Hills

Grow with Hills

HILLS INDUSTRIES LIMITED 2006 CONCISE ANNUAL REPORT

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HILLS CONCISE ANNUAL REPORT

Hills Industries Limited
Concise Annual Report 2006

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

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

ABN 35 007 573 417

The financial statements and other specific disclosures is an extract of, and has been derived from Hills Industries Limited and its Controlled Entities ("consolidated entity") full financial report for the financial year. Other information included in the concise financial report is consistent with the consolidated entity's full financial report.

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

A copy of the consolidated entity's 30 June 2006 Annual Financial Report, including the independent audit report, is available to all shareholders, and will be sent to shareholders without charge upon request or can be downloaded from www.hills.com.au
The 30 June 2006 Annual Financial Report can be requested by telephone (Australia: (08) 8301 3233, Overseas: +61 8 8301 3233) or via e-mail at info@hills.com.au.

Contents

Growth through diversity

2006 Overview

Hills Group achieves 14th consecutive record profit

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

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

Overview

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

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

Group Strategy

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

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

Trading Conditions

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

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

Dividends

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

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

Hills People

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

Shareholders

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

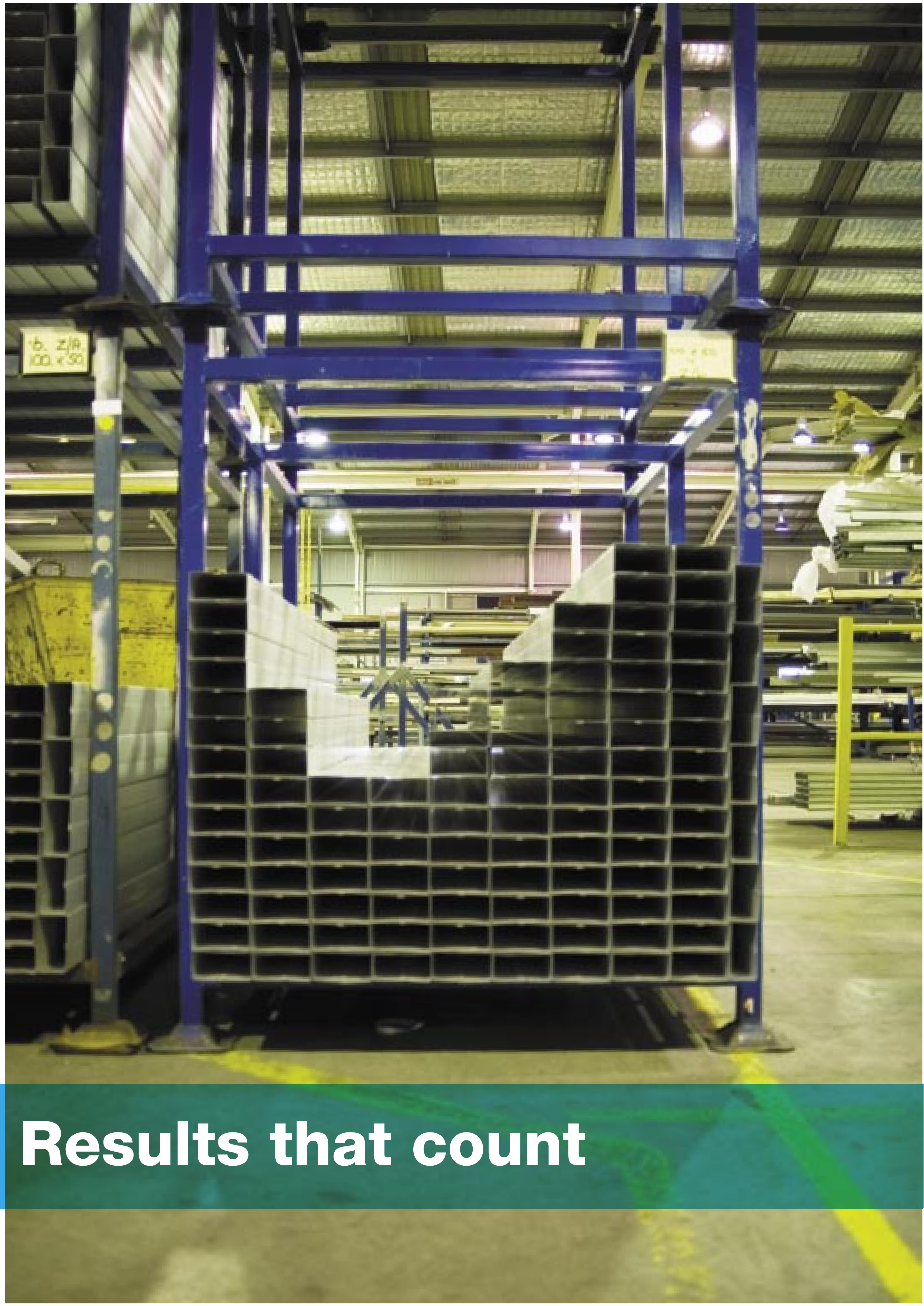
We continue to offer our dividend reinvestment plans to shareholders at discount levels that the Directors feel are attractive for reinvestment.
We also continued our practice of ensuring that the maximum number of employees participate in our employee share scheme. We believe that widespread share ownership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

Likely Developments

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

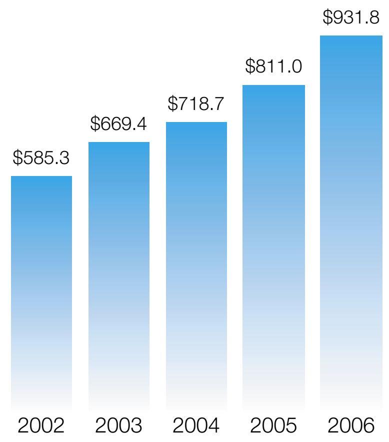
The advantage of Hills' strategy of diversification is that changes in a single economic variable such as exchange rates, commodity prices or interest rates do not influence all of our divisions in the same way at the same time.

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



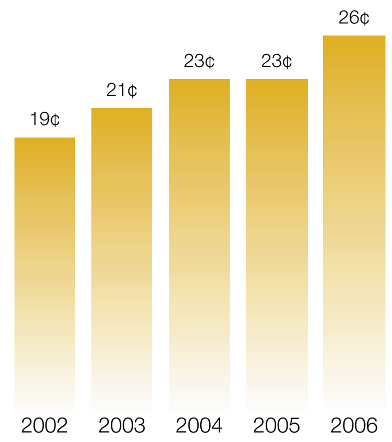
Results that count

5 Year Summary



Total revenue
Amount in $ millions

Net profit attributable to members
Amount in $ millions



Earnings per share
Amount in cents

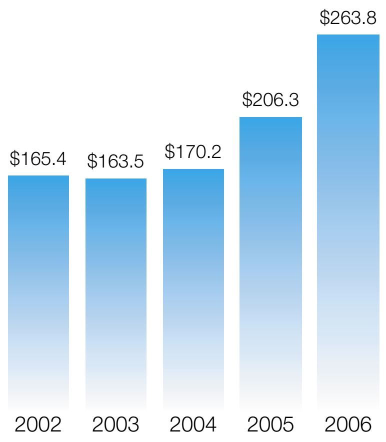
In thousands of AUD	**2002**	**2003**	**2004**	**2005**	**2006**
Total revenue	585,308	669,410	718,666	811,046	931,799
Net profit attributable to members	23,864	27,315	31,260	35,510	43,261
Net profit after tax and before minority interest	26,433	31,988	38,232	41,720	48,210
Depreciation, impairment and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

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

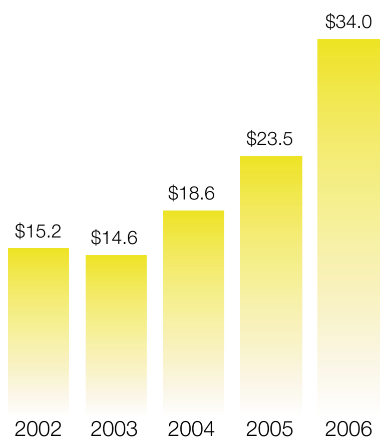
Competitive businesses

Group Profile

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

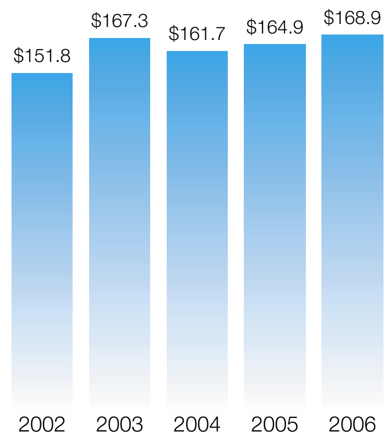


Revenue
Amount in $ millions

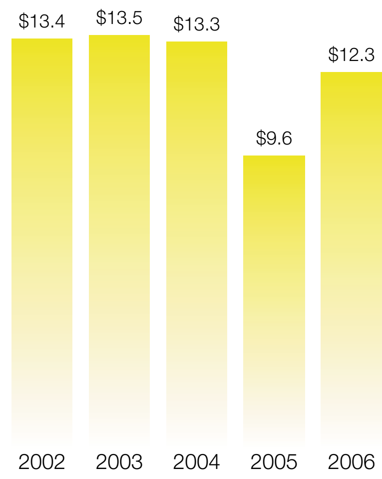


EBIT*
Amount in $ millions

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

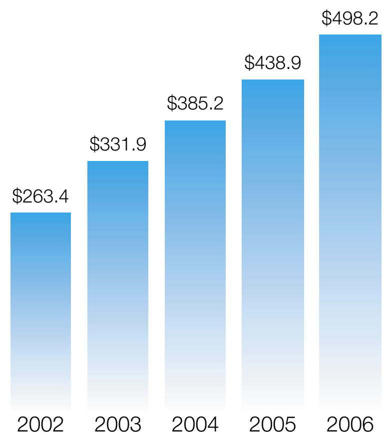


Revenue
Amount in $ millions

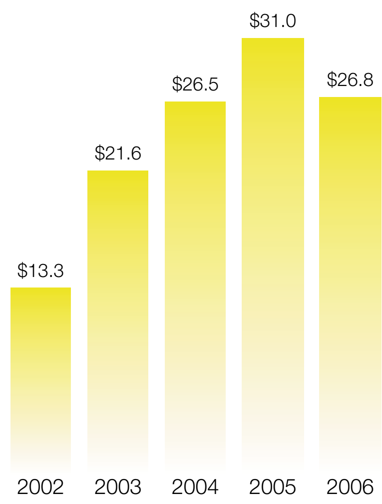


EBIT*
Amount in $ millions

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



Revenue
Amount in $ millions



EBIT*
Amount in $ millions

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

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

David James Simmons
BA(Accountancy) FCPA
Managing Director

Ian Elliott
GAICD
Independent Non-Executive Director

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

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

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

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

Leading the way

Intelligent technology

Electronic Security and Entertainment

Revenue of $263.8 million, EBIT of $34.0 million

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

Hills Electronic Security

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

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

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

Audio Telex and Crestron Control Solutions

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

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

Hills Antenna & TV Systems

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

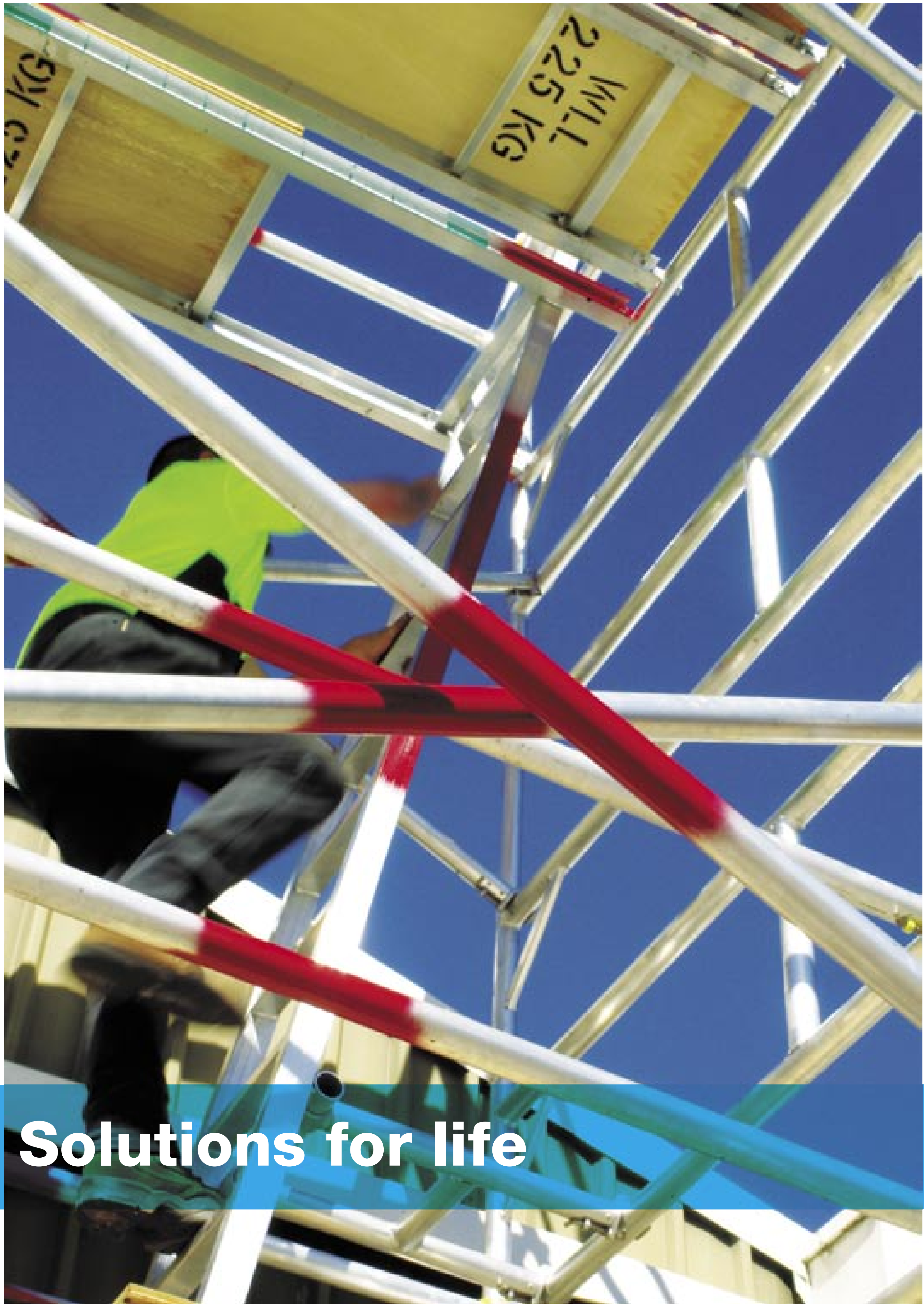
This division had an excellent 12 months on the back of increased and sustained demand from the subscription television industry and the completion of the Air Services Australia contract to provide remote surveillance at regional airports.

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

Access Television Services

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

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



Home and Hardware

Revenue of $168.9 million, EBIT of $12.3 million

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

Branded Products

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

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

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

Hills United Kingdom

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

Team Poly

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

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

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

K•Care and Kerry Equipment

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

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

Solutions for life

Solid foundations

Building and Industrial

Revenue of $498.2 million, EBIT of $26.8 million

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

Orrcon

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

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

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

Fielders

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

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

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

Korvest

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

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

Woodroffe Equipment

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

Directors' Report

2. Directors

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

Jennifer Helen Hill-Ling
LLB(Adel)
Chairman Non-Independent Non-Executive Director
Age: 44

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

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

David James Simmons
BA(Accountancy) FCPA
Managing Director
Age: 52

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

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

Ian Elliot
GAICD
Independent Non-Executive Director
Age: 52

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

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

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

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

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

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

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

Geoffrey Hill is a merchant banker, based in Hong Kong, with over 32 years experience in the securities industry. He has worked both in Europe and the United States and has managed merchant banks in Australia since 1989. Mr Hill specialises in mergers and acquisitions and corporate reconstructions and has been active in the South Australian corporate field since 1979. Mr Hill is a Director of Adelaide based Rundle Capital Ltd.

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

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

Peter Stancliffe has over 36 years experience in the management of large industrial companies both in Australia and overseas and has held various senior management positions, including Chief Executive Officer. He has extensive experience in strategy development and a detailed knowledge of modern Company management practices. Mr Stancliffe is a graduate of the MIT Senior Management Program and the AICD Company Directors' Course.

Graham Lloyd Twartz
BA(Adel) DipAcc(Flinders)
Finance Director
Age: 49

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

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

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

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

Directors' Report

3. Company Secretary

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

4. Officers who were previously partners of the audit firm

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

5. Directors' Meetings

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

Director	Board Meetings		Audit & Compliance Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	A	B	A	B	A	B	A	B
R D Hill-Ling	6	7	3	3	3	3	–	–
J H Hill-Ling	13	13	–	–	1	1	1	1
D J Simmons	13	13	–	–	–	–	–	–
I Elliot	13	13	–	–	–	–	1	1
R B Flynn	13	13	5	5	–	–	–	–
G G Hill	10	13	3	6	3	4	1	1
P W Stancliffe	13	13	6	6	4	4	–	–
G L Twartz	12	13	–	–	–	–	–	–

A – Number of meetings attended
B – Number of meetings held during the time the Director held office during the year

6. Corporate Governance Statement

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

6.1 Board of Directors

Role of the Board

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

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

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

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

Board Processes

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

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

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

Director Education

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

Directors' Report

Independent professional advice and access to Company information

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

Composition of the Board

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

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

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

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

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

6.2 Nomination Committee

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

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

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

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

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

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

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

Directors' Report

6.3 Remuneration Committee

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

The members of the Remuneration Committee during the year were:

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

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

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

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

6.4 Remuneration Report

6.4.1 Principles of compensation - audited

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

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

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel
- the key management personnel's ability to control the relevant segment/s' performance
- the consolidated entity's performance including:
  - the consolidated entity's earnings
  - the growth in share price and delivering constant returns on shareholder wealth
- the amount of incentives within each key management person's compensation.

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

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

Under the scheme, Directors are entitled to a maximum retirement benefit of twice their annual Directors' fees (calculated as an average of their fees over the last three years) accumulated over a period of eight years of service.

Since the scheme was discontinued, no new Directors have become entitled to any benefit and the benefit multiple for existing Directors (up to a maximum of two times fees) remains fixed.

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

Directors' Report

Fixed Compensation

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

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

Performance-linked compensation

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

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

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

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

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

The remuneration structures take into account:

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

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

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

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

Key management personnel who acquire shares through the exercise of options are provided with 20-year interest free loans by the Company in accordance with the rules of the Executive Share Plan approved by the shareholders. These loans are of a non-recourse nature. For accounting purposes these 20-year, non-recourse loans are treated as part of options to purchase shares, until the loan is extinguished at which point the shares are recognised.

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

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

Directors' Report

6.4 Remuneration Report (continued)

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

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

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

Directors' Report

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

Directors' Report

6.4 Remuneration Report (continued)

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

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

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

The value of options granted to Executive Directors and Senior Executives included above is calculated at the grant date using the valuation methodology set out in Division 13A of the Income Tax Assessment Act, 1936. This method has been adopted, as other methods do not reflect the number of conditions that must be met under the plan, including those applying after the shares have been allocated. Further details of options granted during the year are set out under "Options" below.

Details of Performance Related Remuneration

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

6.4.3 Analysis of Bonuses Included in Remuneration - unaudited

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

6.4.4 Equity Instruments

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

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

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

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

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

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

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

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

Directors' Report

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

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

6.4.4.3 Exercise of options granted as compensation - audited

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

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

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

	Options granted		% vested in year	Financial years in which grant vests
Directors	**Number**	**Date**		
D J Simmons	80,000	Feb 2004	100%	1 July 2005
	80,000	Feb 2005	–	1 July 2006
	80,000	Feb 2006	–	1 July 2007
G L Twartz	60,000	Feb 2004	100%	1 July 2005
	60,000	Feb 2005	–	1 July 2006
	60,000	Feb 2006	–	1 July 2007
Consolidated Entity Executives				
M I Canny	60,000	Feb 2004	100%	1 July 2005
	60,000	Feb 2005	–	1 July 2006
	60,000	Feb 2006	–	1 July 2007
A R Oliver	45,000	Feb 2004	100%	1 July 2005
	45,000	Feb 2005	–	1 July 2006
	45,000	Feb 2006	–	1 July 2007
P J Mellino	20,000	Feb 2004	100%	1 July 2005
	20,000	Feb 2005	–	1 July 2006
	20,000	Feb 2006	–	1 July 2007
L Andrewatha	60,000	Feb 2005	–	1 July 2006
	60,000	Feb 2006	–	1 July 2007
D M Salvaterra	–	–	–	–

No options were forfeited in the current year.

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

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

6.4.4.5 Analysis of movements in options - unaudited

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

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

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

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

6.4.5 Payments to persons before taking office - unaudited

There were no payments to persons before taking office.

Directors' Report

6.5 Audit Committee and Compliance Committee

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

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

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

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

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

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

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

The responsibilities of the Audit and Compliance Committee include:

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

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

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

6.6 Risk management

Oversight of the risk management system

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

Risk profile

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

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

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

Directors' Report

Risk management and compliance and control

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

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

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

Comprehensive practices have been established to ensure:

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

Quality and integrity of personnel

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

Financial reporting

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

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

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

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

Environmental regulation

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

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

The processes are responsible for:

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

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

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

Assessment of effectiveness of risk management

Internal audit

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

Directors' Report

6.7 Ethical standards

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

Conflict of interest

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

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

Code of conduct

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

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

Trading in General Company Securities by Directors and Employees

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

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

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

6.8 Communication with shareholders

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

In summary, the Continuous Disclosure Policy operates as follows:

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

Directors' Report

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

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

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

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

7. Principal activities

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

Objectives

The consolidated entity's objectives are to:

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

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

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

8. Dividends

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

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

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

Declared after end of year

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

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

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

9. Events subsequent to reporting date

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

10. Likely developments

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

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

Directors' Report

11. Directors' interests

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

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

12. Share options

Options granted to Directors and officers of the Company

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

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

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

Unissued shares under options

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

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

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

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

Shares issued on exercise of options

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

13. Indemnification and insurance of officers and auditors

Indemnification

The Company has agreed to indemnify the Directors and Officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current Directors of its controlled entities for all liabilities to another person (other than the company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Since the end of the previous financial year, the Company has paid insurance premiums in respect of Directors' and officers' liability and legal expenses' insurance contracts, for current and former Directors and officers, including executive officers of the Company and Directors, executive officers and secretaries of its controlled entities, with the exception of Korvest Limited where only common directors are covered. The insurance premiums relate to:

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

The premiums were paid in respect of all of the Directors and officers of the Company and its controlled entities except as noted above. The Directors have not included details of the nature of the liabilities covered or the amount of the premiums paid in respect of the Directors' and officers' liability and legal expenses' insurance contracts as such disclosure is prohibited under the terms of the contracts.

Directors' Report

14. Non-audit services

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

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

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

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

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

15. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 55 and forms part of the Directors' Report for the financial year ended 30 June 2006.

16. Rounding off

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

This report is made with a resolution of the Directors:

D J Simmons

Director

J H Hill-Ling

Director

Dated at Adelaide this 12th day of September 2006.

Income Statement

For the year ended 30 June 2006	Note	Consolidated	
In thousands of AUD		**2006**	**2005**
Revenue	4	931,799	811,046
Other income		3,895	5,137
		935,694	816,183
Expenses excluding net financing costs		(862,429)	(752,472)
Results from operating activities		73,265	63,711
Financial income		965	1,037
Financial expenses		(6,845)	(4,345)
Net financing costs		(5,880)	(3,308)
Profit before income tax expense		67,385	60,403
Income tax expense		(19,175)	(18,683)
Net profit	4	48,210	41,720
Attributable to:			
Equity holders of the parent	5	43,261	35,510
Minority interest	5	4,949	6,210
Profit for the year		48,210	41,720
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share from continuing operations		26¢	23¢
Diluted earnings per share from continuing operations		26¢	23¢
Dividends per share			
Ordinary shares		26¢	23¢

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 38 to 52.

Discussion and Analysis of the Income Statement

The consolidated entity's total revenue for 2006 increased by 14.9% to $931.799 million. Group profit after tax attributable to equity holders of the parent increased by 21.8% to $43.261 million.

Details of revenue and results by segment are set out in Note 4. All business segments increased their sales revenue compared to 2005 as follows:

- Electronic Security and Entertainment revenue increased 27.9% to $263.8 million. EBIT of $34.0 million was 44.5% higher than 2005. These increases are attributable to:
  - securing a number of large contracts arising from enhanced security requirements across a number of market segments, and in particular from Government, in relation to our electronic security division;
  - maintaining our position as the leading supplier of domestic alarm panels;
  - realising the synergies of the Hills Technology Solutions Group that was instrumental in securing a number of important projects spanning products from different business units within Hills;
  - the excellent performance of the Audio Telex Group that was acquired late in the year ended 2005. The performance of this group above initial expectations was supplemented by the acquisition of Australian Audio Supplies;
  - the excellent results of the Hills Antenna & TV Systems division on the back of increased and sustained demand from the subscription television industry and the completion of the Air Services Australia contract to provide remote surveillance at regional airports;
  - the sustained improved demand for the Austar service, resulting in pleasing performance of ATS.

- Home and Hardware Products revenue increased by 2.4% to $168.9 million while EBIT increased by 28.9% to $12.3 million. These outcomes are attributable to:
  - the continuing restructuring of the Consumer Products business;
  - increased sourcing of more cost-effective products from China;
  - the acquisition of the Alquip Group, a leading supplier of aluminum scaffolding and access equipment;
  - the acquisition of the remaining 25% interest in Team Poly;
  - the disposal of Hills United Kingdom operations;
  - the steady performance of K•Care and Kerry Equipment.

- Building and Industrial Products revenue increased 13.5% to $498.2 million. However, EBIT decreased by 13.7% to 26.8 million. This outcome is attributable to:
  - significant margin pressure within the Orrcon Group arising from a combination of aggressive pricing from importers and foreign dumping of pipe and tube;
  - continued growth of Fielders and Woodroffe Equipment;
  - an excellent result from Korvest, particularly with regard to the EzyStrut business.

The effective tax rate changed marginally decreasing from 30.9% to 28.5%.

Earnings per share increased from 23¢ to 26¢.

Dividends per share increased from 24¢ to 26¢.

Balance Sheet

As at 30 June 2006	**Note**	**Consolidated**	
In thousands of AUD		**2006**	**2005**
Current Assets			
Cash and cash equivalents		20,223	21,287
Trade and other receivables		160,716	151,271
Inventories		135,853	133,986
Income tax receivable		–	1,197
Total Current Assets		316,792	307,741
Non-Current Assets			
Receivables		–	1,222
Investments		2	102
Deferred tax assets		23,103	21,938
Property, plant and equipment		172,047	154,940
Intangible assets		109,778	91,079
Total Non-Current Assets		304,930	269,281
Total Assets		621,722	577,022
Current Liabilities			
Bank overdraft		7,419	7,290
Trade and other payables		113,882	117,135
Interest-bearing loans and borrowings		10,370	3,238
Employee benefits		23,949	20,329
Income tax payable		5,857	8,599
Provisions		7,574	9,458
Total Current Liabilities		169,051	166,049
Non-Current Liabilities			
Interest-bearing loans and borrowings		121,539	95,405
Employee benefits		6,361	6,721
Provisions		360	360
Total Non-Current Liabilities		128,260	102,486
Total Liabilities		297,311	268,535
Net Assets		324,411	308,487
Equity			
Issued capital		167,525	157,214
Reserves		24,911	29,926
Retained earnings	5	117,516	105,388
Total Equity attributable to equity holders of the parent		309,952	292,528
Minority interest		14,459	15,959
Total Equity	5	324,411	308,487

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 38 to 52.

Discussion and Analysis of the Balance Sheet

The consolidated entity's net assets increased by 5.2% to $324.411 million over the year.

The consolidated entity's total assets increased by $44.7 million to $621.7 million (2005: $577.0 million) over the year.

The increase in total assets principally comprises:

- An increase in current receivables of $9.445 million resulting from an increase in revenue, as noted in the Discussion and Analysis of the Income Statement, as well as receivables acquired as a result of the acquisition of Alquip and Brisbane Sheet Metal.
- An increase in inventories of $1.867 million mainly arising from the acquisitions during the year, increased stock holdings arising from generally increased trading levels, planned purchases of price volatile inventory and general inflation.
- A net increase in property, plant and equipment of $17.107 million arising from a combination of purchases, normal disposals, disposals of entities and acquisition of Alquip and Brisbane Sheet Metal.
- A net increase in Intangible Assets of $18.699 million arising from an increase in goodwill of $19.440 million from acquisitions, including Team Poly, Brisbane Sheet Metal, Orrcon and Alquip.

Current liabilities increase by $3.002 million to $169.051 million (2005: $166.049 million) is mostly owing to a combination of a decrease in trade payables of $11.734 million, an increase in other payables and accrued expenses, including GST, of $8.604 million, an increase in interest bearing loans and borrowings of $7.132 million, an increase in employee benefits of $3.620 million, a decrease in income tax payable of $2.742 million and a decrease in provisions of $1.884 million.

Non-current liabilities increased by $25.774 million to $128.260 million (2005: $102.486 million) owing mainly to an increase in interest bearing loans and borrowings of $26.134 million associated with the acquisitions of entities and deferred payments related to acquisitions.

Issued capital increased by $10.311 million owing mostly to shares issued under the Share Investment Plan of $9.905 million and to shares issued under the Employee Share Bonus Plan and the Executive Share Plan.

Reserves decreased by $5.015 million owing to a combination of the recognition of the equity compensation reserve applied under AIFRS, foreign currency translation and disposal of entities.

Statement of Cash Flows

For the year ended 30 June 2006	Note	Consolidated	
In thousands of AUD		**2006**	**2005**
Cash flows from operating activities			
Cash receipts from customers		1,041,647	894,812
Cash paid to suppliers and employees		(959,450)	(834,405)
Cash generated from operations		82,197	60,407
Interest received		965	1,037
Interest paid		(7,310)	(3,723)
Dividends received		–	15
Income taxes paid		(21,454)	(25,142)
Net cash from operating activities		54,398	32,594
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		1,119	3,024
Acquisition of property, plant and equipment		(30,995)	(20,514)
Proceeds from sale of investments		482	–
Disposal of subsidiaries (net of cash)	7(b)	609	–
Disposal of business operations (net of cash)	8(b)	–	10,400
Acquisition of business operations (net of cash)	8(a)	(15,802)	–
Acquisition of subsidiaries (net of cash)	7(a)	(13,103)	(87,020)
Loans to other entities		(134)	–
Loans repaid by other entities		–	8,741
Rent received		1,170	526
Net cash from investing activities		(56,654)	(84,843)
Cash flows from financing activities			
Proceeds from the issue of share capital		9,905	90,160
Payments for share issue costs by the Company		–	(820)
Proceeds from borrowings		29,516	65,703
Repayment of borrowings		(325)	(59,645)
Payment of finance lease liabilities		(601)	(624)
Dividends paid by the Company		(34,482)	(29,129)
Dividends paid to minority interest		(2,593)	(18,934)
Net cash from financing activities		1,420	46,711
Net increase/(decrease) in cash and cash equivalents		(836)	(5,538)
Cash and cash equivalents at 1 July		13,997	19,282
Effect of exchange rate fluctuations on cash held		(357)	253
Cash and cash equivalents at 30 June		12,804	13,997

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 38 to 52.

Discussion and Analysis of Statement of Cash Flows

Cash flows provided by operating activities increased significantly by $21.804 million to $54.398 million (2005: $32.594 million). This is owing to a combination of increased earnings and effective cash management.

Cash flows from investing activities is evident from the cash flow statement and relates largely to the purchase of property, plant and equipment and the acquisition of entities and business operations.

Cash flows from financing activities is evident form the cash flow statement and relates to proceeds from borrowings to finance the acquisitions of entities and business operations and other items described in the statement.

Statement of Recognised Income and Expense

For the year ended 30 June 2006		Consolidated	
In thousands of AUD	**Note**	**2006**	**2005**
Foreign exchange translation differences	5	(1,465)	(503)
Net income/(expense) recognised directly in equity		(1,465)	(503)
Profit for the year		48,210	41,720
Total recognised income and expense for the year	5	46,745	41,217
Attributable to:			
Equity holders of the parent		41,796	35,007
Minority interest		4,949	6,210
Total recognised income and expense for the year	5	46,745	41,217

Other movements in equity arising from transactions with owners as owners are set out in note 5.

The statement of recognised income and expense is to be read in conjunction with the notes to the financial statements set out on pages 38 to 52.

Notes to the Consolidated Financial Statements

1. Basis of preparation

The concise financial report has been prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 1039 Concise Financial Reports. The financial statements and specific disclosures required by AASB 1039 have been derived from the consolidated entity's full financial report for the financial year. Other information included in the concise financial report is consistent with the consolidated entity's full financial report. The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The financial report is prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets and liabilities.

A full description of the accounting policies adopted by the consolidated entity may be found in the consolidated entity's full financial report.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is change in accounting policy, are consistent with those of the prior year.

The presentation currency is Australian dollars.

2. Reclassification of financial information

Comparative information has not been reclassified except as result of AIFRS requirements. These reclassifications are noted in the note below detailing the effect of AIFRS.

3. Accounting estimates and judgements

Management discussed with the Audit and Compliance Committee the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates.

The consolidated entity assesses whether goodwill and intangibles with indefinite useful lives are impaired at least annually. These calculations involve an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

4. Segment reporting

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

Inter-segment pricing is determined on a cost basis.

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

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

Business segments

The consolidated entity comprises the following main business segments:

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

Home and Hardware
Outdoor clothes driers, ladders, ironing boards, laundry trolleys, security doors, playtime equipment, garden sprayers, wheelbarrows, scaffold systems, rehabilitation and mobility products, water tanks and other rotationally moulded products.

Building and Industrial
Structural, precision and large steel tubing, API accredited pipe, galvanising, precision metal cabinets, stainless steel products, steel doorframes, roll-formed metal building products, carports and shed systems.

Geographical segments

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

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

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

Overseas
Manufacturing facilities and sales offices in New Zealand.

Notes to the Consolidated Financial Statements

Primary reporting by Business Segments

In thousands of AUD	Electronic, Security and Entertainment		Home and Hardware		Building and Industrial		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue										
Sales to external customers	263,854	206,311	168,933	164,928	498,203	438,917	–	–	930,990	810,156
Inter-segment revenue	–	–	–	–	11,021	9,948	(11,021)	(9,948)	–	–
Total segment revenue	263,854	206,311	168,933	164,928	509,224	448,865	(11,021)	(9,948)	930,990	810,156
Rentals									809	890
Total revenue									931,799	811,046
Result										
Segment result (before interest and tax)	34,024	23,544	12,325	9,560	26,762	31,028	–	–	73,111	64,132
Unallocated/corporate result									154	(421)
									73,265	63,711
Net interest									(5,880)	(3,308)
Profit before income tax									67,385	60,403
Income tax expense									(19,175)	(18,683)
Net profit									48,210	41,720
Depreciation and amortisation	3,014	4,520	5,023	8,272	8,414	7,096	–	–	16,451	19,888
Unallocated/corporate depreciation and amortisation									1,115	697
									17,566	20,585
Other non-cash expenses	2,221	2,907	2,295	3,408	8,196	9,389	–	–	12,712	15,704
Unallocated/corporate non-cash expenses									1,972	(3,455)
									14,684	12,249
Assets										
Segment assets	124,470	110,390	93,183	105,522	248,487	232,168	–	–	466,140	448,080
Unallocated/corporate assets									155,582	128,942
Consolidated total assets									621,722	577,022
Liabilities										
Segment liabilities	32,272	29,670	22,330	26,268	71,003	70,131	–	–	125,605	126,069
Unallocated/corporate liabilities									171,706	142,466
Consolidated total liabilities									297,311	268,535
Acquisitions of non-current assets	6,838	21,863	9,723	19,377	15,639	61,936	–	–	32,200	103,176
Unallocated/corporate assets									1,593	1,180
									33,793	104,356

Notes to the Consolidated Financial Statements

4. Segment reporting (continued)

Secondary reporting by geographical segments

In thousands of AUD	Australia		Overseas		Eliminations		Consolidated	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Revenue								
External segment revenue by location of customers	866,460	752,546	64,530	65,584	–	(10,974)	930,990	810,156
Unallocated/corporate revenue							809	890
Total revenue							931,799	811,046
Assets								
Segment assets	440,480	415,952	25,660	32,128	–	–	466,140	448,080
Unallocated/corporate assets							155,582	128,942
Consolidated total assets							621,722	577,022
Acquisitions of non-current assets	31,604	102,641	596	535	–	–	32,000	103,176
Unallocated/corporate assets							1,593	1,180
							33,793	104,356

Notes to the Consolidated Financial Statements

5. Capital and reserves

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

Consolidated *In thousands of AUD*	Share capital	Equity compen-sation reserve	Trans-lation reserve	Asset re-valuation reserve	Asset realisation reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 July 2004	67,347	62	2,340	26,154	4,101	97,256	197,260	34,719	231,979
Total recognised income and expense	–	–	(503)	–	–	35,510	35,007	6,210	41,217
Shares issued under the Employee Share Bonus Plan	527	–	–	–	–	–	527	–	527
Shares issued under the Dividend Investment Plan	8,124	–	–	–	–	–	8,124	–	8,124
Shares issued under the Share Purchase Plan	42,036	–	–	–	–	–	42,036	–	42,036
Shares issued under a share placement	40,000	–	–	–	–	–	40,000	–	40,000
Share issue costs	(820)	–	–	–	–	–	(820)	–	(820)
Share options granted under the Executive Share Plan	–	100	–	–	–	–	100	–	100
Disposal of revalued land and buildings	–	–	–	(1,021)	(730)	–	(1,751)	–	(1,751)
Deferred tax	–	–	–	(577)	–	–	(577)	–	(577)
Transfer from reserves	–	–	–	–	–	1,751	1,751	–	1,751
Dividends to shareholders	–	–	–	–	–	(29,129)	(29,129)	–	(29,129)
Minority interest loss in controlled entities acquired by the Company during the year	–	–	–	–	–	–	–	(6,036)	(6,036)
Minority interest in dividends paid or payable by controlled entities	–	–	–	–	–	–	–	(18,934)	(18,934)
Balance at 30 June 2005	157,214	162	1,837	24,556	3,371	105,388	292,528	15,959	308,487
Balance at 1 July 2005	157,214	162	1,837	24,556	3,371	105,388	292,528	15,959	308,487
Total recognised income and expense	–	–	(1,465)	–	–	43,261	41,796	4,949	46,745
Shares issued under the Executive Share Plan	32	151	–	–	–	–	183	–	183
Shares issued under the Employee Share Bonus Plan	374	–	–	–	–	–	374	–	374
Shares issued under a share Dividend Investment Plan	9,905	–	–	–	–	–	9,905	–	9,905
Dividends to shareholders	–	–	–	–	–	(34,482)	(34,482)	–	(34,482)
Minority interest in dividends paid or payable by controlled entities	–	–	–	–	–	–	–	(2,593)	(2,593)
Minority interest loss in controlled entities acquired by the Company during the year	–	–	–	–	–	–	–	(1,249)	(1,249)
Disposal of entities	–	–	(1,555)	(1,600)	(546)	3,349	(352)	(2,607)	(2,959)
Balance at 30 June 2006	167,525	313	(1,183)	22,956	2,825	117,516	309,952	14,459	324,411

Notes to the Consolidated Financial Statements

5. Capital and reserves (continued)

Dividends

Dividends recognised in the current year by the Company are:

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

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

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

In thousands of AUD	Cents per share	Total amount	Franked/unfranked	Date of payment
Final Ordinary	13.0	21,930	Franked	25 Sept. 2006

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

Dividend and share reinvestment plans

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

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

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

Notes to the Consolidated Financial Statements

6. Contingencies

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

In thousands of AUD	Consolidated 2006	2005
Contingent liabilities considered remote		
Guarantees		
(i) Under the terms of a Deed of Cross Guarantee the Company and its wholly owned subsidiaries, have guaranteed the bank facilities in each others' companies. No deficiency in net assets exists in these companies at reporting date.	–	–
(ii) Under the terms of a Deed of Cross Guarantee, the Company and its wholly owned subsidiaries, have guaranteed the repayment of all current and future creditors in each others' companies, in the event any of the entities party to the Deed is wound up. No deficiency in net assets exists in these companies at reporting date.	–	–
(iii) Letters of credit established in favour of suppliers/creditors.	10,668	12,761

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

7. Acquisitions/disposals of subsidiaries

7 (a). Acquisitions of subsidiaries

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

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

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

Notes to the Consolidated Financial Statements

7. Acquisitions/disposals of subsidiaries (continued)

7 (a). Acquisitions of subsidiaries (continued)

The acquisition of the Alquip Group had the following effect on the consolidated entity:

Acquiree's net liabilities at the acquisition date

In thousands of AUD	Recognised Values	Fair value adjustments	Carrying amounts
Property, plant and equipment	4,163	–	4,163
Inventories	1,860	–	1,860
Trade and other receivables	2,968	–	2,968
Deferred tax asset	439	–	439
Bank overdraft	(1,428)	–	(1,428)
Interest-bearing loans and borrowings	(596)	–	(596)
Other loans and borrowings	(6,535)	–	(6,535)
Trade and other payables	(1,560)	–	(1,560)
Tax payable	(221)	–	(221)
Provisions	(248)	–	(248)
Net identifiable assets and liabilities	(1,158)	–	(1,158)

Net identifiable assets and liabilities	(1,158)
Goodwill on acquisition	5,720
Deferred consideration	(1,000)
Consideration paid, satisfied in cash*	3,562
Bank overdraft (acquired)	1,428
Net cash outflow	4,990

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

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

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

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

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

Notes to the Consolidated Financial Statements

Aggregated details of the acquisition are as follows:	**Consolidated**	
In thousands of AUD	**2006**	**2005**
Consideration paid for new and increased control entities	8,275	87,785
(Cash)/bank overdraft acquired	1,428	(2,465)
Outflow of cash for new and increased control entities	9,703	85,320
Deferred consideration paid	3,400	1,700
Total outflow of cash	13,103	87,020

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

7 (b). Disposals of Subsidiaries

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

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

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

Notes to the Consolidated Financial Statements

7. Acquisitions/disposals of subsidiaries (continued)
(b) Disposals of Subsidiaries (continued)

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

In thousands of AUD	Consolidated	
	2006	**2005**
Share capital	1,200	–
Loss on disposal	(1,200)	–
Cash flow on disposal net of cash disposed	–	–

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

8. Acquisitions/disposals of business operations
(a) Acquisitions of business operations

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

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

Aggregated details of the acquisition are as follows:

In thousands of AUD	Consolidated	
Fair value of assets acquired	**2006**	**2005**
Cash	212	–
Inventories	2,141	–
Trade and other receivables	2,906	–
Property, plant and equipment	4,606	–
Goodwill purchased	8,189	–
Employee benefits	(208)	–
Trade and other payables	(1,832)	–
Fair value of assets and liabilities acquired	16,014	–
Less cash acquired	(212)	–
Cash flow on acquisition net of cash acquired	15,802	–

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

Notes to the Consolidated Financial Statements

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

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

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

(b) Disposal of business operations

The Triton business was sold during the prior financial year owing to poor performance and its loss making status. No business operations were disposed of during the current financial year. Details of the disposal are as follows:

In thousands of AUD	Consolidated	
Fair value of assets acquired	**2006**	**2005**
Consideration (cash)	–	10,400
Carrying amount of disposal	–	(8,094)
Profit on disposal	–	2,306

9. Subsequent events

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

Notes to the Consolidated Financial Statements

10. Explanation of transition to AIFRSs (continued)
Reconciliation of equity

In thousands of AUD	Note	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
			1 July 2004			30 June 2005	
Assets							
Cash and cash equivalents		21,835	–	21,835	21,287	–	21,287
Trade and other receivables	b	117,025	(901)	116,124	152,991	(1,720)	151,271
Inventories		89,610	–	89,610	133,986	–	133,986
Income tax receivable		1,859	–	1,859	1,197	–	1,197
Total current assets		230,329	(901)	229,428	309,461	(1,720)	307,741
Receivables		6,399	–	6,399	1,222	–	1,222
Investments		104	–	104	102	–	102
Deferred tax assets	d	19,040	(1,453)	17,587	24,440	(2,502)	21,938
Property, plant and equipment		155,821	–	155,821	154,940	–	154,940
Intangible assets	c	15,388	–	15,388	90,760	319	91,079
Total non-current assets		196,752	(1,453)	195,299	271,464	(2,183)	269,281
Total assets		427,081	(2,354)	424,727	580,925	(3,903)	577,022
Liabilities							
Bank overdraft		2,553	–	2,553	7,290	–	7,290
Trade and other payables		69,009	–	69,009	117,135	–	117,135
Interest-bearing loans and borrowings		7,948	–	7,948	3,238	–	3,238
Employee benefits		17,569	–	17,569	20,329	–	20,329
Income tax payable		9,286	–	9,286	8,599	–	8,599
Provisions		7,297	–	7,297	9,458	–	9,458
Total current liabilities		113,662	–	113,662	166,049	–	166,049
Interest-bearing loans and borrowings		74,336	–	74,336	95,405	–	95,405
Employee benefits		4,390	–	4,390	6,721	–	6,721
Provisions		360	–	360	360	–	360
Total non-current liabilities		79,086	–	79,086	102,486	–	102,486
Total liabilities		192,748	–	192,748	268,535	–	268,535
Net assets/(liabilities)		234,333	(2,354)	231,979	312,390	(3,903)	308,487
Equity							
Issued capital	b	68,300	(953)	67,347	158,544	(1,330)	157,214
Reserves	b, c, d	33,876	(1,219)	32,657	31,622	(1,696)	29,926
Retained earnings	g	97,340	(84)	97,256	106,179	(791)	105,388
Total equity attributable to equity holders of the parent		199,516	(2,256)	197,260	296,345	(3,817)	292,528
Minority interest	b, d, g	34,817	(98)	34,719	16,045	(86)	15,959
Total equity		234,333	(2,354)	231,979	312,390	(3,903)	308,487

Notes to the Consolidated Financial Statements

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

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

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

Notes to the reconciliation of equity

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

(a) AASB 101 requires that gains and losses on the disposal of non-current assets be reported on a net basis by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses. Reclassification in the consolidation of the net book value on disposal of property, plant and equipment, for the year ended 30 June 2005, resulted in other expenses decreasing and other income decreasing by $2,870,000. In the Company other expenses decreased and other income decreased by $3,008,000.

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

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

Under previous GAAP, the Consolidated Entity did not account for equity-settled share based payment transactions. Such payments are now recognised at fair value in accordance with AASB 2.

Under previous GAAP, the Consolidated Entity recognised limited recourse loans to employees to purchase shares as loans and as share capital. In compliance with AASB 2 these limited recourse loans have been derecognised as loans and share capital and recognised as options at fair value in accordance with AASB 2.

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

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

(c) Under AIFRS goodwill and intangible assets with an indefinite useful life are not subject to amortisation but tested for impairment annually. The impact on the results for the Consolidated Entity is a decrease in other expenses, an increase in retained income and an increase in goodwill by $319,000 for the year ended 30 June 2005. There was no effect on the Company.

(d) In compliance with AIFRS the Consolidated Entity has adopted the balance sheet method of tax effect accounting. The effect on the Consolidated Entity is to increase deferred tax liabilities by $1,562,000, increase deferred tax assets by $109,000, decrease the asset revaluation reserve by $1,281,000, decrease retained income by $74,000 and decrease minority interest by $98,000 as at 1 July 2004. For the Company the effect is to increase deferred tax liabilities by $727,000 and decrease the asset revaluation reserve by $727,000.

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

Notes to the Consolidated Financial Statements

10. Explanation of transition to AIFRSs (continued)

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

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

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

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

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

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

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

In thousands of AUD	**Note**	**Consolidated**	
		1 July 2004	**30 June 2005**
Deferred tax liabilities adjustments arising from adoption of AASB 112	d	1,562	2,652
Deferred tax asset adjustments arising from adoption of AASB 112	d	(109)	(150)
Net increase (decrease) in deferred taxes		1,453	2,502
Comprising of movements in:			
Decrease (increase) in deferred tax assets		(109)	(150)
(Decrease) increase in deferred tax liabilities		1,562	2,652
		1,453	2,502

Of the net increase in deferred tax liability of $1,453,000 at 1 July 2004, $1,281,000 was recognised as a decrease in asset revaluation reserve (see note 10(d)) and the balance of $172,000 was recognised as a reduction in retained earnings of $74,000 and a decrease in minority interest of $98,000 (see note 10(g)).

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

Notes to the Consolidated Financial Statements

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

In thousands of AUD	**Note**	**Consolidated**	
		1 July 2004	**30 June 2005**
Employee benefits	b	(62)	(689)
Intangible assets	c	–	319
Deferred tax	d	(172)	(644)
Current loans receivable	b	953	1,857
Share capital	b	(901)	(1,720)
Total adjustment to equity		(182)	(877)
Attributable to:			
Equity holders of the parent		(84)	(791)
Minority interest	b, d	(98)	(86)
		(182)	(877)

Notes to the Consolidated Financial Statements

10. Explanation of transition to AIFRSs (continued)
Reconciliation of profit for 2005

In thousands of AUD	Note	Consolidated		
		Previous GAAP	Effect of Transition to AIFRSs	AIFRSs
Revenue		811,046	–	811,046
Other income	a	16,101	(10,964)	5,137
		827,147	(10,964)	816,183
Cost of goods sold		(534,023)	–	(534,023)
Cost of services sold		(3,860)	–	(3,860)
Sales and marketing expenses		(102,143)	–	(102,143)
Distribution expenses		(54,908)	–	(54,908)
Administrative expenses		(39,083)	–	(39,083)
Occupancy expenses		(13,715)	–	(13,715)
Other expenses	a, b, c	(15,433)	10,693	(4,740)
Operating profit before interest expense and income tax		63,982	(271)	63,711
Financial income		1,037	–	1,037
Financial expenses		(4,345)	–	(4,345)
Net financing (costs)/income		(3,308)	–	(3,308)
Profit before tax		60,674	(271)	60,403
Income tax expense	d	(18,211)	(472)	(18,683)
Profit for the period		42,463	(743)	41,720
Attributable to:				
Equity holders of the parent		36,217	(707)	35,510
Minority interest		6,246	(36)	6,210
Profit for the period		42,463	(743)	41,720
Basic earnings per share from continuing operations		24¢		23¢
Diluted earnings per share from continuing operations		24¢		23¢

Hills Industries Limited and its Controlled Entities Concise Annual Report for the year ended 30 June 2006

Directors' Declaration

1. In the opinion of the directors of Hills Industries Limited ('the Company'):

(a) the concise financial statements and notes and the remuneration disclosures that are contained in sections 6.4.1, 6.4.2, 6.4.4.1, 6.4.4.2, and 6.4.4.3 of the Remuneration Report in the Directors' Report, of the consolidated entity, comprising Hills industries Limited and its controlled entities for the financial year ended 30 June 2006, set out on pages 32 to 52.

(i) have been derived from and are consistent with the Full Financial Report for the financial year; and

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

Signed in accordance with a resolution of the directors:

David Simmons

Director

Dated at Adelaide this 12th day of September 2006.

Independant audit report to the members of Hills Industries Limited

Scope

The Financial Report, Remuneration Report and Directors' responsibility

The Concise Financial Report comprises the income statement, statement of recognised income and expense, balance sheet, statement of cash flows, accompanying notes 1 to 10, the disclosures made as required by Australian Accounting Standards AASB 124 Related Party Disclosures in sections 6.4.1, 6.4.2 and 6.4.4 of Remuneration report in the Directors' report as permitted by ASIC Class Order 06/105 Calculation of director and executive remuneration/ Corporations Act Regulation 2M.6.04 ("remuneration disclosures"), and the accompanying discussion and analysis on the income statement, statement of recognised income and expense, balance sheet, and statement of cash flows, and the Directors' declaration set out on pages 32 to 53 for Hills Industries Limited ("the Company") and its controlled entities (the "consolidated entity") for the financial year ended 30 June 2006.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration Report" in sections 6.4.1, 6.4.2, 6.4.4.1, 6.4.4.2 and 6.4.4.3 of the Directors' Report and not in the Concise Financial Report.

The Directors of the Company are responsible for the preparation of the concise financial report in accordance with Australian Accounting Standard AASB 1039 Concise Financial Reports. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the Concise Financial Report. The directors are also responsible for the remuneration disclosures contained in the Directors' Report.

Audit approach

We conducted an independent audit in order to express an opinion to members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the concise financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore an audit cannot guarantee that all material misstatements have been detected. We have also performed an independent audit of the Full Financial Report and the remuneration disclosures of the Company and its controlled entities for the financial year ended 30 June 2006. The Remuneration report in the full financial report also contains information in sections 6.4.3, 6.4.4.4, 6.4.4.5 and 6.4.5 not required by Australian Accounting Standard AASB 124 which is not subject to our audit. Our audit report on the full financial report and the remuneration disclosures was signed on 12 September 2006, and was not subject to any qualification.

We performed procedures in respect of the audit of the concise financial report to assess whether, in all material respects, the concise financial report is presented fairly in accordance with Australian Accounting Standard AASB 1039 Concise Financial Reports.

We formed our audit opinion on the basis of these procedures, which included:

- testing that the information in the concise financial report is consistent with the full financial report, and
- examining, on a test basis, information to provide evidence supporting the amounts, discussion and analysis, and other disclosures, which were not directly derived from the full financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit Opinion

In our opinion, the concise financial report of Hills Industries Limited and its controlled entities for the financial year ended 30 June 2006 complies with Australian Accounting Standard AASB 1039 Concise Financial Reports.

KPMG

Anthony Santin

Partner

Adelaide

12 September 2006

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

To: the Directors of Hills Industries Limited

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

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

KPMG

Anthony Santin

Partner

Adelaide

12 September 2006

ASX Additional Information

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

Shareholdings (as at 24 August 2006)

Substantial Shareholders

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

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

Voting rights

Ordinary shares

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

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

Direct payment to shareholders' accounts

Dividends may be paid directly to bank, building society or credit union accounts in Australia. Payments are electronically credited on the dividend date and confirmed by mailed payment advice. Shareholders who want their dividends paid this way should advise the Company's share registry in writing.

Distribution of equity security holders

	Number of Equity Security Holders	
Category	Ordinary shares	Options
1 – 1,000	4,040	–
1,001 – 5,000	11,420	–
5,001 – 10,000	4,079	2
10,001 – 100,000	2,333	16
100,001 and over	64	3
	21,936	21

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

Stock Exchange

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

Other information

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

On-market buy back

There is no current on-market buy-back.

ASX Additional Information

Twenty largest shareholders

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

Offices and officers

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

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

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

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