Grant date	Date exercisable and vested	Expiry date	Exercise price	Value per option at grant date	Performance achieved	% vested
28/2/05	31/1/07 / 31/1/10	31/1/27	$4.16	$0.48	Yes	55%
28/2/06	31/1/08 / 31/1/11	31/1/28	$4.83	$0.56	No	0%
28/2/07	31/1/09 / 31/1/12	31/1/29	$5.53	$0.64	No	0%
28/2/08	31/1/11 / 31/1/11	31/1/31	$5.49	$0.19	n/a	n/a
4/2/09	31/1/12 / 31/1/12	31/1/32	$3.01	$0.00	n/a	n/a

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 three years from grant date for the options issued from 2008 onwards, or two years from grant date for options issued prior to 2008. In addition to a continuing employment service condition, the ability to exercise options is conditional on the Group achieving certain performance hurdles. Details of the performance criteria are included in the long-term incentives discussion above.

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Details of options over ordinary shares in the Company provided as remuneration to each Director of Hills Industries Limited and each of the key management personnel of the Company and the Group are set out below. When exercisable, each option is convertible into one ordinary share of Hills Industries Limited. The options that vested during the financial year related to the options issued in February 2005. Further information on the options is set out above and in note 25 to the Full Financial Statements.

	Number of options granted during the year	Value of options at grant date	Number of options vested during the year	Number of options lapsed/ forfeited during the year	Value at lapse/forfeit date
Directors of Hills Industries Limited					
G Twartz	–	$–	60,000	–	$–
Other key management personnel of the Group					
L Andrewartha	–	$–	60,000	–	$–
S Cope	–	$–	–	–	$–
D Edgecombe	–	$–	–	–	$–
R Gros	–	$–	–	–	$–
A Kachellek	–	$–	–	–	$–
D Lethbridge	–	$–	–	–	$–
K Middleton	–	$–	–	–	$–
A Muir	–	$–	10,000	–	$–
Other Group and Company executives					
G Daher	–	$–	–	–	$–
A Oliver	–	$–	45,000	–	$–

Shares provided on exercise of remuneration options

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

Remuneration report – audited (continued)

E Additional information

Details of remuneration: bonuses and share-based compensation benefits (options)

For each cash bonus and grant of options included in the tables on pages 38 - 39 and 40 - 41, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonus is payable in future years. The options vest after three years, provided the vesting conditions are met (see page 41 above). No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed. The % of options forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest level performance criteria as well as options that have lapsed due to termination of employment.

	Bonus		Share-based compensation benefits (options)					
Name	**Paid/ Payable 2010 %**	**Forfeited 2010 %**	**Year granted**	**Vested %**	**Forfeited %**	**Financial years in which options may vest**	**Minimum total value of grant yet to vest $**	**Maximum total value of grant yet to vest $**
G Twartz	65	35	2008	–	–	2011	–	988
			2009	–	–	2012	–	–
L Andrewartha	93	7	2008	–	–	2011	–	988
			2009	–	–	2012	–	–
S Cope	86	14	2008	–	–	2011	–	988
			2009	–	–	2012	–	–
D Edgecombe	45	55	2008	–	–	2011	–	–
			2009	–	–	2012	–	–
R Gros	100	–	2008	–	–	2011	–	988
			2009	–	–	2012	–	–
D Lethbridge	–	–	2008	–	–	2011	–	–
			2009	–	–	2012	–	–
K Middleton	100	–	2008	–	–	2011	–	330
			2009	–	–	2012	–	–
A Muir	61	39	2008	–	–	2011	–	412
			2009	–	–	2012	–	–
G Daher	94	6	2008	–	–	2011	–	330
			2009	–	–	2012	–	–
A Oliver	92	8	2008	–	–	2011	–	412
			2009	–	–	2012	–	–

Remuneration report – audited (continued)

E Additional information (continued)

Share-based compensation: Options

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person, and each of the five named Company executives and Group executives is detailed below.

	Value of options		
	A Value at grant date $	B Value at exercise date $	C Value at lapse date $
G Twartz	–	–	–
L Andrewartha	–	–	–
S Cope	–	–	–
D Edgecombe	–	–	–
R Gros	–	–	–
A Kachellek	–	–	–
D Lethbridge	–	–	–
K MIddleton	–	–	–
A Muir	–	–	–
G Daher	–	–	–
A Oliver	–	–	–

(A) The value at grant date calculated in accordance with AASB 2 *Share based Payment* of options granted during the year as part of remuneration. No options were granted in the current year as the Executive Share Option Plan is currently suspended.

(B) The value at exercise date of options that were granted as part of remuneration and were exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option. No options were exercised in the current year.

(C) The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied. The value of the options that lapsed/forfeited during the year represents the benefit forgone and is calculated at the date the option lapsed using the method described above assuming the performance criteria had been achieved. There were no options that lapsed during the year.

Principal activities

The principal activities of the Group during the course of the year are outlined within the Review of Operations of the Group.

Objectives

The Group's objectives are to:
- provide a safe, challenging and rewarding workplace;
- deliver superior returns to shareholders;
- increase earnings per share;
- represent quality, reliable and value for money products; and
- improve the retention rate of our outstanding people resources.

In order to meet theses objectives the following targets were set for the 2010 financial year and beyond:
- increase revenue, operating activities, profits, earnings per share and return on funds employed;
- reduce operating costs;
- achieve strategic objectives;
- continue to improve our safety performance;
- continue to source cost effective supplies; and
- further develop our employees.

Dividends – Hills Industries Limited

Dividends paid to members during the financial year were as follows:

	2010 $'000
Final ordinary dividend for the year ended 30 June 2009 of 2.0 cents per fully paid share paid on 23 November 2009	**4,917**
Final dividend foregone for Share Investment Plan	**(713)**
Interim ordinary dividend for the year ended 30 June 2010 of 7.0 cents per fully paid share paid on 3 March 2010	**17,319**
	21,523

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a final ordinary dividend of approximately $13,623,000 (5.5 cents per fully paid share) to be paid on 27 September 2010 out of retained profits at 30 June 2010. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in subsequent financial periods. For more information regarding dividends please refer to note 8.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

Contributed equity increased by $57,997,000 (from $248,598,000 to $306,595,000) principally as a result of a capital raising with institutional and sophisticated investors (raising $40,859,000) and a share purchase plan with existing shareholders (raising $16,738,000). Details of the changes in contributed equity are disclosed in note 6.

The net cash received from the increase in contributed equity was used to repay borrowings and will be used over time to finance further acquisitions.

The Group increased its shareholding in Fielders Australia Pty Ltd from 60% to 100% through a rights issue and conversion of debt to equity (increasing its shareholding from 60% to 74.9%) followed by a selective share buy back (increasing its shareholding from 74.9% to 100%). Details of these transactions are disclosed in note 32 of the Full Financial Report.

Matters subsequent to the end of the financial year

There has not arisen in the interval between the end of the financial year and the date of this report any other 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 future financial years.

Dividends – Hills Industries Limited (continued)

Likely developments and expected results of operations

For likely developments please refer to the Review of Operations section of the Directors' report.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

Manufacturing

The Group holds all required environmental licences for its manufacturing sites around Australia.

Greenhouse gas and energy data reporting requirements

The Group is subject to the reporting requirements of the *National Greenhouse and Energy Reporting Act 2007*.

The *National Greenhouse and Energy Reporting Act 2007* requires the Group to report its annual greenhouse gas emissions and energy use. The first measurement period relevant to Hills is from 1 July 2010 to 30 June 2011. The Group has implemented systems and processes for the collection and calculation of the data required and will be submitting its initial report to the Greenhouse and Energy data Officer by 31 October 2011.

National Packaging Covenant

Hills became a signatory to the National Packaging Covenant (NPC) in December 2008 and is committed to fulfilling key obligations as a signatory, including integrating the Environmental Code of Practice for Packaging into our product development and site operations. As a signatory Hills is also required to develop, implement and report on an Action Plan which can be accessed via: http://packagingcovenant.org.au/documents/File/Hills_Industries_Limited_AP_09_11_Public.pdf

The new Australian Packaging Covenant (APC) came into effect on 1 July 2010 and replaces the NPC. Hills will become a signatory to the APC and is committed to fulfilling key obligations as a signatory to this new covenant, including implementing the Sustainable Packaging guidelines into our product development and site operations.

Share options granted to Directors and the most highly remunerated officers

No options over unissued ordinary shares of the Company were granted during the financial year ended 30 June 2010.

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

Shares under option

Unissued ordinary shares of Hills Industries Limited under option in accordance with accounting standards at the date of this report are as follows:

Date Options Granted	Expiry date	Issue price of shares	Number under option
February 2001	January 2023	$2.50	50,000
February 2002	January 2024	$2.90	53,000
February 2003	January 2025	$3.23	80,000
February 2004	January 2026	$3.66	135,000
February 2005	January 2027	$4.16	205,000
February 2008	January 2031	$5.49	445,000
February 2009	January 2032	$3.01	525,000
			1,493,000

No option holder has any right under the options to participate in any other share issue of the Group or any other entity.

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. Further details are included in the Remuneration report.

Shares issued on the exercise of options

During or since the end of the financial year, the Company has not issued ordinary shares as a result of the exercise of options.

Insurance of officers

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 liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

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.

Dividends – Hills Industries Limited (continued)

Indemnification of officers

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.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor of the Group, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Compliance committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non audit services have been reviewed by the Audit and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

	Consolidated	
	2010	**2009**
1. Audit services:		
KPMG Australia:		
audit and review of financial reports	450,000	400,000
Overseas KPMG firms –		
audit and review of financial reports	31,095	36,458
Total remuneration for audit services	481,905	436,458
2. Non-audit services		
Taxation services		
KPMG Australia:		
Tax compliance services	126,354	157,048
Overseas KPMG firms –		
Tax compliance services	10,542	30,430
Total remuneration for taxation services	136,896	187,478
Other Advisory services		
KPMG Australia:		
Consulting services	–	54,195
Total remuneration for other services	–	54,195
Total remuneration for non-audit services	136,896	241,673

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 51.

Rounding of amounts

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

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

G Twartz
Director

J Hill-Ling
Director

Dated at Adelaide this 10th day of September 2010

Corporate Governance Statement

This report sets out Hills Industries Limited's (Hills) annual statement on its corporate governance framework for the year ended 30 June 2010.

Hills and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board undertook a detailed review of Hills' corporate governance framework and practices during 2010 to ensure that they continue to comply with the requirements of the ASX Corporate Governance Council's (ASXCGC) 2007 *Principles of Good Corporate Governance and Best Practice Recommendations* and meet the interests of shareholders.

A description of Hills' main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year and comply with the ASXCGC Corporate Governance Principles and Recommendations.

Full details of the location of the references in this statement (and elsewhere in this Annual Report) which specifically sets out how Hills applies each ASXCGC Principle and Recommendation are contained in the corporate governance section within the Hills website which can be found at www.hills.com.au. This website also contains copies of the charters and policies referred to in this report.

ASXCGC Principle 1: Lay solid foundations for management and oversight

The Board operates in accordance with the broad principles set out in its Board charter. The charter details the roles and responsibilities of the Board, as well as the membership and operation of the Board.

The Board's role is to provide the overall strategic direction for Hills, ensure that Hills' activities comply with its constitution and with all legal and regulatory requirements, and define the powers to be reserved to the Board and those that are delegated to its committees and management.

The Board is responsible to the shareholders for the performance of Hills in both the short and the longer term and seeks to balance sometimes competing objectives in the best interests of Hills as a whole.

The responsibilities of the Board include:

- Strategy and planning - reviewing and approving Hills' business strategies and monitoring their implementation;
- Oversight of management - the appointment, and if appropriate, the removal of the Managing Director, setting the Managing Director's terms and conditions of employment, approving the remuneration policies and practices for all Hills employees, monitoring the performance of the Managing Director and reviewing on a regular basis executive succession planning;
- Financial and Capital Management – reviewing and approving Hills annual and half yearly financial reports, monitoring Hills' financial position on an ongoing basis, overseeing Hills' accounting and financial systems, reviewing the progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments, approving capital management decisions and the dividend policy;
- Shareholders – overseeing effective communication with and reporting to shareholders;
- Other stakeholders – overseeing and approving policies that govern the relationship with other stakeholders;
- Ethics and sustainability – monitoring Hills' culture and its ethics, overseeing and approving Hills' Code of Conduct; and
- Compliance and risk management - overseeing Hills' systems for corporate governance, internal control and risk management.

The Board has delegated to the Managing Director the authority to manage the day to day affairs of Hills and the authority to control the affairs of Hills in relation to all matters delegated by the Board in the Hills' Delegation of Authority. These delegations are reviewed on an annual basis.

As part of the oversight of management, the Board has established a process of annual performance review and goal planning, whereby each executive is evaluated against a range of criteria, including achievement of strategic and financial goals, safety performance and business excellence. This performance assessment for senior executives was undertaken during the reporting period.

ASXCGC Principle 2: Structure the Board to add value

Board composition

The Board charter states:

- the Board will consist of a majority of non-executive independent Directors; and
- the Chairman is a non-executive Director appointed by the Board.

The Board seeks to ensure that it has a board of Directors with an appropriate range of skills, experience, expertise and who have the understanding and competence to deal with current and emerging issues in Hills' business.

Directors' independence

The Board has adopted specific principles in relation to Directors' independence. These state that when determining independence, the Board should consider whether the Director:

- is a substantial shareholder of Hills or an officer of, or otherwise associated directly with, a substantial shareholder of Hills;
- is or has been employed in an executive capacity by Hills or any other group member within three years before commencing to serve on the Board;
- within the last three years has been a principal of a material professional adviser or a material consultant to Hills or any other group member, or an employee materially associated with the service provided;
- is a material supplier or customer of Hills or any other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- has a material contractual relationship with Hills or a controlled entity other than as a Director of the Group.

In determining whether a relationship between a Director and Hills is considered to be material, the Board assesses a range of quantitative and qualitative matters including the proportion the transactions represent to both Hills and the Director and the value or strategic importance of the relationship to both Hills and the Director.

Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office, relationships affecting their independence and their independent status are set out in the Directors' Report under the heading "Information on Directors". At the date of signing the Directors' Report, there is one executive Director and seven non-executive Directors, six of whom have no relationships adversely affecting independence and so are deemed independent under the principles set out above.

Chairman and Managing Director

The Chairman, Ms Jennifer Hill-Ling is not considered an independent Chairman. Hills considers this departure is appropriate however given:

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

The Chairman is independent of the role of the Managing Director of Hills.

Term of Office

Hills' constitution specifies that all non-executive Directors must retire from office no later than the third annual general meeting (AGM) following their last election. A Director may stand for re-election.

Induction

The induction provided to new Directors enables them to actively participate in Board decision-making as soon as possible. It ensures that they have a full understanding of Hills' financial position, strategies, operations and risk management policies. It also explains the respective rights, duties, responsibilities and roles of the Board and senior executives.

Commitment

The Board held 19 Board meetings and an additional corporate strategy workshop during the year. The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2010, and the number of meetings attended by each Director is disclosed on page 34.

Independent professional advice

Following consultation with the Chairman, Directors are entitled to seek independent professional advice at Hills' expense.

Performance assessment

The Board undertakes a regular annual assessment of its performance and that of individual Directors. Descriptions of the process for performance assessment for the Board and senior executives are available on the Company website. A performance evaluation for the Board and its members and committees has taken place in the reporting period.

Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Nomination, Remuneration and Audit and Compliance Committees. Each is comprised entirely of non-executive Directors. The committee structure and membership is reviewed on an annual basis.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on Hills' website. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

Minutes of committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

Nomination committee

The Nomination Committee consists of the following non-executive Directors (a majority of whom are independent):

- I Elliot (Chair)
- J H Hill-Ling
- G G Hill

Details of these Directors' attendance at Nomination Committee meetings are set out in the Directors' Report on page 34.

The Nomination Committee operates in accordance with its charter which is available on Hills' website. The main responsibilities of the Committee are to assist and make recommendations to the Board on:

- Director selection and appointment practices;
- Board composition and tenure; and
- Succession planning for the Board.

When a new Director is to be appointed, the Committee reviews the range of skills, experience and expertise of candidates and prepares a short-list of candidates for consideration by the Board. Advice is sought from independent search consultants as required.

The Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of Hills. The Board's nomination of existing Directors for reappointment is not automatic and is contingent on their past performance, the requirements of Hills and shareholder approval. The Board is also aware of the advantages of Board renewal and succession planning.

Notices of meetings for the election of directors comply with the ASX Corporate Governance Council's best practice recommendations.

New Directors are provided with a letter of appointment setting out Hills' expectations, their responsibilities, rights and the terms and conditions of their employment. All new Directors participate in a comprehensive, formal induction program which covers the operation of the Board, its committees and financial, strategic, operations and risk management issues.

ASXCGC Principle 3:
Promote ethical and responsible decision making

Code of Conduct

Hills has developed a Code of conduct (the Code) which has been approved by the Board and applies to all Hills Directors, officers, employees, contractors, consultants and associates (collectively Hills employees). The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in Hills' integrity and to take into account legal obligations and reasonable expectations of Hills' stakeholders.

In summary, the Code sets out the standards of behaviour Hills expects from Hills Employees and informs them of their responsibilities to Hills' shareholders, customers, employees, suppliers and the broader community.

The Code is available on Hills' website.

Security Trading Policy

Hills has adopted a securities trading policy, available on Hills' website, which sets out Hills' policy regarding buying and selling Hills shares and complying with the law on insider trading. The policy applies to all Hills Directors, officers and employees within the Hills group and provides that where a person possesses inside information relating to Hills shares, that person must not deal in Hills shares, procure another person to deal in the shares or pass the inside information to another person.

The policy also restricts Directors and senior employees from dealing in shares during "black out periods" commencing at midnight on 31 December for the Hills half yearly results and midnight on 30 June for the Hills annual results and continuing until midnight (Adelaide time) on the next ASX trading day after the day on which the Hills results are released to the ASX.

Whistleblower Protection Policy

Hills encourages its Directors, employees and contractors to report conduct that is dishonest, fraudulent, corrupt or illegal, endangers health and safety, is a suspected breach of Hills' Code of Conduct or any Hills policy. Hills has adopted a whistleblower protection policy to ensure concerns regarding unacceptable conduct can be raised on a confidential basis without fear of reprisal, dismissal or discriminatory conduct.

The Whistleblower Protection Policy is available on Hills' website.

ASXCGC Principle 4: Safeguard integrity in financial reporting

Audit and Compliance Committee

The Audit and Compliance Committee consists of the following non-executive Directors:

- P Stancliffe (Chair)
- R B Flynn
- G G Hill

Details of these Directors' qualifications and attendance at Audit and Compliance Committee meetings are set out in the Directors' report on pages 10-11 and page 34.

All members of the Audit and Compliance Committee are financially literate and have an appropriate understanding of the industries in which Hills operates.

The Audit and Compliance Committee operates in accordance with a charter which is available on Hills' website. The role of the Committee is to assist the Board in:

- Reviewing Hills' financial statements and financial information distributed externally;
- Monitoring the internal control framework, procedures that are designed to ensure compliance with statutory responsibilities and other external reporting requirements, the activities of internal audit, and the adequacy of Hills' risk management framework; and
- Liaison with the external auditor.

In fulfilling its responsibilities, the Committee:

- Receives regular reports from management, the internal auditor and the external auditors;
- Regularly meets with the internal auditor and external auditors;
- Reviews the processes the Managing Director and CFO have in place to support their certifications to the Board;
- Reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- Meets separately with the external auditors and the internal auditor at least once a year without the presence of management;
- Provides the internal auditor and external auditors with a clear line of direct communication at any time to either the Chair of the Audit and Compliance Committee or the Chair of the Board.

The Audit and Compliance Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors

Hills policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. KPMG is Hills' current external auditor. It is KPMG's policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors' Report and in the notes to the full Financial Statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Board and the Audit and Compliance Committee.

The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

ASXCGC Principles 5 and 6: Make timely and balanced disclosures and respect the rights of shareholders

Continuous disclosure and shareholder communication

Hills has a Communication and Market Disclosure Policy that focuses on continuous disclosure of any information concerning Hills that a reasonable person would expect to have a material effect on the price of Hills securities. This policy also includes the arrangements Hills has in place to promote communication with shareholders and encourage effective participation at general meetings. The Communication and Market Disclosure Policy is available on Hills' website.

The Company Secretary's role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules. All information disclosed to the ASX is posted on Hills' website as soon as it is disclosed to the ASX.

ASXCGC Principle 7: Recognise and manage risk

The Board, through the Audit and Compliance Committee, is responsible for ensuring there are adequate policies in relation to risk management compliance and internal control systems. In summary, Hills' policies are designed to ensure that strategic, operational, legal, reputational and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of Hills' business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues. Internal audit carries out regular systematic monitoring of control activities and reports to both relevant business unit management and the Audit and Compliance Committee.

In April 2010 the Board established a Risk Committee consisting of the Managing Director, senior executives from the executive management group and a non-executive Director. The Risk Committee's role is to assist and make recommendations to the Audit and Compliance Committee on the design of the risk management framework, the manner in which it is implemented, the measures used to assess the framework's effectiveness and, through continuous improvement, how the framework can be enhanced.

The Board and the Audit and Compliance Committee have received reports from the Risk Committee and management as to the effectiveness of Hills' management of material risks that may impede meeting business objectives.

ASXCGC Principle 7:
Recognise and manage risk (continued)

Corporate reporting

The Board has received:

- Declarations from the Managing Director and Chief Financial Officer required in accordance with Section 295A of the *Corporations Act 2001* that Hills' financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Group and are in accordance with relevant accounting standards; and
- Assurance from the Managing Director and Chief Financial Officer that the Section 295A declaration was founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that Hills' risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

ASXCGC Principle 8:
Remunerate fairly and responsibly

Remuneration committee

The Remuneration Committee consists of the following non-executive Directors (a majority of whom are independent):

- J H Hill-Ling (Chair)
- G G Hill
- I Elliott

Details of these Directors' attendance at Remuneration Committee meetings are set out in the Directors' Report on page 34.

The Remuneration Committee operates in accordance with its charter which is available on Hills' website. The Remuneration Committee is responsible for developing and making recommendations to the Board on the remuneration framework for the Chairman, the Board Committees, non-executive Directors, and Hills' remuneration and incentive policies and practices for the Managing Director, direct reports to the Managing Director and other senior executives.

Further information on Directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' Report under the heading "Remuneration report". In accordance with Hills' Securities Trading Policy, participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements.

Director's Declaration

In the opinion of the Directors of Hills Industries Limited, the accompanying concise financial report of the Group, comprising Hills Industries Limited and the entities it controlled for the financial year ended 30 June 2010 set out on pages 14 to 33:

(i) has been derived from or is consistent with the full financial report for the financial year; and

(ii) complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

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

G Twartz
Director

Dated at Adelaide on this 10th day of September 2010.

Lead Auditor's Independence Declaration

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 2010 there have been:

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

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

KPMG

KPMG

N Faulkner
Partner

Dated at Adelaide this 10th day of September 2010

Independent Audit Report to the Members of Hills Industries Limited

Report on the concise financial report

The accompanying concise financial report of the Group comprising Hills Industries Limited (the Company) and its controlled entities comprises the consolidated statement of financial position as at 30 June 2010, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and related notes 1 to 12 derived from the audited financial report of Hills Industries Limited for the year ended 30 June 2010 and the discussion and analysis. The concise financial report does not contain all the disclosures required by Australian Accounting Standards.

Directors' responsibility for the concise financial report

The Directors of the Company are responsible for the preparation and presentation of the concise financial report in accordance with Australian Accounting Standard AASB 1039 *Concise Financial Reports* and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation of the concise financial report; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures. We have conducted an independent audit in accordance with Australian Auditing Standards, of the financial report of Hills Industries Limited for the year ended 30 June 2010. Our audit report on the financial report for the year was signed on 10 September 2010 and was not subject to any modification. The Australian 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 for the year is free of material misstatement.

Our procedures in respect of the concise financial report include testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports* and whether the discussion and analysis complies with the requirements laid down in Australian Accounting Standard AASB 1039 *Concise Financial Reports*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion, the concise financial report, including the discussion and analysis, of the Group for the year ended 30 June 2010 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

Report on the Remuneration report

The following paragraphs are copied from our Report on the Remuneration report for the year ended 30 June 2010.

We have audited the Remuneration report included in pages 34 to 43 of the Directors' report for the year ended 30 June 2010. The Directors of the Company are responsible for the preparation and presentation of the Remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration report of Hills Industries Limited for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

N Faulkner
Partner

Dated at Adelaide on this 10th day of September 2010.

Shareholder Information

The shareholder information set out below was applicable as at 27 August 2010.

A Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Ordinary shares	
Holding	**Shares**	**Options**
1 – 1,000	5,034	–
1,001 – 5,000	10,175	–
5,001 – 10,000	4,996	–
10,001 – 100,000	3,565	10
100,001 and over	80	6
	23,850	16

There were 220 holders of less than a marketable parcel of ordinary shares.

B Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted securities are listed below:

	Ordinary shares	
Name	**Number held**	**Percentage of issued shares**
Poplar Pty Limited	20,286,335	8.17
Hills Associates Limited	13,455,689	5.42
J P Morgan Nominees Australia Limited	11,470,273	4.62
National Nominees Limited	8,828,009	3.56
HSBC Custody Nominees (Australia) Limited	8,785,871	3.54
Jacaranda Pastoral Pty Limited	5,968,699	2.40
RBC DEXIA Investor Services Australia Nominees Pty Limited (PIPOOLED A/C)	4,791,830	1.93
Australian Foundation Investment Company Limited	4,262,130	1.72
Argo Investments Limited	4,208,604	1.70
Citicorp Nominees Pty Limited	3,806,905	1.53
Cogent Nominees Pty Limited	2,712,801	1.09
AMP Life Limited	2,445,555	0.99
ANZ Nominees Limited	2,246,288	0.90
Donald Cant Pty Limited	1,979,060	0.80
Milton Corporation Limited	1,719,260	0.69
Colleen Sims Nominees Pty Limited	1,694,798	0.68
Bond Street Custodians Limited	1,493,795	0.60
Queensland Investment Corporation	1,341,327	0.54
Hills Associates Limited & Poplar Pty Limited	1,188,918	0.48
Gwynvill Trading Pty Limited	1,100,000	0.44
	103,786,147	41.80

C Substantial Shareholders

Substantial holders in the Company are set out below:

Name	Number held	Percentage
Poplar Pty Limited	20,286,335	8.17
Hills Associates Limited	13,455,689	5.42

Shareholder Information

D Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options
No voting rights.

E On market buy back

There is no current on market buy back.

F Direct payment to shareholder 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 register in writing.

G Securities Exchange

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

H Other information

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

I Offices and Officers

Company Secretary
Mr David Lethbridge
LLB (Otago, NZ), Grad Dip ACG, FCIS, GAICD

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
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

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Hills Industries Limited
ABN 35 007 573 417