

Hills Industries Limited

ABN 35 007 573 417

Annual report for the year ended 30 June 2010

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Annual report - 30 June 2010

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These financial statements are the consolidated financial statements of the consolidated entity consisting of Hills Industries Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Hills Industries Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Hills Industries Limited
944 - 956 South Road
Edwardstown SA 5039

A description of the nature of the Group's operations and its principal activities is included in the review of operations and activities within the Directors' report on pages 72 - 75, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on this 10th day of September 2010. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available within Corporate Information on our website: www.hills.com.au.

For queries in relation to our reporting please call +61 8 8301 3200 or e-mail info@hills.com.au.

Hills Industries Limited
Consolidated income statement
For the year ended 30 June 2010

		Consolidated	
	Notes	2010	2009
		\$'000	\$'000
Revenue from continuing operations	3	1,156,326	1,192,081
Other income	4	<u>1,921</u>	<u>2,983</u>
		1,158,247	1,195,064
Expenses, excluding finance costs	5	<u>(1,092,778)</u>	<u>(1,149,134)</u>
Results from operations		<u>65,469</u>	<u>45,930</u>
Finance income	5	4,166	767
Finance costs	5	<u>(7,575)</u>	<u>(23,438)</u>
Net finance expense	5	<u>(3,409)</u>	<u>(22,671)</u>
Profit before income tax		62,060	23,259
Income tax expense	6	<u>(18,965)</u>	<u>(7,604)</u>
Profit for the year		<u>43,095</u>	<u>15,655</u>
Profit is attributable to:			
Owners of Hills Industries Limited		40,188	9,506
Non-controlling interests		<u>2,907</u>	<u>6,149</u>
Profit for the year		<u>43,095</u>	<u>15,655</u>
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	24	16.7	4.9
Diluted earnings per share	24	16.7	4.9

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

Hills Industries Limited
Consolidated statement of comprehensive income
For the year ended 30 June 2010

		Consolidated	
	Notes	2010	2009
		\$'000	\$'000
Profit for the year		43,095	15,655
Other comprehensive income			
Loss on revaluation of land and buildings	22(a)	-	(7,407)
Changes in the fair value of cash flow hedges	22(a)	(707)	329
Exchange differences on translation of foreign operations	22(a)	318	110
Income tax relating to components of other comprehensive income	6(d)	<u>212</u>	<u>2,064</u>
Other comprehensive income for the year, net of tax		<u>(177)</u>	<u>(4,904)</u>
Total comprehensive income for the year		<u>42,918</u>	<u>10,751</u>
Total comprehensive income for the year is attributable to:			
Owners of Hills Industries Limited		<u>40,011</u>	4,602
Non-controlling interests		<u>2,907</u>	<u>6,149</u>
		<u>42,918</u>	<u>10,751</u>

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

Hills Industries Limited
Consolidated statement of financial position
As at 30 June 2010

		Consolidated	
	Notes	2010	2009
		\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	7	56,915	67,978
Trade and other receivables	8	186,002	197,480
Inventories	9	181,496	196,569
Derivative financial instruments	14	800	-
Total current assets		425,213	462,027
Non-current assets			
Investments	10	2	2
Property, plant and equipment	11	219,658	227,494
Deferred tax assets	12	23,771	25,828
Intangible assets	13	116,300	114,326
Derivative financial instruments	14	-	333
Total non-current assets		359,731	367,983
Total assets		784,944	830,010
LIABILITIES			
Current liabilities			
Trade and other payables	15	128,048	120,902
Borrowings	16	1,384	3,852
Current tax liabilities	17	10,622	8,186
Provisions	18	33,445	33,835
Derivative financial instruments	14	262	5,924
Total current liabilities		173,761	172,699
Non-current liabilities			
Borrowings	19	105,684	218,498
Provisions	20	6,318	5,975
Derivative financial instruments	14	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	21	306,595	248,598
Reserves	22(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		496,499	428,520

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

Hills Industries Limited
Consolidated statement of changes in equity
For the year ended 30 June 2010

Consolidated	Notes	Attributable to owners of Hills Industries Limited				Non-controlling interests \$'000	Total equity \$'000
		Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000		
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	21	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	23	-	-	(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	22	-	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	21	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	32	-	1,551	-	1,551	(11,551)	(10,000)
Dividends provided for or paid	23	-	-	(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	22	-	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.

Hills Industries Limited
Consolidated statement of cash flows
For the year ended 30 June 2010

		Consolidated	
		2010	2009
Notes		\$'000	\$'000
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
		35	
Cash flows from investing activities			
	Payment for acquisition of subsidiary, net of cash acquired	-	(3,980)
	Payment for acquisition of business operations, net of cash acquired	(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 asset 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 issues 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 Company's shareholders	(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	55,531	67,650
		7	

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

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for 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

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards (AASB), including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001*.

Compliance with IFRS

The financial report of the Group also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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.

The methods used to measure fair values are discussed further in note 30.

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 31 - business combinations
- Note 13 - measurement of the recoverable amounts of cash-generating units containing goodwill
- Note 25 - measurement of share-based payments
- Notes 18, 20 and 28 - provisions and contingencies
- Note 14 - 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.

1 Summary of significant accounting policies (continued)

(b) Parent entity financial information

The financial information for the parent entity, Hills Industries Limited, disclosed in note 33 has been prepared on the same basis as the consolidated financial statements.

(c) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2010 and the results of all subsidiaries for the year then ended.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(i)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position, respectively.

Investments in subsidiaries are accounted for at cost in the separate financial statements of Hills Industries Limited.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Hills Industries Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(iii) 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.

1 Summary of significant accounting policies (continued)

(c) Principles of consolidation (continued)

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.

(d) 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.

(e) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Hills Industries Limited's functional and presentation currency and the functional and presentation currency of the majority of the Group.

(ii) *Transactions and balances*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(iii) *Group companies*

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

1 Summary of significant accounting policies (continued)

(f) Revenue recognition

Revenue is recognised for the major business activities as follows:

(i) Goods sold

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

(ii) Services

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

(iii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(iv) Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 1(n).

Change in accounting policy

The Group has changed its accounting policy for dividends paid out of pre-acquisition from 1 July 2009 when a revised AASB 127 *Consolidated and Separate Financial Statements* became operative. Previously, dividends paid out of pre-acquisition profits were deducted from the cost of the investment. In accordance with the transitional provisions, the new accounting policy is applied prospectively. It was therefore not necessary to make any adjustments to any of the amounts previously recognised in the financial statements. There is no material impact on earnings per share.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1 Summary of significant accounting policies (continued)

(g) Income tax (continued)

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Tax consolidation legislation

Hills Industries Limited and its wholly-owned Australian controlled entities are part of a tax consolidated group.

The head entity, Hills Industries Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts arising from temporary differences. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Hills Industries Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 6.

(h) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 29). Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as a financial liability. Amounts are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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.

1 Summary of significant accounting policies (continued)

(i) Business combinations (continued)

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.

(j) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 to 90 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against expenses in profit or loss.

(m) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw material. Costs are assigned to individual items of inventory on the basis of the first-in-first-out principle. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1 Summary of significant accounting policies (continued)

(n) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held-for-trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held-for-trading unless they are designated as hedges. Assets in this category are classified as current and non current assets on the basis of the maturity of the underlying derivative.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in current assets - trade and other receivables (note 8) in the consolidated statement of financial position.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Details on how the fair value of financial instruments is determined are disclosed in note 30.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

(o) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

1 Summary of significant accounting policies (continued)

(o) Derivatives and hedging activities (continued)

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 14. Movements in the hedging reserve in shareholders' equity are shown in note 22. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and within the hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance income' or 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

(p) Property, plant and equipment

Land and buildings are shown at fair value less subsequent depreciation for buildings. Land and buildings are independently valued at least every four years on the basis of open market values, and in the intervening years are valued by the Directors based on the most recent independent valuation combined with current market information. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss.

1 Summary of significant accounting policies (continued)

(p) Property, plant and equipment (continued)

Land is not depreciated. Depreciation on other assets is calculated using the diminishing value or straight line method as considered appropriate to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

	2010	2009
- Buildings	0.75%	0.75%
- Plant and equipment	5.00% to 40.00%	5.00% to 40.00%
- Leasehold improvements	20.00% to 66.67%	20.00% to 66.67%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to the asset realisation reserve.

(q) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing (note 13). The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Patents and Trademarks

Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents and trademarks over their estimated useful lives, which vary from 10 to 20 years.

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which is estimated to be 5 to 20 years.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are paid in accordance with the Group's terms of trade.

1 Summary of significant accounting policies (continued)

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(i) Claims

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

(u) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

A defined contribution plan is a post employment benefit plan which receives fixed contributions from Group entities' and the Group's legal or constructive obligation is limited to these contributions.

Contributions to defined contribution plans are recognised as an expense as they become payable.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Executive Share Option Plan and the Employee Share Plan. Information relating to these schemes is set out in note 25.

1 Summary of significant accounting policies (continued)

(u) Employee benefits (continued)

Executive Share Option Plan

The Executive Share Option Plan allows Group executives to acquire shares of the Company.

The fair value of options granted under the Executive Share Option Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, measured at the grant date, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

The valuation method takes into account the exercise price of the option, the life of the option, the current price of the underlying shares, the expected volatility of the share price, the dividends expected of the shares and the risk-free interest rate for the life of the option.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. No change is made for changes in market conditions.

Employee Share Bonus Plan

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

(v) Profit-sharing and bonus plans

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

(v) Contributed equity

Ordinary shares are classified as equity (note 21).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

If the entity reacquires its own equity instruments, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(w) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(x) Finance income and expense

Finance income comprises interest income on funds invested, fair value gains on interest rate swap contracts not accounted for using hedge accounting and the ineffective portion of cash flow hedges relating to interest rate swaps. Interest income is recognised as it accrues in profit or loss.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, fair value losses on interest rate swap contracts not accounted for using hedge accounting and the ineffective portion of cash flow hedges relating to interest rate swaps. Borrowing costs are recognised in profit or loss using the effective interest method.

1 Summary of significant accounting policies (continued)

(y) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial year (note 24).

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(z) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(aa) Rounding of amounts

The Group 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 financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(ab) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) **AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project** (effective for annual periods beginning on or after 1 January 2010)

In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards. The Group will apply the revised standards from 1 July 2010. The Group does not expect there to be any significant impact as a result of applying the revised rules.

(ii) **AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-Settled Share-based Payment Transactions [AASB2]** (effective from 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity or a cash-settled transaction. The Group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the financial statements of the Group.

1 Summary of significant accounting policies (continued)

(ab) New accounting standards and interpretations (continued)

(iii) **AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues [AASB 132]** (effective from 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group will apply the amended standard from 1 July 2010. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's financial statements.

(iv) **Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards** (effective for annual reporting periods beginning on or after 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 July 2011. It is not expected to have any effect on the Group's related party disclosures.

(v) **AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9** (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. Retrospective application is generally required, although there are exceptions, particularly if the Group adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet decided when to adopt AASB 9 and has not yet determined the potential effect of the standard.

(vi) **AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19** (effective 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the Group's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the Group has not entered into any debt for equity swaps since that date.

(vii) **AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project** (effective from 1 July 2010)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Group will apply the amendments from 1 July 2010. The Group does not expect there to be any significant impact as a result of applying the revised rules.

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

Comprises manufacturing facilities and sales offices and customers in all states and territories.

Overseas

Principally comprises manufacturing facilities and sales offices in New Zealand.

2 Segment information (continued)

(b) Segment information provided to the Group Managing Director

2010	Electronic Security & Entertainment \$'000	Home, Hardware & Eco \$'000	Building & Industrial \$'000	Korvest Ltd \$'000	Total \$'000
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 liabilities	33,099	26,989	81,830	7,070	148,988
2009	Electronic Security & Entertainment \$'000	Home, Hardware & Eco \$'000	Building & Industrial \$'000	Korvest Ltd \$'000	Total \$'000
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
Total segment assets	145,299	152,544	370,783	33,712	702,338
Total segment liabilities	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

Segment revenue reconciles to total revenue from continuing operations as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Total segment revenue	1,155,462	1,191,239
Other revenue	<u>864</u>	<u>842</u>
Total revenue from continuing operations (note 3)	<u>1,156,326</u>	<u>1,192,081</u>

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:

	Consolidated	
	2010 \$'000	2009 \$'000
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:

	Consolidated	
	2010 \$'000	2009 \$'000
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:

	Consolidated	
	2010 \$'000	2009 \$'000
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

	Consolidated	
	2010 \$'000	2009 \$'000
From continuing operations		
<i>Sales revenue</i>		
Sale of goods	1,094,540	1,122,199
Services	<u>60,922</u>	<u>69,040</u>
	<u>1,155,462</u>	<u>1,191,239</u>
 <i>Other revenue</i>		
Rents and sub-lease rentals	<u>864</u>	<u>842</u>
	<u>1,156,326</u>	<u>1,192,081</u>

4 Other income

	Consolidated	
	2010 \$'000	2009 \$'000
Net gain on disposal of property, plant and equipment	179	65
Foreign exchange gains (net)	14	34
Other income	<u>1,728</u>	<u>2,884</u>
	<u>1,921</u>	<u>2,983</u>

5 Expenses

	Consolidated	
	2010 \$'000	2009 \$'000
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	<u>-</u>	<u>85</u>
	<u>1,092,778</u>	<u>1,149,134</u>

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.

5 Expenses (continued)

	Consolidated	
	2010	2009
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Buildings	1,644	1,199
Plant and equipment	<u>21,233</u>	<u>21,341</u>
Total depreciation	<u>22,877</u>	<u>22,540</u>
<i>Amortisation</i>		
Patents and trademarks	996	567
Development costs	<u>40</u>	<u>-</u>
Total amortisation	<u>1,036</u>	<u>567</u>
Total depreciation and amortisation	<u>23,913</u>	<u>23,107</u>
<i>Personnel expenses</i>		
Wages and salaries	174,818	170,633
Defined contribution superannuation expense	15,383	14,633
Other associated personnel expenses	18,556	24,481
Increase in liability for annual leave	7,701	10,457
Increase in liability for long service leave	1,993	1,660
Equity-settled share-based payment transactions	<u>467</u>	<u>454</u>
Total personnel expenses	<u>218,918</u>	<u>222,318</u>
<i>Finance income</i>		
Interest income	1,596	763
Fair value gains on derivatives	2,504	-
Ineffectiveness in fair value of cash flow hedges	<u>66</u>	<u>4</u>
	4,166	767
<i>Finance expenses</i>		
Interest and finance charges paid/payable	(7,575)	(13,298)
Fair value loss on derivatives	<u>-</u>	<u>(10,140)</u>
	<u>(7,575)</u>	<u>(23,438)</u>
Net finance costs expensed	<u>(3,409)</u>	<u>(22,671)</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	<u>22,625</u>	<u>20,250</u>
Total rental expense relating to operating leases	<u>22,625</u>	<u>20,250</u>
<i>Research and development</i>	467	417
<i>Impairment of financial and other assets</i>		
Property, plant and equipment	1,680	-
Inventories	3,836	5,750
Receivables	3,336	3,689
Intangible assets	<u>-</u>	<u>5,380</u>
Total impairment losses - financial and other assets	<u>8,852</u>	<u>14,819</u>

5 Expenses (continued)

	Consolidated	
	2010	2009
	\$'000	\$'000
Profit after tax for the year includes the following items that are unusual because of their nature and size:		
<i>Financial expenses</i>		
(a) Net fair value loss on derivatives	-	(10,140)
Less: Applicable income tax benefit	-	3,042
	-	(7,098)
<i>Other expenses</i>		
(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.

6 Income tax expense

	Consolidated	
	2010 \$'000	2009 \$'000
(a) Income tax expense		
Current tax	17,659	15,542
Deferred tax	2,795	(7,333)
Adjustments for current tax of prior periods	<u>(1,489)</u>	<u>(605)</u>
	<u>18,965</u>	<u>7,604</u>
Deferred income tax expense (revenue) included in income tax expense comprises (note 12)		
Decrease (increase) in deferred tax assets	2,693	(6,916)
Adjustments for deferred tax of prior periods	<u>102</u>	<u>(417)</u>
	<u>2,795</u>	<u>(7,333)</u>
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	<u>62,060</u>	<u>23,259</u>
Tax at the Australian tax rate of 30% (2009 - 30%)	18,618	6,978
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Goodwill impairment	-	1,614
Impairment of other assets	504	-
Depreciation of buildings	274	-
Non deductible expenses	819	500
Tax exempt income	<u>(180)</u>	<u>(650)</u>
Difference in overseas tax rates	4	-
Adjustments for current and deferred tax of prior periods	<u>(1,387)</u>	<u>(1,022)</u>
Tax losses not recognised	313	239
Previously unrecognised tax losses now recouped to reduce current tax expense	<u>-</u>	<u>(55)</u>
Total income tax expense	<u>18,965</u>	<u>7,604</u>
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Net deferred tax - debited (credited) directly to equity (note 12)	<u>(526)</u>	<u>-</u>
(d) Amounts recognised in other comprehensive income		
Gains / (losses) on revaluation of land and buildings (notes 12, 22)	-	(2,163)
Cash flow hedges (notes 12, 22)	<u>(212)</u>	<u>99</u>
	<u>(212)</u>	<u>(2,064)</u>

6 Income tax expense (continued)

	Consolidated	
	2010	2009
	\$'000	\$'000
(e) Tax losses		
Unused capital tax losses for which no deferred tax asset has been recognised	29,918	29,083
Potential tax benefit @ 30%	8,975	8,725

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

Revenue tax losses for which no deferred tax asset has been recognised total \$1,121,000 (2009: \$1,356,000). The potential deferred tax asset not recognised totals \$336,000 (2009: \$407,000).

(f) Current tax assets and liabilities

The current tax liability for the Group of \$10,622,000 (2009: \$8,186,000) represents the amount of income taxes payable in respect of current and prior financial periods.

(g) Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(g).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Hills Industries Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Hills Industries Limited for any current tax payable assumed and are compensated by Hills Industries Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Hills Industries Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables and eliminated on consolidation.

7 Current assets - Cash and cash equivalents

	Consolidated	
	2010 \$'000	2009 \$'000
Cash at bank and in hand	10,610	63,931
Deposits at call	<u>46,305</u>	<u>4,047</u>
	<u>56,915</u>	<u>67,978</u>

(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 consolidated statement of cash flows as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Balances as above	56,915	67,978
Bank overdrafts (note 16)	<u>(1,384)</u>	<u>(328)</u>
Balances per consolidated statement of cash flows	<u>55,531</u>	<u>67,650</u>

(b) Risk exposure

The Group's exposure to interest rate risk is discussed in note 30. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

(c) Fair value

The carrying amount for cash and cash equivalents equals the fair value.

8 Current assets - Trade and other receivables

	Consolidated	
	2010 \$'000	2009 \$'000
Net trade receivables		
Trade receivables	188,818	201,484
Provision for impairment of receivables (note (a))	<u>(9,418)</u>	<u>(7,782)</u>
	<u>179,400</u>	<u>193,702</u>
Net other receivables		
Receivable from associates	-	219
Other receivables	4,105	1,865
Prepayments	<u>2,497</u>	<u>1,694</u>
	<u>186,002</u>	<u>197,480</u>

8 Current assets - Trade and other receivables (continued)

(a) Impaired trade receivables

The ageing of the Group's trade receivables at the reporting date is as follows:

	Consolidated	
	2010	2009
	\$'000	\$'000
Not past due	103,215	112,974
Past due 0 - 30 days	60,019	61,291
Past due 31 - 90 days	16,494	17,155
Past due more than 90 days	9,090	10,064
	<u>188,818</u>	<u>201,484</u>

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2010	2009
	\$'000	\$'000
At 1 July	(7,782)	(5,528)
Provision for impairment recognised during the year	(3,336)	(3,689)
Receivables written off during the year as uncollectible	1,700	1,435
At 30 June	<u>(9,418)</u>	<u>(7,782)</u>

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not yet past due.

The provision for impaired receivables for the Group of \$9,418,000 (2009: \$7,782,000) relates to receivables past due more than 30 days, based upon a case by case assessment. Receivables past due between 0 and 30 days are not considered impaired.

(b) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 30.

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The fair value of securities held for certain trade receivables is insignificant as is the fair value of any collateral sold or pledged. Refer to note 30 for more information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

9 Current assets - Inventories

	Consolidated	
	2010	2009
	\$'000	\$'000
Raw materials and stores		
- at cost and net realisable value	54,859	48,649
- impairment losses	(3,152)	(1,213)
	51,707	47,436
Work in progress		
- at cost and net realisable value	5,224	4,665
- impairment losses	-	(2)
	5,224	4,663
Finished goods		
- at cost and net realisable value	147,293	165,369
- impairment losses	(22,728)	(20,899)
	124,565	144,470
	181,496	196,569

10 Non-current assets - Investments

	Consolidated	
	2010	2009
	\$'000	\$'000
Other listed securities		
Equity securities	2	2

These financial assets are carried at cost.

11 Non-current assets - Property, plant and equipment

Consolidated	Land - Fair Value \$'000	Buildings - Fair Value \$'000	Plant and equipment - Cost & Fair Value \$'000	Total \$'000
At 1 July 2008				
Cost or fair value	47,501	54,743	247,860	350,104
Accumulated depreciation	-	(2,384)	(121,296)	(123,680)
Net book amount	47,501	52,359	126,564	226,424
Year ended 30 June 2009				
Opening net book amount	47,501	52,359	126,564	226,424
Exchange differences	36	33	7	76
Revaluation to fair value	(3,305)	(4,102)	-	(7,407)
Acquisitions through business combinations	-	-	73	73
Additions	-	2,192	29,599	31,791
Disposals	-	(8)	(915)	(923)
Depreciation charge	-	(1,199)	(21,341)	(22,540)
Closing net book amount	44,232	49,275	133,987	227,494
At 30 June 2009				
Cost or fair value	44,232	52,134	252,500	348,866
Accumulated depreciation	-	(2,859)	(118,513)	(121,372)
Net book amount	44,232	49,275	133,987	227,494
Year ended 30 June 2010				
Opening net book amount	44,232	49,275	133,987	227,494
Exchange differences	62	50	11	123
Revaluation to fair value	-	-	-	-
Acquisition through business combinations	-	-	1,463	1,463
Additions	-	1,946	17,148	19,094
Disposals	-	(20)	(3,939)	(3,959)
Impairment charge recognised in profit and loss	-	-	(1,680)	(1,680)
Depreciation charge	-	(1,644)	(21,233)	(22,877)
Closing net book amount	44,294	49,607	125,757	219,658
At 30 June 2010				
Cost or fair value	44,294	54,072	258,663	357,029
Accumulated depreciation	-	(4,465)	(132,906)	(137,371)
Net book amount	44,294	49,607	125,757	219,658

11 Non-current assets - Property, plant and equipment (continued)

(a) Assets in the course of construction

The carrying amounts of the assets disclosed above include the following expenditure recognised in relation to property, plant and equipment which is in the course of construction:

	Consolidated	
	2010 \$'000	2009 \$'000
Property, furniture, fittings, plant and equipment	13,023	18,548
Total assets in the course of construction	13,023	18,548

(b) Impairment loss

The impairment loss relates to property, plant and equipment in the course of construction. The whole amount was included in profit or loss, as there was no amount previously included in the asset revaluation reserve relating to the relevant asset. The recoverable amount of the asset was determined by reference to a report provided by an independent valuer as fair value less cost to sell based on an active market.

12 Non-current assets - Deferred tax assets

	Consolidated	
	2010 \$'000	2009 \$'000
The balance comprises temporary differences attributable to:		
Employee benefits	10,865	10,873
Property, plant and equipment	(1,921)	(1,961)
Inventories	4,614	5,511
Receivables	2,543	2,423
Loans and borrowings	1,218	1,218
Provisions	2,155	1,997
Self insurance provisions	83	83
Other accruals	1,576	2,136
Software and prepayments	439	385
Derivative financial instruments	1,233	2,942
Other items	966	221
Net deferred tax assets	23,771	25,828

12 Non-current assets - Deferred tax assets (continued)

Movements - Consolidated	Balance at 1 July 2008 \$'000	Recognised in profit or loss \$'000	Recognised in other compre- hensive income \$'000	Recognised in equity \$'000	Acquisition of subsidiary \$'000	Balance at 30 June 2009 \$'000
Property, plant and equipment	(4,330)	206	2,163	-	-	(1,961)
Inventories	3,235	2,276	-	-	-	5,511
Employee benefits	9,994	800	-	-	79	10,873
Receivables	1,752	671	-	-	-	2,423
Loans and borrowings	1,218	-	-	-	-	1,218
Provisions	2,095	(98)	-	-	-	1,997
Self insurance provisions	897	(814)	-	-	-	83
Other accruals	616	1,520	-	-	-	2,136
Software and prepayments	320	65	-	-	-	385
Derivative financial instruments	-	3,041	(99)	-	-	2,942
Other items	606	(334)	-	-	(51)	221
	16,403	7,333	2,064	-	28	25,828
Movements - Consolidated	Balance at 1 July 2009 \$'000	Recognised in profit or loss \$'000	Recognised in other compre- hensive income \$'000	Recognised in equity \$'000	Acquisition of subsidiary \$'000	Balance at 30 June 2010 \$'000
Property, plant and equipment	(1,961)	40	-	-	-	(1,921)
Inventories	5,511	(897)	-	-	-	4,614
Employee benefits	10,873	(8)	-	-	-	10,865
Receivables	2,423	120	-	-	-	2,543
Loans and borrowings	1,218	-	-	-	-	1,218
Provisions	1,997	158	-	-	-	2,155
Self insurance provisions	83	-	-	-	-	83
Other accruals	2,136	(560)	-	-	-	1,576
Software and prepayments	385	54	-	-	-	439
Derivative financial instruments	2,942	(1,921)	212	-	-	1,233
Other items	221	219	-	526	-	966
	25,828	(2,795)	212	526	-	23,771

13 Non-current assets - Intangible assets

Consolidated	Development costs \$'000	Goodwill \$'000	Patents, trademarks and other rights \$'000	Total \$'000
At 1 July 2008				
Cost	176	116,549	8,144	124,869
Accumulated amortisation and impairment	(176)	(5,663)	(4,868)	(10,707)
Net book amount	-	110,886	3,276	114,162
Year ended 30 June 2009				
Opening net book amount	-	110,886	3,276	114,162
Acquisitions through business combinations	200	5,912	-	6,112
Impairment charge **	-	(5,380)	-	(5,380)
Amortisation charge **	-	-	(567)	(567)
Derecognised on disposal	-	-	(1)	(1)
Closing net book amount	200	111,418	2,708	114,326
At 30 June 2009				
Cost	200	122,461	2,946	125,607
Accumulated amortisation and impairment	-	(11,043)	(238)	(11,281)
Net book amount	200	111,418	2,708	114,326
Year ended 30 June 2010				
Opening net book amount	200	111,418	2,708	114,326
Additions	-	-	3,010	3,010
Amortisation charge **	(40)	-	(996)	(1,036)
Closing net book amount	160	111,418	4,722	116,300
At 30 June 2010				
Cost	200	122,461	5,957	128,618
Accumulated amortisation and impairment	(40)	(11,043)	(1,235)	(12,318)
Net book amount	160	111,418	4,722	116,300

** The amortisation and impairment charge is recognised in expenses in the income statement.

(a) Impairment tests for goodwill

During the year ended 30 June 2010 the Group determined that there is no impairment of any of its cash generating units (CGU) containing goodwill or intangible assets with indefinite useful lives. For the purpose of impairment testing, goodwill is allocated to the Group's operating units that represent the lowest level within the Group at which the goodwill is monitored for internal management purposes (cash generating units).

13 Non-current assets - Intangible assets (continued)

The aggregate carrying amounts of goodwill allocated to each cash generating unit, analysed at a segment level, are as follows:

Cash generating unit	Building and Industrial \$'000	Electronic Security and Entertainment \$'000	Home, Hardware and Eco \$'000	Total \$'000
2010 & 2009				
Hills SVL	-	16,237	-	16,237
Hills Healthcare	-	-	11,839	11,839
LW Gemmell	-	-	3,324	3,324
Fielders	7,789	-	-	7,789
Orrcon	49,589	-	-	49,589
Opticomm	-	756	-	756
UHS	-	5,293	-	5,293
Team Poly	-	-	16,591	16,591
Total Group	<u>57,378</u>	<u>22,286</u>	<u>31,754</u>	<u>111,418</u>

The cash generating unit impairment tests are based on value in use calculations which were determined by discounting the future cash flows generated from the continuing use of the unit and were based on the following key assumptions:

Cash flow projections have been based on the coming year's budget and Board agreed forecasts with key assumptions for future years relating to sales, gross margins and expenses. Sales are based on management assessments with allowances for future growth based upon assessments of growth rates in the markets to which the assets belong. Gross margins and expense levels are based on past experience.

A terminal value has been determined at the end of the five year strategic plan using a growth rate of 3% (2009: 3%), which is no greater than the long term average growth rate for the market to which the asset is dedicated.

A pre-tax discount rate of between 14.17% and 14.77% (2009: 13.57% and 14.68%), determined by reference to the Group's weighted average cost of capital and specific industry factors was applied in determining the recoverable amount of the units.

(b) Impact of possible changes in key assumptions

With the exception of the Orrcon and the Team Poly cash generating units, a reasonably possible change in the key assumptions above would not have resulted in the carrying amount exceeding the recoverable amount for any of the Group's cash generating units.

The Orrcon cash generating unit's recoverable amount (which exceeds its carrying value in use by approximately \$53.6 million (2009: \$15.2 million) is sensitive to a possible change in EBIT. The business is forecasting for annualised EBIT growth of 20% per annum over the five year model period. A decrease in forecast annual EBIT of 21% (2009: 3%) could result in an impairment.

The Team Poly cash generating unit's recoverable amount (which exceeds its carrying value in use by approximately \$9.3 million (2009: \$5.9 million) is sensitive to a possible change in EBIT. The business is forecasting for EBIT over the five year period to return to levels consistent with 2007. A decrease in forecast annual EBIT of 21% (2009: 5%) could result in an impairment.

(c) Impairment charge

The impairment charge of \$5,380,000 recorded in the previous financial year arose as a result of the closure of the Alquip business. The decision to close the business and subsequent sale of assets resulted in the goodwill associated with this cash generating unit being impaired.

14 Derivative financial instruments

	Consolidated	
	2010	2009
	\$'000	\$'000
Current assets		
Forward foreign exchange contracts - cash flow hedges	800	-
Total current derivative financial instrument assets	800	-
Non-current assets		
Interest rate swaps - cash flow hedges	-	333
Total non-current derivative financial instrument assets	-	333
Total derivative financial instrument assets	800	333
Current liabilities		
Interest rate swaps - cash flow hedges	250	-
Forward foreign currency contracts - held for trading	12	5,924
Total current derivative financial instrument liabilities	262	5,924
Non-current liabilities		
Interest rate swaps - cash flow hedges	2,682	-
Interest rate swaps - held for trading	-	4,318
Total non-current derivative financial instrument liabilities	2,682	4,318
Total derivative financial instrument liabilities	2,944	10,242
Net derivative financial instrument liabilities	(2,144)	(9,909)

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 30).

(i) Interest rate swap contracts - cash flow hedges

Bank loans of the Group at 30 June 2010 bear an average variable interest rate of 4.75% (2009: 3.26%). It is the Group's policy to manage exposure to increasing interest rates by hedging a proportion of the Group's exposure to variable rate bank loans. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Interest rate swaps in place at 30 June 2010 cover approximately all (2009: 56%) of the loan principal outstanding and are taken out with terms of between three and seven years. The fixed interest rates average 6.2% (2009: 6.1%).

The contracts require net settlement of the interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

In the current financial year, all existing interest rate swaps were, during the first quarter of the financial year, designated into hedge relationships and hedge accounting applied. All new interest rate swaps are, from inception, designated into hedge relationships and hedge accounting applied.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged item is derecognised. In the year ended 30 June 2010 a gain of \$66,000 was reclassified into profit and loss (2009: gain of \$4,000) and included in finance cost due to hedge ineffectiveness in the current or prior year and a gain of \$1,998,000 was reclassified into profit and loss (2009: nil) to offset net interest expense paid.

14 Derivative financial instruments (continued)

(ii) Forward exchange contracts - cash flow hedges

The Group purchases goods and materials from overseas, principally in US dollars. In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase US dollars.

These contracts are hedging highly probable forecasted purchases for approximately the next two to three months.

In the current financial year, all existing forward exchange contracts from 1 July 2009 and all new forward exchange contracts from inception are designated into hedge relationships and hedge accounting applied.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the statement of financial position by removing the related amount from other comprehensive income.

During the year ended 30 June 2010 a gain of \$nil (2009: \$nil) was reclassified from other comprehensive income and included in the cost of inventories and subsequently in profit and loss within cost of goods sold. A loss of \$11,000 was recognised in profit or loss for the ineffective portion of these hedging contracts (2009: \$nil).

(iii) Forward exchange contracts and interest rate swaps - held for trading

In previous financial years the Group had entered into forward exchange contracts and interest rate swap contracts which did not satisfy the requirements for hedge accounting. In the current financial year Group subsidiaries entered into a small number of forward exchange contracts. These contracts are subject to the same risk management policies as all other derivative contracts, see note 30 for details. However, they are accounted for as held for trading.

(a) Risk exposures

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 30. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial assets mentioned above.

15 Current liabilities - Trade and other payables

	Consolidated	
	2010	2009
	\$'000	\$'000
Trade payables	76,813	77,077
Amounts due to associates (note 27)	134	-
Other loans	-	165
Other trade payables and accrued expenses	51,101	43,660
	128,048	120,902

(a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 30.

16 Current liabilities - Borrowings

	Consolidated	
	2010 \$'000	2009 \$'000
Bank overdrafts **	1,384	328
Loans from related parties*	-	1,059
Bills payable **	-	2,465
	1,384	2,852
Total current borrowings	1,384	3,852

* Further information relating to loans from related parties (which include loans from minority shareholders) is set out in note 27.

** Further information on the bank overdrafts and bills payable are set out in note 19.

(a) Security and fair value disclosures

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 19.

(b) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 30.

17 Current liabilities - Current tax liabilities

	Consolidated	
	2010 \$'000	2009 \$'000
Income tax	10,622	8,186

18 Current liabilities - Provisions

	Consolidated	
	2010 \$'000	2009 \$'000
Employee benefits	27,248	26,563
Contingent consideration	-	400
Provision for dividend	-	550
Outstanding claims	5,701	5,751
Site restoration	496	571
	496	571
	33,445	33,835

Information on non current provisions is set out in note 20.

18 Current liabilities - Provisions (continued)

(i) Outstanding claims

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

(ii) Contingent consideration

The contingent consideration provision represents the present value of the estimated consideration payable, on acquisition of subsidiaries or business operations, if the acquiree meets certain performance criteria over a specified period of time.

(iii) Provision for dividend

The provision for dividend remaining unpaid at the end of the previous financial year is an amount recognised on the acquisition of a subsidiary.

(iv) Site restoration

Other provisions comprise mainly a provision for site restoration and safety upgrades.

(a) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Contingent consideration \$'000	Provision for dividend \$'000	Outstanding claims \$'000	Site restoration \$'000	Total \$'000
2010					
Current & non current					
Carrying amount at start of year	400	550	5,751	799	7,500
Charged/(credited) to profit or loss / retained earnings					
- additional provisions recognised	-	24,362	-	-	24,362
- reductions from remeasurement or settlement without cost	(400)	-	(50)	(65)	(515)
Amounts used during the year	-	(24,199)	-	(42)	(24,241)
Dividend foregone - SIP	-	(713)	-	-	(713)
Carrying amount at end of year	-	-	5,701	692	6,393
2009					
Current & non current					
Carrying amount at start of year	384	-	4,971	452	5,807
Charged/(credited) to profit or loss / retained earnings					
- additional provisions recognised	-	42,025	780	435	43,240
- other movements	16	-	-	21	37
Amounts used during the year	-	(35,753)	-	(109)	(35,862)
Dividend foregone - SIP	-	(6,272)	-	-	(6,272)
Amounts recognised on acquisition of subsidiary	-	550	-	-	550
Carrying amount at end of year	400	550	5,751	799	7,500

19 Non-current liabilities - Borrowings

	Consolidated	
	2010 \$'000	2009 \$'000
Unsecured		
Bills payable	105,000	218,000
Other loans	663	498
Loans from non-controlling interests	<u>21</u>	<u>-</u>
Total unsecured non-current borrowings	<u>105,684</u>	<u>218,498</u>
Total non-current borrowings	<u>105,684</u>	<u>218,498</u>

(a) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the reporting date:

	Consolidated	
	2010 \$'000	2009 \$'000
Facilities		
Bank overdraft	2,828	1,900
Unsecured bank loans	218,169	263,585
Standby letters of credit	6,831	16,126
Short term money market	<u>5,000</u>	<u>16,000</u>
	<u>232,828</u>	<u>297,611</u>
Used at balance date		
Bank overdrafts	1,384	328
Unsecured bank loans	105,000	220,465
Standby letters of credit	<u>6,831</u>	<u>331</u>
	<u>113,215</u>	<u>221,124</u>
Unused at balance date		
Bank overdrafts	1,444	1,572
Unsecured bank loans	113,169	43,120
Standby letters of credit	-	15,795
Short term money market	<u>5,000</u>	<u>16,000</u>
	<u>119,613</u>	<u>76,487</u>

(b) Bank loans and bank overdraft

Bank overdrafts

Bank overdrafts are denominated in both \$A and \$NZ. The bank overdraft of a controlled entity is secured by a guarantee from the Company. Interest on bank overdrafts is charged at prevailing market rates. The bank overdrafts are payable on demand and are subject to annual review. The Company and a number of its subsidiaries have a net bank overdraft facility of \$1,000,000 (2009: \$1,900,000) and the Company's New Zealand subsidiary has a separate bank overdraft facility of \$1,828,000.

19 Non-current liabilities - Borrowings (continued)

Unsecured bank loans

The Group has a number of multi option facilities with its bankers. Generally, these facilities can be utilised for a combination of bank loans, guarantees and standby letters of credit. Bank loans are denominated in both \$A and \$NZ. The bank loans are Commercial Bills and Fully Drawn Advances with interest charged at prevailing market rates. The Company and its wholly owned subsidiaries have provided an interlocking guarantee and indemnity to its financiers for these facilities. An assessment of the contractual maturities of financial liabilities is provided in note 30.

Standby letter of credit

The standby letter of credit facility forms part of the multi option facilities negotiated with the Group's bankers.

Short term money market

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

(c) Fair value

The carrying amounts and fair values of borrowings at the end of reporting period are:

Consolidated	2010		2009	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
<i>Non-traded financial liabilities</i>				
Bank overdrafts	1,384	1,384	328	328
Bills payable	105,000	105,000	220,465	220,465
Other loans	684	684	1,557	1,557
	107,068	107,068	222,350	222,350

(d) Risk exposures

Information about the Group's exposure to interest rate and foreign currency changes is provided in note 30.

For an analysis of the sensitivity of borrowings to interest rate risk and foreign exchange risk refer to note 30.

20 Non-current liabilities - Provisions

	Consolidated	
	2010 \$'000	2009 \$'000
Employee benefits	6,122	5,747
Site restoration and safety upgrades	196	228
	6,318	5,975

Movements in provisions are set out in note 18.

21 Contributed equity

	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 Purchase Plan	10,284	14,912
	Less: Transaction costs arising on share issue	-	(39)
		204,601	248,598
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)
		247,697	306,595
30 June 2010	Balance	247,697	306,595

(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.

21 Contributed equity (continued)

(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.

(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:

	Consolidated	
	2010	2009
	\$'000	\$'000
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.

22 Reserves

	Consolidated	
	2010 \$'000	2009 \$'000
(a) Reserves		
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:		
<i>Asset revaluation reserve</i>		
Balance 1 July	44,828	50,112
Revaluation - gross (note 11)	-	(7,407)
Deferred tax (note 12)	-	2,163
Transfer (to) / from retained earnings	-	(40)
Transfer to asset realisation reserve	(9,194)	-
Balance 30 June	35,634	44,828
<i>Hedging reserve - cash flow hedges</i>		
Balance 1 July	230	-
Revaluation - gross (note 14)	(707)	329
Deferred tax (notes 6 and 12)	212	(99)
Balance 30 June	(265)	230
<i>Foreign currency translation reserve</i>		
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)
<i>Asset realisation reserve</i>		
Balance 1 July	2,825	2,825
Transfer from asset revaluation reserve	9,194	-
Balance 30 June	12,019	2,825
<i>Equity compensation reserve</i>		
Balance 1 July	583	513
Executive share option plan expense	30	70
Balance 30 June	613	583

22 Reserves (continued)

	Consolidated	
	2010 \$'000	2009 \$'000
<i>Non-controlling interests acquisition reserve</i>		
Balance 1 July	-	-
Adjustment to non-controlling interest upon increase in Group shareholding	<u>1,551</u>	<u>-</u>
Balance 30 June	<u>1,551</u>	<u>-</u>

(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(p).

(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(o). 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 financial statements of a foreign controlled entity are recognised in other comprehensive income as described in note 1(e) 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.

(vi) 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.

23 Dividends

	Company	
	2010	2009
	\$'000	\$'000
(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: 8.0 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
Interim 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.

	Company	
	2010	2009
	\$'000	\$'000
(c) Dividends not recognised at year end		
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

(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.

	Company	
	2010	2009
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2009: 30%)	41,240	19,505

23 Dividends (continued)

The above amounts represent the balance of the franking account as at the reporting date, 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).

24 Earnings per share

	Consolidated	
	2010	2009
	Cents	Cents
(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		
	Consolidated	
	2010	2009
	\$'000	\$'000
<i>Basic earnings per share</i>		
Profit attributable to the ordinary shareholders of the Company used in calculating basic earnings per share	40,188	9,506
<i>Diluted Earnings per share</i>		
Profit attributable to the ordinary shareholders of the Company used in calculating diluted earnings per share	40,188	9,506
<i>Basic earnings per share before unusual / significant items</i>		
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

24 Earnings per share (continued)

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

	Consolidated	
	2010	2009
	Number '000	Number '000
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

25 Share-based payments

In October 1997, the Group established a share option plan that entitles selected senior managers to acquire shares in the Company subject to the successful achievement of performance targets related to improvements in total shareholder returns.

Previously 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 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.

The shares issued pursuant to these options are financed by an interest free loan from the holding Company repayable within twenty years from the proceeds of dividends declared by the holding Company. These loans are of a non-recourse nature. For accounting purposes these 20-year loans are treated as part of the options to purchase shares, until the loan is extinguished at which point the shares are recognised.

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

Grant Date / Expiry Date	Exercise date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited / lapsed during the year Number	Balance at end of the year Number
Consolidated - 2010							
Feb 2001 / Jan 2003	Jan 2023	\$2.50	55,000	-	-	(5,000)	50,000
Feb 2002 / Jan 2004	Jan 2024	\$2.90	58,000	-	-	(5,000)	53,000
Feb 2003 / Jan 2005	Jan 2025	\$3.23	90,000	-	-	(10,000)	80,000
Feb 2004 / Jan 2006	Jan 2026	\$3.66	145,000	-	-	(10,000)	135,000
Feb 2005 / Jan 2007	Jan 2027	\$4.16	215,000	-	-	(10,000)	205,000
Feb 2008 / Jan 2011	Jan 2031	\$5.49	455,000	-	-	(10,000)	445,000
Feb 2009 / Jan 2012	Jan 2032	\$3.01	525,000	-	-	-	525,000
Total			1,543,000	-	-	(50,000)	1,493,000
Weighted average exercise price			\$3.95	\$-	\$-	\$3.85	\$3.96

25 Share-based payments (continued)

Grant Date / Expiry Date	Exercise date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited / lapsed during the year Number	Balance at end of the year Number
Consolidated - 2009							
Feb 2001 / Jan 2003	Jan 2023	\$2.50	120,000	-	(65,000)	-	55,000
Feb 2002 / Jan 2004	Jan 2024	\$2.90	133,000	-	(65,000)	(10,000)	58,000
Feb 2003 / Jan 2005	Jan 2025	\$3.23	210,000	-	(90,000)	(30,000)	90,000
Feb 2004 / Jan 2006	Jan 2026	\$3.66	260,000	-	(80,000)	(35,000)	145,000
Feb 2005 / Jan 2007	Jan 2027	\$4.16	340,000	-	(80,000)	(45,000)	215,000
Feb 2007 / Jan 2009	Jan 2029	\$5.53	465,000	-	-	(465,000)	-
Feb 2008 / Jan 2011	Jan 2031	\$5.49	515,000	-	-	(60,000)	455,000
Feb 2009 / Jan 2012	Jan 2032	\$3.01	-	535,000	-	(10,000)	525,000
Total			<u>2,043,000</u>	<u>535,000</u>	<u>(380,000)</u>	<u>(655,000)</u>	<u>1,543,000</u>
Weighted average exercise price			\$4.47	\$3.01	\$3.34	\$5.15	\$3.95

Details of options outstanding under accounting standards are as follows:

Grant Date	Options granted Number	Outstanding at balance date AIFRS Number	Outstanding at balance date ASX Number
Consolidated - 2010			
February 2001	195,000	50,000	-
February 2002	245,000	53,000	-
February 2003	280,000	80,000	-
February 2004	370,000	135,000	-
February 2005	460,000	205,000	-
February 2008	625,000	445,000	445,000
February 2009	535,000	525,000	525,000
Total	<u>2,710,000</u>	<u>1,493,000</u>	<u>970,000</u>
Consolidated - 2009			
February 2001	195,000	55,000	-
February 2002	245,000	58,000	-
February 2003	280,000	90,000	-
February 2004	370,000	145,000	-
February 2005	460,000	215,000	-
February 2007	595,000	-	-
February 2008	625,000	455,000	455,000
February 2009	535,000	525,000	525,000
Total	<u>3,305,000</u>	<u>1,543,000</u>	<u>980,000</u>

Fair value of options granted

The model inputs for options granted during the year ended 30 June 2010 included:

- options are granted for no consideration
- exercise price: \$n/a (2009: \$3.01)
- grant date: not granted (2009: 4 February 2009)
- expiry date: not applicable (2009: 31 January 2012)
- share price at grant date: \$n/a (2009: \$1.99)

The fair value of services received in return for share options granted during the year was \$nil (2009: \$nil). This amount is amortised over the life of the option (and the three year holding period for those options issued prior to 2008). The estimate of the fair value of the services received is based on a model that includes the length of the option period and the relationship between the market price at the date of the grant of the option and the strike price of the option. This method has been applied consistently.

25 Share-based payments (continued)

(a) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated	
	2010	2009
	\$'000	\$'000
Options issued under executive share option plan	49	168
Shares issued under employee share scheme	418	308
	467	476

26 Key management personnel disclosures

(a) Directors

The following persons were Directors of Hills Industries Limited during the financial year and unless otherwise indicated were Directors for the entire period:

(i) Chairman - non-executive

Jennifer Helen Hill-Ling

(ii) Executive Directors

Graham Lloyd Twartz (Group Managing Director)

(iii) Non-executive Directors

Ian Elliot
Roger Baden Flynn
Geoffrey Guild Hill
Peter William Stancliffe
Fiona Rosalyn Vivienne Bennett (appointed 31 May 2010)

The only change in key management personnel since the end of the financial year and prior to the date when the financial report is authorised for issue was that David Moray Spence was appointed as a non-executive Director on 1 September 2010.

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year and unless otherwise indicated were key management personnel for the entire period:

<i>Name</i>	<i>Position</i>	<i>Employer / Division</i>
L Andrewartha	Managing Director	Orrcon Operations Pty Ltd
S Cope	Group General Manager	Hills Industries Limited / Electronic Security and Entertainment
D Edgecombe	General Manager Business Development	Hills Industries Limited
R Gros	Group General Manager	Hills Industries Limited / Home, Hardware and Eco
A Kachellek	Managing Director	Korvest Limited
D Lethbridge	Company Secretary	Hills Industries Limited
K Middleton	CEO	Fielders Australia Pty Ltd
A Muir	General Manager Finance	Hills Industries Limited

26 Key management personnel disclosures (continued)

All of the above persons were key management persons during the year ended 30 June 2010, except for D Lethbridge, who commenced employment with the Group on 6 January 2010.

All of the above persons were also key management persons during the year ended 30 June 2009, except for D Lethbridge, K Middleton who was appointed CEO on 22 April 2009 and D Edgecombe who became a key management person on 1 July 2009. In addition, J Easling was a key management person during the year ended 30 June 2009, until he ceased employment on 22 April 2009.

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.

(c) Key management personnel compensation

The key management personnel (KMP) compensation included in 'personnel expenses' in note 5 is as follows:

	Consolidated	
	2010	2009
	\$	\$
Short-term employee benefits	4,134,474	4,449,841
Post-employment benefits	344,880	391,694
Long-term benefits	18,349	-
Share-based payments	26,095	82,900
	<u>4,523,798</u>	<u>4,924,435</u>

Information regarding individual Directors' and Executives' compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 are provided in the Remuneration report on pages 79 to 88.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration

Details of options over ordinary shares in the Company provided as remuneration to each key management person of the Group and held, directly, indirectly or beneficially, are set out below. When exercisable, each option is convertible into one ordinary share of the Company. Further information on the options is set out in note 25.

Name	Number of options granted during the year		Number of options vested during the year	
	2010	2009	2010	2009
Directors of Hills Industries Limited				
GL Twarz	-	100,000	60,000	60,000
Other key management personnel of the Group				
L Andrewartha	-	60,000	60,000	-
S Cope	-	60,000	-	-
J Easling	-	-	-	10,000
D Edgecombe	-	25,000	-	-
R Gros	-	60,000	-	-
A Kachellek	-	-	-	-
D Lethbridge	-	-	-	-
K Middleton	-	25,000	-	-
A Muir	-	60,000	10,000	10,000

No options were held by key management person related entities.

26 Key management personnel disclosures (continued)

(ii) *Options provided as remuneration and shares issued on exercise of such options*

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the Remuneration report on page 86-88.

(iii) *Option holdings*

The numbers of options over ordinary shares in the Company held during the financial year by each Director of the Company and other key management personnel of the Group, including their personally related parties, are set out below.

2010							
Name	Balance at start of the year	Granted as compensation	Exercised	Options lapsed / forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of Hills Industries Limited							
G Twartz	363,000	-	-	-	363,000	203,000	160,000
Other key management personnel of the Group							
L Andrewatha	180,000	-	-	-	180,000	60,000	120,000
S Cope	120,000	-	-	-	120,000	-	120,000
D Edgecombe	25,000	-	-	-	25,000	-	25,000
R Gros	120,000	-	-	-	120,000	-	120,000
A Kachellek	-	-	-	-	-	-	-
D Lethbridge	-	-	-	-	-	-	-
K Middleton	45,000	-	-	-	45,000	-	45,000
A Muir	105,000	-	-	-	105,000	20,000	85,000
2009							
Name	Balance at start of the year	Granted as compensation	Exercised	Options lapsed / forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of Hills Industries Limited							
G Twartz	323,000	100,000	-	(60,000)	363,000	143,000	220,000
Other key management personnel of the Group							
L Andrewatha	180,000	60,000	-	(60,000)	180,000	-	180,000
S Cope	120,000	60,000	-	(60,000)	120,000	-	120,000
G Daher	35,000	25,000	-	(15,000)	45,000	-	45,000
J Easling	110,000	-	-	(110,000)	-	-	-
R Gros	120,000	60,000	-	(60,000)	120,000	-	120,000
A Kachellek	-	-	-	-	-	-	-
R Meacham	70,000	25,000	-	(25,000)	70,000	10,000	60,000
K Middleton	30,000	25,000	-	(10,000)	45,000	-	45,000
A Muir	70,000	60,000	-	(25,000)	105,000	10,000	95,000
A Oliver	260,000	25,000	-	(45,000)	240,000	145,000	95,000

(iv) *Share holdings*

The numbers of shares in the Company held during the financial year by each Director of Hills Industries Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation aside from those issued to the Executives as part of the employee share scheme.

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

Share disclosures for JH Hill-Ling includes 1,188,918 (2009: 1,174,550) shares owned by Hills Associates & Poplar Pty Ltd (jointly held) and 13,455,689 (2009: 13,313,300) shares owned by Hills Associates Ltd, of which J H Hill-Ling is a Director.

26 Key management personnel disclosures (continued)

2010	Balance at the start of the year	Granted during reporting year as compensation	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Name					
Directors of Hills Industries Limited					
Ordinary shares					
J Hill-Ling	16,343,161	-	-	169,308	16,512,469
G Twarz	8,486	459	-	91	9,036
I Elliot	4,449	-	-	1,786	6,235
R Flynn	31,740	-	-	3,925	35,665
G Hill	87,953	-	-	4,552	92,505
P Stancliffe	17,115	-	-	1,989	19,104
F Bennett	-	-	-	4,000	4,000
Other key management personnel of the Group					
Ordinary shares					
L Andrewartha	411	459	-	358	1,228
S Cope	-	459	-	-	459
D Edgecombe	421	459	-	1,810	2,690
R Gros	1,802	459	-	1,786	4,047
A Kachellek	-	-	-	-	-
D Lethbridge	-	-	-	-	-
K Middleton	520	459	-	1,811	2,790
A Muir	2,514	459	-	1,786	4,759
2009					
Name					
Directors of Hills Industries Limited					
Ordinary shares					
J Hill-Ling	15,336,811	-	-	1,006,350	16,343,161
G Twarz	4,100	411	-	3,975	8,486
I Elliot	1,000	-	-	3,449	4,449
R Flynn	26,296	-	-	5,444	31,740
G Hill	76,056	-	-	11,897	87,953
P Stancliffe	12,121	-	-	4,994	17,115
Other key management personnel of the Group					
Ordinary shares					
L Andrewartha	-	411	-	-	411
S Cope	-	-	-	-	-
G Daher	6,137	411	-	673	7,221
J Easling	5,905	411	-	(6,316)	-
R Gros	1,391	411	-	-	1,802
A Kachellek	-	-	-	-	-
R Meacham	6,894	411	-	755	8,060
K Middleton	1,391	411	-	(1,282)	520
A Muir	3,402	411	-	(1,299)	2,514
A Oliver	42,901	411	-	4,641	47,953

(e) Loans to key management personnel

There were no loans outstanding at the reporting date to key management personnel and their related parties. Option loans are not recognised as loans as they are included in the fair value of the options as required by IFRS.

26 Key management personnel disclosures (continued)

(f) Other transactions with key management personnel

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

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

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

- The Group rents certain property from a company in which J Easling is a shareholder and director. Amounts were billed based on normal market rentals and were due and payable under normal payment terms. The total amount recognised as an expense during the period that he was a key management person was \$nil (2009: \$889,456).
- Minibrook Pty Ltd and Elliot & Kellard, entities associated with I Elliot, have provided brand consulting and presentation skills training to the Group. Amounts were billed and payable under normal commercial terms and conditions. The total amount recognised as an expense during the year was \$nil (2009: \$151,000).

There were no amounts receivable from and payable to key management personnel at reporting date arising from these transactions (2009: \$nil).

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

27 Related party transactions

(a) Parent entities

The parent entity within the Group and the ultimate parent entity is Hills Industries Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 32.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 26.

(d) Transactions with other related parties

The following transactions occurred with related parties:

Subsidiaries

All transactions with partly owned controlled entities are on normal commercial terms and conditions. Transactions with controlled entities are determined on a cost basis.

Sales of goods and services that eliminated with cost of goods sold and services provided amounted to \$24,719,000 (2009: \$32,943,000) for the Group.

Loans and borrowings with Australian wholly owned controlled entities are interest free and payable on demand while loans to or from non-wholly owned subsidiaries are charged interest at rates no more favourable than current market rates. Interest paid and received during the year was \$2,681,000 (2009: \$8,433,000) for the Group.

Entities within the Group rent properties to or from other entities within the Group at rentals that are market related. Property rentals during the year were \$2,223,000 (2009: \$2,142,000) for the Group.

27 Related party transactions (continued)

Group entities charge an administration fee for services rendered which during the year was \$10,451,000 (2009: \$10,490,000) for the Group.

Inter entity dividends paid and received during the year amounted to \$15,502,000 (2009: \$14,828,000) for the Group.

Key management persons related parties

For details of these transactions refer to key management personnel related disclosures in note 26.

Other related parties

Contributions to superannuation funds on behalf of employees are disclosed in note 5.

(e) Loans to/from related parties

Subsidiaries

Group entity trading transactions and borrowings result in balances arising in respect of current and non-current assets and liabilities. At 30 June 2010 the Group current assets and liabilities were \$272,047,000 (2009: \$193,795,000) and the Group non-current assets and liabilities were \$441,000 (2009: \$126,489,000).

Other related parties

Loans (from) / to associated entities amounted to (\$134,000) (2009: \$219,000).

28 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.

29 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated	
	2010	2009
	\$'000	\$'000
<i>Property, plant and equipment</i>		
Payable:		
Within one year	<u>9,129</u>	<u>6,068</u>
	<u>9,129</u>	<u>6,068</u>

(b) Lease commitments: Group as lessee

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

The leases run for a period ranging from 1 to 15 years with the majority running for a period of 5 years, with an option to renew the lease after that date. Lease payments are increased each renewal period to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Consolidated	
	2010	2009
	\$'000	\$'000
Within one year	22,408	26,667
Later than one year but not later than five years	55,904	64,216
Later than five years	32,096	23,023
	<u>110,408</u>	<u>113,906</u>

(c) Lease commitments: where a Group company is the lessor

The future minimum lease payments receivable under non cancellable operating leases are as follows:

	Consolidated	
	2010	2009
	\$'000	\$'000
Within one year	944	807
Later than one year and not later than five years	157	942
Later than five years	<u>-</u>	<u>-</u>
	<u>1,101</u>	<u>1,749</u>

30 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for risk minimisation purposes, ie not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

Risk management is carried out by a central treasury department (Treasury) under policies approved by the Board of Directors. Treasury identifies, evaluates and minimises financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Group holds the following financial instruments:

	Consolidated	
	2010	2009
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	56,915	67,978
Trade and other receivables	186,002	197,480
Derivative financial instruments	800	333
Investments	2	2
	<u>243,719</u>	<u>265,793</u>
Financial liabilities		
Trade and other payables	128,048	120,902
Borrowings	107,068	222,350
Derivative financial instruments	2,944	10,242
	<u>238,060</u>	<u>353,494</u>

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in a currency that is not the Group's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Management and Group Treasury manage the Group's foreign exchange risk against their functional currency. The companies and business units within the Group are required to hedge their foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities using forward contracts transacted by Group Treasury.

Forward contracts, transacted by Group Treasury, are used to manage foreign exchange risk. Group Treasury is responsible for managing exposures in each foreign currency by using external forward currency contracts.

The Group Treasury's risk management policy is to hedge approximately three months of anticipated cash flows (mainly purchases of inventory) in US dollars.

External foreign exchange contracts are designated at Group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

30 Financial risk management (continued)

The Group's exposure to foreign currency risk at the reporting date, was as follows:

	30 June 2010				30 June 2009			
	USD \$'000	NZD \$'000	euro '000	JPY '000	USD \$'000	NZD \$'000	euro '000	JPY '000
Trade receivables	933	6,509	-	-	1,217	1,498	-	-
Cash at bank	30	-	-	-	752	-	-	-
Bank loans	-	(1,704)	-	-	(758)	(2,010)	-	-
Trade payables	(4,398)	(1,904)	(80)	(2,350)	(7,795)	(106)	(309)	(41,577)
Forward exchange contracts - buy foreign currency (cash flow hedges)	(29,460)	-	-	-	-	-	-	-
Forward exchange contracts - buy foreign currency (FVTPL)	(875)	-	-	-	(35,025)	-	-	-

Group sensitivity

Based on the financial instruments held at 30 June 2010, had the Australian dollar weakened / strengthened by 10% against other currencies with all other variables held constant, the Group's pre-tax profit for the year before the impact of forward foreign exchange contracts would have been \$204,000 lower / \$167,000 higher (2009: \$1,017,000 lower/\$832,000 higher), mainly as a result of foreign exchange gains / losses on translation of US dollar denominated financial assets and liabilities as detailed in the above table. Profit is less sensitive to movements in the Australian dollar / US dollar exchange rates in 2010 than 2009 because of the reduced amount of US dollar denominated trade creditors and borrowings. The forward foreign exchange contract impact on pre-tax profit for the year of a 10% weakening / strengthening in the Australian dollar would have been \$217,000 higher / \$172,000 lower (2009: \$5,052,000 higher / \$4,133,000 lower). Profit is less sensitive to movements in the Australian dollar / US dollar exchange rates in 2010 than 2009 because of the reduced amount of US dollar denominated forward foreign exchange contracts and the hedging of the Australian portfolio of forward foreign exchange contracts. Other components of equity would have been \$3,813,000 higher / \$3,125,000 lower (2009: \$nil higher / \$nil lower) had the Australian dollar weakened / strengthened by 10% against the US dollar, arising from forward foreign exchange contracts designated as cash flow hedges. Forward foreign exchange contracts were not designated as cash flow hedges in 2009.

(ii) Price risk

The Group has no material financial exposure to other market price risk as it is not exposed to equity securities price risk. The Group does not enter into commodity contracts other than to meet the Group's expected usage requirements.

(iii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Group policy is to maintain approximately 50% to 75% of its borrowings at fixed rate using interest rate swaps to achieve this when necessary. During 2010 and 2009, the Group's borrowings at variable rate were denominated in Australian Dollars and NZ Dollars.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

30 Financial risk management (continued)

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

Consolidated	30 June 2010		30 June 2009	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank overdrafts and bank loans	4.8%	(106,384)	3.3%	(220,465)
Cash and cash equivalents	4.4%	56,915	2.8%	67,978
Loans to / (from) minority shareholders	- %	-	6.2%	(1,059)
Interest rate swaps (notional principal amount)	6.2%	105,000	6.1%	122,000

An analysis by maturities is provided in (c) below.

Sensitivity

At 30 June 2010, if interest rates had increased by 100 or decreased by 100 basis points from the year end rates with all other variables held constant, pre-tax profit for the year before the impact of unhedged interest rate swaps would have been \$547,000 higher / \$1,064,000 lower (2009: \$1,535,000 lower/\$1,535,000 higher), mainly as a result of higher / lower interest expense from borrowings. Other components of equity would have been \$2,466,000 higher / \$2,064,000 lower (2009: \$1,174,000 higher / \$1,242,000 lower) mainly as a result of an increase / decrease in the fair value of the cash flow hedges of borrowings. The unhedged interest rate swap impact of a + 100/- 100 basis point change on pre-tax profit for the year would have been \$nil higher / \$nil lower (2009: \$2,336,000 higher / \$2,442,000 lower).

(iv) Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk.

Consolidated	Amount \$'000	Interest rate risk				Foreign exchange risk			
		-100bps		+100bps		-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
30 June 2010									
Financial assets									
Cash and cash equivalents	56,915	569	-	(569)	-	4	-	(3)	-
Trade and other receivables	186,002	-	-	-	-	709	-	(580)	-
Derivatives - cash flow hedges	800	-	-	-	-	16	3,813	(8)	(3,125)
Financial liabilities									
Derivatives - cash flow hedges	(2,932)	(569)	(2,064)	52	2,466	-	-	-	-
Derivatives - fair value through profit or loss	(12)	-	-	-	-	201	-	(164)	-
Trade and other payables	(128,048)	-	-	-	-	(763)	-	624	-
Borrowings	(107,068)	(1,064)	-	1,064	-	(154)	-	126	-
Total increase/ (decrease)		(1,064)	(2,064)	547	2,466	13	3,813	(5)	(3,125)
30 June 2009									
Financial assets									
Cash and cash equivalents	67,978	(680)	-	680	-	104	-	(85)	-
Trade and other receivables	197,480	-	-	-	-	302	-	(247)	-
Derivatives - cash flow hedges	333	(5)	(1,242)	4	1,174	-	-	-	-
Financial liabilities									
Derivatives - fair value through profit or loss	(10,242)	(2,442)	-	2,336	-	5,052	-	(4,133)	-
Trade and other payables	(120,902)	-	-	-	-	(1,244)	-	1,018	-
Borrowings	(222,350)	2,219	-	(2,219)	-	(179)	-	146	-
Total increase/ (decrease)		(908)	(1,242)	801	1,174	4,035	-	(3,301)	-

30 Financial risk management (continued)

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings and trade references. Purchase limits are established for each customer, which represent the maximum open amount without requiring further approval. These limits are reviewed monthly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or incorporated legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

In most cases goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a priority claim. In certain circumstances the Group requires collateral in respect of trade and other receivables.

The Group has established an allowance for impairment that represents the estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The aging of the Group's trade receivables is analysed in note 8.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to the dynamic and diversified nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

The Group has multi-option financing facilities totalling \$225,000,000 (2009: \$263,585,000) of which \$80,000,000 has been approved until 30 June 2012, a further \$80,000,000 has been approved until 30 November 2012 and the remainder of the facility has been approved until 30 June 2013. For more information please refer to note 19 (bank loans and standby letters of credit).

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities including derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the reporting date.

30 Financial risk management (continued)

Contractual maturities of financial liabilities	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
Consolidated - at 30 June 2010	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives							
Non-interest bearing	128,048	-	-	-	684	128,732	128,732
Variable rate	3,905	2,491	64,982	46,027	-	117,405	106,384
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	131,953	2,491	64,982	46,027	684	246,137	235,116
Derivatives							
Net settled (interest rate swaps and forward exchange contracts)	(143)	595	851	1,300	(47)	2,556	2,144
Consolidated - at 30 June 2009							
Non-derivatives							
Non-interest bearing	120,902	-	-	-	498	121,400	121,400
Variable rate	5,871	5,178	73,813	152,038	-	236,900	221,852
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	126,773	5,178	73,813	152,038	498	358,300	343,252
Derivatives							
Net settled (interest rate swaps and forward exchange contracts)	7,517	1,544	2,982	4,980	905	17,928	10,242

(d) Fair value measurements

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Land and buildings

Fair value at 30 June 2010 is based on a Directors' valuation as at 30 June 2010, which itself was based on a Directors' valuation at 30 June 2009 and an independent valuation of all freehold land and buildings dated March 2008 and updated based upon the Directors' assessments of changes in market conditions affecting the components of those valuations.

Fair value of land and buildings at 30 June 2008 was based on an independent valuation of all freehold land and buildings carried out during March 2008. The valuation process was managed by AON Risk Services Australia Limited with the individual valuations being performed by various certified valuers. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The valuations were determined having regard to the highest and best use of the assets for which market participants would be prepared to pay.

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

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values.

30 Financial risk management (continued)

(b) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(f) Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds).

The fair value of interest rate swaps is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market rates at the measurement date.

(g) Share-based payment transactions

For information regarding the fair value of share-based payments refer to note 25.

(h) Fair value measurement hierarchy

As of 1 July 2009, the Group has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (b) Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- (c) Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's financial assets and liabilities carried at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

At 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivatives used for hedging	-	800	-	800
Total assets	-	800	-	800
Liabilities				
Derivatives used for hedging	-	2,944	-	2,944
Total liabilities	-	2,944	-	2,944

The carrying amounts of cash and cash equivalents, trade receivables and trade payables are assumed to approximate their fair values due to their short term nature. The fair value of borrowings approximates their carrying amount, as the impact of discounting is not significant.

31 Business combination

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:

	\$'000
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 and note 13)	-

(b) Assets and liabilities acquired

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

	Fair value \$'000
Inventories	2,359
Property, plant and equipment (note 11)	1,463
Other assets	12
Provision for employee benefits	(276)
Net identifiable assets acquired	3,558
Add: goodwill	-
Net assets acquired	3,558

(c) Purchase consideration - cash outflow

	Consolidated	
	2010	2009
	\$'000	\$'000
<i>Outflow of cash to acquire business operation</i>		
Cash consideration	3,558	-
Direct costs relating to acquisition (note 35)	395	-
Outflow of cash - investing activities	3,953	-

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.

31 Business combination (continued)

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.

	\$'000
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	(86)
Goodwill (note 13)	5,293

(b) Cash flow information

	Consolidated	
	2010	2009
	\$'000	\$'000
<i>Outflow of cash to acquire business, net of cash acquired</i>		
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 recognised as a result of the acquisition are as follows:

	Fair value \$'000
Cash and cash equivalents	1,120
Receivables	3,016
Inventories	1,111
Plant and equipment (note 11)	73
Net deferred tax asset (note 12)	28
Intangible assets: research and development (note 13)	200
Payables	(1,789)
Borrowings	(2,863)
Employee benefit liabilities, including superannuation	(221)
Current tax liability	(211)
Provision for dividend	(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.

32 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2010 %	2009 %
Hills Finance Pty Ltd	Australia	Ordinary	100	100
Hills Industries NZ Limited	New Zealand	Ordinary	100	100
Korvest Limited (i) (ii)	Australia	Ordinary	46	46
Korvest NZ Limited (iii)	New Zealand	Ordinary	-	100
Hills Hoists Pty Ltd	Australia	Ordinary	100	100
Bailey Aluminium Products Pty Ltd	Australia	Ordinary	100	100
ACN 000 195 951 Pty Ltd (formerly Triton Manufacturing & Design Co Pty Ltd)	Australia Registered branch in	Ordinary	100	100
ACN 089 622 622 Pty Ltd (formerly Triton Workshop Systems (UK) Pty Ltd)	United Kingdom	Ordinary	100	100
Woodroffe Industries Pty Ltd	Australia	Ordinary	100	100
Fielders Australia Pty Ltd (note (a))	Australia	Ordinary	100	60
Fielders Mobile Mill Pty Ltd	Australia	Ordinary	100	100
Zen 99 Pty Ltd	Australia	Ordinary	100	100
Orrcon Holdings Pty Ltd	Australia	Ordinary	100	100
Orrcon Operations Pty Ltd	Australia	Ordinary	100	100
Orrcon Tubing Pty Ltd	Australia	Ordinary	100	100
Access Television Services Pty Ltd	Australia	Ordinary	100	100
Techlife Solutions Pty Ltd (shelved)	Australia	Ordinary	100	100
Audio Telex Communications Pty Ltd	Australia	Ordinary	100	100
Crestron Control Solutions Pty Ltd	Australia	Ordinary	100	100
Team Poly Pty Ltd	Australia	Ordinary	100	100
KDB Engineering Pty Ltd	Australia	Ordinary	100	100
Kerry Equipment (Aust) Pty Ltd	Australia	Ordinary	100	100
Step Electronics 2005 Pty Ltd (i)	Australia	Ordinary	50	50
Greenwattle Investments Pty Ltd	Australia	Ordinary	100	100
Access Scaffolding (Aust) Pty Ltd	Australia	Ordinary	100	100
Greenwattle Equipment Pty Ltd	Australia	Ordinary	100	100
ACN 095 224 034 Pty Ltd (formerly Alquip (Holdings) Pty Ltd)	Australia	Ordinary	100	100
Alquip Pty Ltd	Australia	Ordinary	100	100
Pathfinder (Edwardstown) Pte Ltd	Singapore	Ordinary	100	100
Hills Nominees Pty Ltd	Australia	Ordinary	100	100
DAS Security Wholesalers Pty Ltd	Australia	Ordinary	100	100
Pacific Communications Pty Ltd	Australia	Ordinary	100	100
Pacom Security Pty Ltd	Australia	Ordinary	100	100
CBS Hardware Pty Ltd	Australia	Ordinary	100	100
Step Electronics Pty Ltd	Australia	Ordinary	100	100
Opticomm Co Pty Ltd (i)	Australia	Ordinary	50	50
UHS Systems Pty Ltd	Australia	Ordinary	51	51
UHS Pty Ltd	Australia	Ordinary	100	100
Cygnus Satellite Pty Ltd (i)	Australia	Ordinary	50	-

Names inset indicate shares held by the company immediately above the inset.

- (i) These companies are controlled by virtue of the Company's control of the company's Board through the chairman's casting vote, effective management of the company and exposure to the risks and benefits of ownership, or control of voting rights through the dilution of the minority shareholders.

32 Subsidiaries (continued)

- (ii) During the year Korvest Ltd issued 19,920 (2009: 26,352) ordinary shares pursuant to its Employee Share Bonus Plan for no consideration. Hills Industries Ltd does not participate in this plan. As a result of this transaction Hills Industries Ltd decreased its interest in Korvest Ltd.
- (iii) Korvest NZ Limited was deregistered on 28 August 2009.

(a) Transactions with non-controlling interests

On 16 November 2009, the Group increased its shareholding in Fielders Australia Pty Ltd from 60% to 74.9% through a rights issue and conversion of debt to equity. The consideration paid was \$19,955,000. On 6 April 2010 the Group acquired the remaining 25.1% of Fielders Australia Pty Ltd by way of a \$10,000,000 selective share buy back.

	2010 \$'000	2009 \$'000
Carrying amount of non-controlling interests acquired	11,551	-
Consideration paid to non-controlling interests	<u>(10,000)</u>	<u>-</u>
Excess consideration paid recognised in the transactions with non-controlling interests reserve within equity	<u>1,551</u>	<u>-</u>

33 Parent entity financial information

(a) Summary financial information

The individual financial statements for the Company show the following aggregate amounts:

	Company	
	2010 \$'000	2009 \$'000
Statement of financial position		
Current assets	359,661	408,704
Non-current assets	<u>260,983</u>	<u>269,586</u>
Total assets	<u>620,644</u>	<u>678,290</u>
Current liabilities	142,551	154,597
Non-current liabilities	<u>113,480</u>	<u>227,794</u>
Total liabilities	<u>256,031</u>	<u>382,391</u>
Contributed equity	306,595	248,598
Reserves		
Asset revaluation reserve	37,517	37,517
Hedging reserve - cash flow hedges	(265)	-
Asset realisation reserve	1,855	1,855
Equity compensation reserve	592	568
Retained earnings	<u>18,319</u>	<u>7,131</u>
Total shareholders' equity	<u>364,613</u>	<u>295,669</u>
Profit for the year	<u>32,711</u>	<u>13,035</u>
Total comprehensive income	<u>32,216</u>	<u>9,095</u>

33 Parent entity financial information (continued)

(b) Guarantees entered into by the Company

Bank guarantees given by the Company in favour of customers and suppliers amounted to \$7,486,000 (2009: 7,949,000).

Cross guarantees are given by the Company and its wholly owned subsidiaries as described in note 34. Under the terms of the Deed of Cross Guarantee the Company and its wholly owned subsidiaries have guaranteed the debt in each other's companies. Guarantees amount to \$289,252,000 (2009: \$354,165,000). No material deficiency in net tangible assets exists in these companies at reporting date with net tangible assets amounting to \$329,736,000 (2009: \$257,504,000).

(c) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2010, the Company had contractual commitments for the acquisition of property, plant or equipment totalling \$1,530,000 (2009: \$1,273,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

34 Deed of cross guarantee

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

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

The subsidiaries subject to the Deed are:

Hills Finance Pty Ltd

Hills Hoists Pty Ltd

Bailey Aluminium Products Pty Ltd

KDB Engineering Pty Ltd

Kerry Equipment (Aust) Pty Ltd

Woodroffe Industries Pty Ltd

ACN 000 195 951 Pty Ltd (Formerly Triton Manufacturing & Design Co Pty Ltd)

Orrcon Operations Pty Ltd

Orrcon Holdings Pty Ltd

Greenwattle Investments Pty Ltd (Alquip)

Audio Telex Communications Pty Ltd

Team Poly Pty Ltd

Fielders Australia Pty Ltd

Access Television Services Pty Ltd

All of the subsidiaries except KDB Engineering Pty Ltd, Kerry Equipment (Aust) Pty Ltd, Orrcon Operations Pty Ltd, Orrcon Holdings Pty Ltd, Greenwattle Investments Pty Ltd, Audio Telex Communications Pty Ltd, Team Poly Pty Ltd, Fielders Australia Pty Ltd and Access Television Services Pty Ltd became a party to the deed on 15 April 2004 by virtue of a Deed of Assumption.

KDB Engineering Pty Ltd, Kerry Equipment (Aust) Pty Ltd, Orrcon Holdings Pty Ltd and Orrcon Operations Pty Ltd became parties to the deed on 23 June 2006, by virtue of a Deed of Assumption. Greenwattle Investments Pty Ltd (Alquip) and Audio Telex Communications Pty Ltd became parties to the deed on 25 June 2007. Team Poly Pty Ltd became a party to the deed on 14 May 2008. Fielders Australia Pty Ltd and Access Television Services Pty Ltd became parties to the deed on 29 June 2010.

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

34 Deed of cross guarantee (continued)

The above companies represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Hills Industries Limited, they also represent the 'extended closed group'.

Set out below is a consolidated income statement, a consolidated statement of comprehensive income, a summary of movements in consolidated retained earnings for the year ended 30 June 2010 and a consolidated statement of financial position as at 30 June 2010 of the Company and controlled entities that are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee.

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

	2010 \$'000	2009 \$'000
<i>Income statement</i>		
Revenue from continuing operations	1,062,568	773,930
Other income	1,217	-
Finance costs	(3,566)	(19,689)
Other expenses	<u>(1,003,351)</u>	<u>(752,015)</u>
Profit before income tax	56,868	2,226
Income tax expense	<u>(15,726)</u>	<u>(919)</u>
Profit for the year	<u>41,142</u>	<u>1,307</u>
Profit is attributable to:		
Owners of the Company	40,044	1,307
Non-controlling interests	<u>1,098</u>	<u>-</u>
Profit for the year	<u>41,142</u>	<u>1,307</u>
<i>Statement of comprehensive income</i>		
Profit for the year	41,142	1,307
Other comprehensive income		
Gain on revaluation of land and buildings	-	(6,837)
Changes in the fair value of cash flow hedges	(707)	329
Income tax relating to components of other comprehensive income	<u>212</u>	<u>1,951</u>
Other comprehensive income for the year, net of tax	<u>(495)</u>	<u>(4,557)</u>
Total comprehensive income for the year	<u>40,647</u>	<u>(3,250)</u>
<i>Summary of movements in consolidated retained earnings</i>		
Retained earnings at the beginning of the financial year	64,954	99,400
Profit for the year	40,044	1,307
Adjustment to retained profits at the beginning of the year on inclusion of additional companies in the Class Order	17,928	-
Dividends provided for or paid	<u>(21,523)</u>	<u>(35,753)</u>
Retained earnings at the end of the financial year	<u>101,403</u>	<u>64,954</u>

34 Deed of cross guarantee (continued)

(b) Consolidated statement of financial position

	2010 \$'000	2009 \$'000
Current assets		
Cash and cash equivalents	51,476	53,349
Trade and other receivables	191,943	199,743
Inventories	165,982	157,790
Derivative financial instruments	800	-
Total current assets	<u>410,201</u>	<u>410,882</u>
Non-current assets		
Investments	11,140	15,473
Property, plant and equipment	195,515	175,174
Deferred tax assets	25,443	19,726
Intangible assets	99,561	89,757
Derivative financial instruments	-	333
Total non-current assets	<u>331,659</u>	<u>300,463</u>
Total assets	<u>741,860</u>	<u>711,345</u>
Current liabilities		
Trade and other payables	125,674	84,416
Borrowings	8,191	6,931
Current tax liabilities	9,917	5,845
Provisions	31,151	22,933
Derivative financial instruments	250	5,822
Total current liabilities	<u>175,183</u>	<u>125,947</u>
Non-current liabilities		
Borrowings	105,663	218,498
Provisions	5,724	5,402
Derivative financial instruments	2,682	4,318
Total non-current liabilities	<u>114,069</u>	<u>228,218</u>
Total liabilities	<u>289,252</u>	<u>354,165</u>
Net assets	<u>452,608</u>	<u>357,180</u>
Equity		
Contributed equity	306,595	248,597
Reserves	44,610	43,629
Retained earnings	101,403	64,954
Total equity	<u>452,608</u>	<u>357,180</u>

35 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	
	2010	2009
	\$'000	\$'000
Profit for the year	43,095	15,655
Depreciation and amortisation	23,913	23,107
Impairment of goodwill	-	5,380
Acquisition costs relating to business operations acquired	395	-
Non-cash employee benefits expense - share-based payments	467	343
Net (gain) loss on sale of non-current assets	(179)	20
Fair value (gain) loss on derivatives	(8,471)	10,136
Foreign currency translation reserve recycled through profit or loss on disposal of subsidiary	49	-
Impairment of trade receivables	3,336	3,699
Impairment of inventories	3,836	1,981
Impairment of property, plant and equipment	1,680	-
Rent received	(864)	(842)
Amounts set aside to provisions	16,833	17,763
Change in operating assets and liabilities, net of effects from purchase of controlled entities and business operations:		
Decrease / (increase) in trade and other receivables	8,059	42,482
Decrease / (increase) in inventories	13,670	(17,101)
Decrease / (increase) in deferred tax assets	2,289	(7,374)
Increase / (decrease) trade and other creditors	7,053	(20,183)
Increase / (decrease) in provision for income taxes payable	2,944	3,658
(Decrease) / increase in other provisions	(16,557)	(16,391)
Net cash inflow (outflow) from operating activities	<u>101,548</u>	<u>62,333</u>

36 Remuneration of auditors

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

	Consolidated	
	2010	2009
	\$	\$
(a) Audit services		
<i>KPMG Australia:</i>		
Audit and review of financial reports	450,000	400,000
<i>Overseas KPMG Firms:</i>		
Audit and review of financial reports	31,905	36,458
Total remuneration for audit and other assurance services	481,905	436,458
(b) Non-audit services		
Taxation services		
<i>KPMG Australia:</i>		
Taxation and other services	126,354	157,048
<i>Overseas KPMG Firms:</i>		
Taxation services	10,542	30,430
Total remuneration for taxation services	136,896	187,478
Other services		
<i>KPMG Australia:</i>		
Consulting services	-	54,195
Total remuneration for other services	-	54,195

37 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

Overview

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 Home, Hardware and Eco division 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.

Review of operations (continued)

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.

Dividends

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 7.0 cents per share paid in March 2010 and a final dividend of 5.5 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.

Electronic Security & Entertainment

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.

Review of operations (continued)

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; and
- 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 & Eco

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.

Review of operations (continued)

Building & Industrial

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 www.korvest.com.au.

Information on Directors

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 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.

Information on Directors (continued)

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 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.

Information on Directors (continued)

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 Ltd.

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.

Information on Directors (continued)

David Moray Spence B Com 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 Ltd (since June 2010).

Former listed company directorships in last 3 years

Director 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.

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:

	Full meetings of Directors		Meetings of committees					
			Audit & Compliance		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Jennifer Helen Hill-Ling	19	19	-	-	7	7	6	6
Graham Lloyd Twardz *	19	19	-	-	-	-	-	-
Ian Elliot ^	15	19	-	-	7	7	6	6
Roger Baden Flynn	19	19	5	5	-	-	-	-
Geoffrey Guild Hill	16	19	3	5	7	7	5	6
Peter William Stancliffe	19	19	5	5	-	-	-	-
Fiona Rosalyn Vivienne 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.

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.

Remuneration report - audited (continued)

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

(c) Executive remuneration framework

The executive pay and reward framework has the following components:

Fixed remuneration:	<ul style="list-style-type: none"> • Base pay • Superannuation • Other short term benefits
Variable remuneration:	<ul style="list-style-type: none"> • 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 an 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; <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • Safety; • Strategic outcomes; • Operational improvements; • Restructuring and rationalisation; and • Other discretionary performance targets.

Remuneration report - audited (continued)

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

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

Remuneration report - audited (continued)

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

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	53,589	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

(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
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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.

Remuneration report - audited (continued)

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

(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 pages 75 to 78 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)

Details of remuneration (continued)

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

2010	Short-term employee benefits				Post-employment benefits	Long-term benefits	Share-based payments (B)		Total
	Cash salary and fees	Cash bonus (A)	Non monetary benefits	Other	Super-annuation	Long service leave	Options	Shares	
Name	\$	\$	\$	\$	\$	\$	\$	\$	\$
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	-	375	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	998	320,813
K Middleton^	326,903	45,608	-	700	33,413	-	659	999	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)

Details of remuneration (continued)

2009	Short-term employee benefits				Post-employment benefits	Termination benefits	Share-based payments (B)		Total
	Cash salary and fees	Cash bonus (A)	Non monetary benefits	Other			Options	Shares	
Name	\$	\$	\$	\$	Super-annuation	\$	\$	\$	\$
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 Twarz	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
Other Group executives									
D Salvaterra [^]	88,390	100,849	-	-	24,288	154,074	-	500	368,101

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 that are fixed are as follows:

Name	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 Twarz	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

Remuneration report - audited (continued)

C Service 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.

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 / vested	Expiry date	Exercise price	Value per option at grant date	Performance achieved	% Vested
28 Feb 2005	31 Jan 2007 / 31 Jan 2010	31 Jan 2027	\$4.16	\$0.48	Yes	55%
28 Feb 2006	31 Jan 2008 / 31 Jan 2011	31 Jan 2028	\$4.83	\$0.56	No	0%
28 Feb 2007	31 Jan 2009 / 31 Jan 2012	31 Jan 2029	\$5.53	\$0.64	No	0%
28 Feb 2008	31 Jan 2011 / 31 Jan 2011	31 Jan 2031	\$5.49	\$0.19	n/a	n/a
4 Feb 2009	31 Jan 2012 / 31 Jan 2012	31 Jan 2032	\$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 financial statements.

Remuneration report - audited (continued)

Share-based compensation (continued)

Name	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.

E Additional information

Details of remuneration: Bonuses and share-based compensation benefits

For each cash bonus and grant of options included in the tables on pages 84 - 85 and 86 - 87, 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 86 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.

Name	Cash Bonus		Share-based compensation benefits (options)					
	Paid / Payable %	Forfeited %	Year granted	Vested %	Lapsed / 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)

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.

Name	A Value at grant date \$	B Value at exercise date \$	C Value at lapse / forfeit 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 these 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	<u>17,319</u>
	<u>21,523</u>

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 23.

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 21.

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.

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.

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://www.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 the Company under option in accordance with accounting standards at the date of this report are as follows:

Date options granted	Expiry date	Exercise 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
			<u>1,493,000</u>

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.

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*.

Non-audit services (continued)

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	31,905	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
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 100.

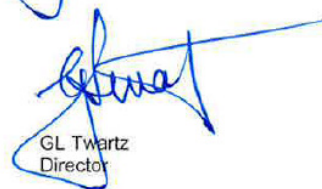
Rounding of amounts

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.



JH Hill-Ling
 Director



GL Twartz
 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.

ASXCGC Principle 2: Structure the Board to add value (continued)

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 78.

Independent professional advice

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

ASXCGC Principle 2: Structure the Board to add value (continued)

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 78.

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.

ASXCGC Principle 3: Promote ethical and responsible decision making (continued)

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 75 - 78.

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 note 36 to the 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.

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 78.

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.

In the opinion of the Directors' of Hills Industries Limited (the Company):

- (a) the consolidated financial statements and notes set out on pages 1 to 71 and the Remuneration report in the Directors' report, set out on pages 79 to 88, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and, the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) There are reasonable grounds to believe that the Company and the group entities identified in note 34 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and the chief financial officer for the financial year ended 30 June 2010.

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



GL Twartz
Director

Dated at Adelaide
this 10th day of September 2010



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.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'N T Faulkner'.

N T Faulkner
Partner

Dated at Adelaide this 10th day of September 2010



Independent auditor's report to the members of Hills Industries Limited

Report on the financial report

We have audited the accompanying financial report of the Group comprising Hills Industries Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the consolidated statement of financial position as at 30 June 2010, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 37 and the Directors' declaration.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the Remuneration report

We have audited the Remuneration report included in pages 79 to 88 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



N T Faulkner
Partner

Dated at Adelaide this 10th day of September 2010

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:

Holding	Ordinary shares	
	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
	<u>23,850</u>	<u>16</u>

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 equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
Poplar Pty Limited	20,286,335	8.17
Hills Associates Limited	13,455,689	5.42
JP 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 Ltd	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 Ltd	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 Ltd	1,979,060	0.80
Milton Corporation Ltd	1,719,260	0.69
Colleen Sims Nominees Pty Ltd	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 Ltd	1,188,918	0.48
Gwynvill Trading Pty Limited	1,100,000	0.44
	<u>103,786,147</u>	<u>41.80</u>

C. Substantial holders

Substantial holders in the Company are set out below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
Poplar Pty Limited	20,286,335	8.17%
Hills Associates Limited	13,455,689	5.42%

D. Voting rights

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

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.

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

Principal Registered Office

944-956 South Road Edwardstown SA 5039

Telephone: (08) 8301 3200

Facsimile: (08) 8297 4468

Web: www.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