Hills Holdings Limited

ABN 35 007 573 417

ASX Preliminary final report for the year ended 30 June 2011

Hills Holdings Limited ABN 35 007 573 417
Annual report - 30 June 2011

Contents

Hills Holdings Limited
For the year ended 30 June 2011
(Previous corresponding period: Year ended 30 June 2010)

Results for Announcement to the Market
30 June 2011

				A$'000
Revenue from ordinary activities	down	5.2%	to	1,095,845
(Loss)/profit from ordinary activities after tax attributable to members	down	286.5%	to	(74,955)
Profit from ordinary activities after tax attributable to members before unusual items	down	37.1%	to	25,287
Basic earnings per share after unusual items (cents per share)	down	280.8%	to	(30.2)
Basic earnings per share before unusual items (cents per share)	down	38.9%	to	10.2

Dividends	Amount per security (cents)	Franked amount per security (cents)
Final dividend		
- current reporting period #	4.5	4.5
- previous corresponding period	5.5	5.5
Interim dividend		
- current reporting period	5.5	5.5
- previous corresponding period	7.0	7.0

Record date for determining entitlements to the interim dividend: 12 September 2011

Final dividend proposed in respect of the current reporting period. The financial effect of this dividend will be recognised in the next reporting period.

Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other items of importance not previously released to the market:

Refer attached press release.

This financial report is the preliminary final report provided to the Australian Securities Exchange under listing rule 4.3A.

	Notes	Consolidated 2011 $'000	2010 $'000
Revenue from continuing operations	3	**1,095,845**	1,156,326
Other income	4	**1,156**	1,921
		1,097,001	1,158,243
Expenses excluding finance costs	5	**(1,171,464)**	(1,092,778)
(Loss)/profit before net finance expense and income tax		**(74,463)**	65,469
Finance income		**1,974**	4,166
Finance expenses		**(6,000)**	(7,575)
Net finance expense	5	**(4,026)**	(3,409)
(Loss)/profit before income tax		**(78,489)**	62,060
Income tax expense		**5,373**	(18,965)
(Loss)/profit for the year		**(73,116)**	43,095
(Loss)/profit is attributable to:			
Owners of Hills Holdings Limited		**(74,955)**	40,188
Non-controlling interests		**1,839**	2,907
(Loss)/profit for the year		**(73,116)**	43,095
		Cents	Cents
Earnings per share for (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	10	**(30.2)**	16.7
Diluted earnings per share	10	**(30.1)**	16.7

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

	Notes	Consolidated 2011 $'000	2010 $'000
(Loss)/profit for the year		**(73,116)**	43,095
Other comprehensive income/(loss)			
Gain on revaluation of land and buildings		**13,480**	-
Changes in the fair value of cash flow hedges		**(1,484)**	(707)
Exchange differences on translation of foreign operations		**(749)**	318
Income tax relating to components of other comprehensive income		**(3,512)**	212
Other comprehensive income/(loss) for the year, net of tax		**7,735**	(177)
Total comprehensive (loss)/income for the year		**(65,381)**	42,918
Total comprehensive (loss)/income for the year is attributable to:			
Owners of Hills Holdings Limited		**(67,686)**	40,011
Non-controlling interests		**2,305**	2,907
Total comprehensive (loss)/income for the year		**(65,381)**	42,918

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

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	**7,158**	56,915
Trade and other receivables		**184,042**	186,002
Inventories		**167,999**	181,496
Derivative financial instruments		**-**	800
		359,199	425,213
Assets classified as held for sale		**2,702**	-
Total current assets		**361,901**	425,213
Non-current assets			
Other financial assets		**2**	2
Property, plant and equipment		**197,040**	219,658
Deferred tax assets		**31,485**	23,771
Intangible assets		**49,213**	116,300
Total non-current assets		**277,740**	359,731
Total assets		**639,641**	784,944
LIABILITIES			
Current liabilities			
Trade and other payables		**98,671**	128,048
Borrowings		**6,833**	1,384
Current tax liabilities		**242**	10,622
Provisions		**30,963**	33,445
Derivative financial instruments		**520**	262
Total current liabilities		**137,229**	173,761
Non-current liabilities			
Borrowings		**91,479**	105,684
Provisions		**6,570**	6,318
Derivative financial instruments		**2,056**	2,682
Total non-current liabilities		**100,105**	114,684
Total liabilities		**237,334**	288,445
Net assets		**402,307**	496,499
EQUITY			
Contributed equity	8	**306,790**	306,595
Reserves		**57,245**	47,899
Retained earnings		**21,504**	126,107
Capital and reserves attributable to owners of Hills Holdings Limited		**385,539**	480,601
Non-controlling interests		**16,768**	15,898
Total equity		**402,307**	496,499

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

Consolidated	Notes	Attributable to owners of Hills Holdings Limited: Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2009		**248,598**	**46,495**	**107,442**	**402,535**	**25,985**	**428,520**
Total comprehensive income for the year		**-**	**(177)**	**40,188**	**40,011**	**2,907**	**42,918**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs and tax	8	57,997	-	-	57,997	-	57,997
Non-controlling interests in share capital issued by subsidiary		-	-	-	-	640	640
Change in non-controlling interest on acquisition of subsidiary		-	1,551	-	1,551	(11,551)	(10,000)
Dividends provided for or paid	9	-	-	(21,523)	(21,523)	-	(21,523)
Dividends paid to non-controlling interests in subsidiaries		-	-	-	-	(2,083)	(2,083)
Employee share options - value of employee services		-	30	-	30	-	30
Balance at 30 June 2010		**306,595**	**47,899**	**126,107**	**480,601**	**15,898**	**496,499**
Balance at 1 July 2010		**306,595**	**47,899**	**126,107**	**480,601**	**15,898**	**496,499**
Total comprehensive income for the year		**-**	**7,269**	**(74,955)**	**(67,686)**	**2,305**	**(65,381)**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs and tax	8	195	-	-	195	-	195
Non-controlling interests in share capital issued by subsidiary		-	-	-	-	750	750
Change in non-controlling interest on acquisition of subsidiary		-	(332)	-	(332)	(811)	(1,143)
Dividends provided for or paid	9	-	-	(27,273)	(27,273)	-	(27,273)
Dividends paid to non-controlling interests in subsidiaries		-	-	-	-	(1,379)	(1,379)
Employee share options - value of employee services		-	34	-	34	5	39
Transfer to Reserves		-	2,375	(2,375)	-	-	-
Balance at 30 June 2011		**306,790**	**57,245**	**21,504**	**385,539**	**16,768**	**402,307**

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

	Notes	Consolidated 2011 $'000	2010 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**1,204,824**	1,281,583
Payments to suppliers and employees (inclusive of goods and services tax)		**(1,170,304)**	(1,160,308)
Cash generated from operations		**34,520**	121,275
Interest received		**798**	1,596
Interest paid		**(5,960)**	(7,575)
Income taxes paid		**(16,378)**	(13,748)
Net cash inflow from operating activities		**12,980**	101,548
Cash flows from investing activities			
Payment for acquisition of business operations, net of cash acquired	12	**-**	(3,953)
Payments to increase ownership interest in subsidiary		**(1,143)**	(10,064)
Payments for property, plant and equipment		**(26,823)**	(19,094)
Payments for patents, trademarks and intellectual property		**(293)**	(3,010)
Proceeds from sale of property, plant and equipment		**832**	4,138
Rent received		**860**	864
Net cash (outflow) inflow from investing activities		**(26,567)**	(31,119)
Cash flows from financing activities			
Proceeds from issues of shares		**-**	57,098
Proceeds from borrowings		**-**	374
Repayment of borrowings		**(15,000)**	(115,465)
Loans received from / (paid to) other entities		**1,976**	(1,058)
Proceeds from share issues to non-controlling interests in subsidiaries		**300**	640
Dividends paid to Company's shareholders	9	**(27,273)**	(21,523)
Dividends paid to non-controlling interests in subsidiaries		**(1,379)**	(2,630)
Net cash (outflow) from financing activities		**(41,376)**	(82,564)
Net (decrease) in cash and cash equivalents		**(54,963)**	(12,135)
Cash and cash equivalents at the beginning of the financial year		**55,531**	67,650
Effects of exchange rate changes on cash and cash equivalents		**78**	16
Cash and cash equivalents at end of year	7	**646**	55,531

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

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated preliminary financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2010. The consolidated preliminary financial report includes preliminary financial statements for the consolidated entity consisting of Hills Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group" or "Consolidated Entity" and individually as "Group Entities").

(a) Basis of preparation

The preliminary financial report is a financial report that has been prepared in accordance with the recognition and measurement aspects of Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB), the Corporations Act 2001 and Appendix 4E of the Australian Securities Exchange listing rules.

The preliminary financial report should be read in conjunction with the 2010 annual report, the December 2010 half year report and any announcement by Hills Holdings Limited or its controlled entities in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The Board of Directors approved the preliminary financial report on 23 August 2011.

(i) Historical cost convention

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

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

(ii) Functional and presentation currency

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

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

(iii) Critical accounting estimates

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

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

(iv) Early adoption of standards

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

2 Segment information

(a) Description of segments

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

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

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

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

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

The Group principally considers the business from a products and services perspective. The Electronics & Communications and Lifestyle & Sustainability divisions are each managed separately by Group General Managers.

The Electronics & Communications businesses meet the aggregation criteria of the Standard because of similarities of products, markets, distribution and regulatory environments.

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

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

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

Australia

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

Overseas

Comprises sales offices and customers in New Zealand.

2 Segment information (continued)

(b) Segment information provided to the Group Managing Director

2011	**Electronics & Communications**	**Lifestyle & Sustainability**	**Building & Industrial**	**Korvest Ltd**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Total segment revenue	**340,675**	**161,440**	**553,242**	**67,383**	**1,122,740**
Inter-segment revenue	(23,296)	(680)	(3,622)	(157)	(27,755)
Revenue from external customers	**317,379**	**160,760**	**549,620**	**67,226**	**1,094,985**
Segment EBIT	**28,027**	**9,697**	**(2,402)**	**5,556**	**40,878**
Depreciation and amortisation	3,339	4,995	11,769	1,278	21,381
Total segment assets	**142,608**	**107,815**	**277,649**	**42,434**	**570,506**
Total assets includes: Additions to non-current assets (other than financial assets and deferred tax)	5,175	4,396	11,215	2,040	22,826
Total segment liabilities	**37,846**	**19,900**	**57,047**	**8,974**	**123,767**
2010	Electronics & Communications	Lifestyle & Sustainability	Building & Industrial	Korvest Ltd	Total
	$'000	$'000	$'000	$'000	$'000
Total segment revenue	368,901	177,444	578,061	55,775	1,180,181
Inter-segment revenue	(19,395)	(1,133)	(3,695)	(496)	(24,719)
Revenue from external customers	**349,506**	**176,311**	**574,366**	**55,279**	**1,155,462**
Segment EBIT	**32,525**	**10,235**	**20,622**	**5,706**	**69,088**
Depreciation and amortisation	3,291	5,803	12,110	1,060	22,264
Total segment assets	143,955	128,840	372,623	35,882	681,300
Total assets includes: Additions to non-current assets (other than financial assets and deferred tax)	2,956	2,128	13,068	2,362	20,514
Segment liabilities	33,099	26,989	81,830	7,070	148,988

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

(i) Accounting policies

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

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

2 Segment information (continued)

(ii) Segment revenue

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

	Consolidated 2011 $'000	Consolidated 2010 $'000
Total segment revenue	**1,122,740**	1,180,181
Intersegment eliminations	**(27,755)**	(24,719)
Other revenue	**860**	864
Total revenue from continuing operations (note 3)	**1,095,845**	1,156,326

The Group is domiciled in Australia. The amount of its revenue from external customers in Australia is $1,050.138 million (2010: $1,116.159 million), and the total of revenue from external customers in other countries is $44.847 million (2010: $39.303 million). Segment revenues are allocated based on the country in which the customer is located.

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

(iii) Segment EBIT

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

	Consolidated 2011 $'000	Consolidated 2010 $'000
Segment EBIT	**40,878**	69,088
Interest revenue	**798**	1,596
Interest expense	**(5,960)**	(7,575)
Fair value profit on interest rate swaps and forward exchange contracts	**1,136**	2,570
Goodwill impairment	**(66,182)**	-
Impairment of other assets	**(43,694)**	(1,680)
Closure costs	**(4,963)**	-
Other	**(502)**	(1,939)
Profit before income tax from continuing operations	**(78,489)**	62,060

(iv) Segment assets

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

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

	Consolidated 2011 $'000	Consolidated 2010 $'000
Segment assets	**570,506**	681,300
Cash	**7,158**	56,915
Deferred tax assets	**31,485**	23,771
Investments	**2**	2
Derivative financial instruments	**-**	800
Corporate assets	**30,490**	22,156
Total assets as per the preliminary consolidated statement of financial position	**639,641**	784,944

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is $249.538 million (2010: $327.890 million), and the total of these non-current assets located in other countries is $7.624 million (2010: $8.070 million). Segment assets are allocated to countries based on where the assets are located.

2 Segment information (continued)

(v) Segment liabilities

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

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

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

	Consolidated	
	2011	2010
	$'000	$'000
Segment liabilities	**123,767**	148,988
Tax liabilities (including GST payable)	**4,916**	15,646
Borrowings	**98,312**	107,068
Derivative financial instruments	**2,576**	2,944
Corporate liabilities	**7,763**	13,799
Total liabilities as per the preliminary consolidated statement of financial position	**237,334**	288,445

3 Revenue

	Consolidated	
	2011	2010
	$'000	$'000
From continuing operations		
Sales revenue		
Sale of goods	**1,033,517**	1,094,540
Services	**61,468**	60,922
	1,094,985	1,155,462
Other revenue		
Rents and sub-lease rentals	**860**	864
	1,095,845	1,156,326

4 Other income

	Consolidated	
	2011	2010
	$'000	$'000
Net gain on disposal of property, plant and equipment	**106**	179
Foreign exchange gains (net)	**-**	14
Other income	**1,050**	1,728
	1,156	1,921

5 Expenses

	Consolidated	
	2011 **$'000**	2010 $'000
Classification of expenses by function		
Cost of goods sold	**714,556**	756,558
Cost of services provided	**54,331**	53,143
Distribution expenses	**89,409**	87,337
Sales and marketing expenses	**135,022**	129,091
Administration expenses	**63,307**	64,486
Other expenses	**114,839**	2,159
Net loss on disposal of property plant & equipment	**-**	-
	1,171,464	1,092,774
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	**1,769**	1,644
Plant and equipment	**20,112**	21,233
Total depreciation	**21,881**	22,877
Amortisation		
Patents and trademarks	**1,158**	996
Development costs	**40**	40
Total amortisation	**1,198**	1,036
Total depreciation and amortisation	**23,079**	23,913
Personnel expenses		
Wages and salaries	**192,454**	184,512
Defined contribution superannuation expense	**16,238**	15,383
Other employee benefits expense	**17,292**	18,556
Equity-settled share-based payment transactions	**479**	467
	226,463	218,918
Finance expenses		
Interest and finance charges paid/payable	**5,960**	7,575
Ineffective portion of changes in fair value of cash flow hedges	**40**	-
	6,000	7,575
Finance income		
Interest income	**(798)**	(1,596)
Fair value gains on derivatives	**(1,176)**	(2,504)
Ineffective portion of changes in fair value of cash flow hedges	**-**	(66)
	(1,974)	(4,166)
Net finance costs expensed	**4,026**	3,409

5 Expenses (continued)

	Consolidated	
	2011	2010
	$'000	$'000
Impairment of financial and other assets		
Plant and equipment	**37,210**	1,680
Inventories	**3,783**	3,836
Receivables	**1,635**	3,336
Intangible assets	**66,182**	-
Total impairment losses - financial and other assets	**108,810**	8,852

Profit after tax for the year includes the following items that are unusual because of their nature and size:

	2011 $'000	2010 $'000
(a) Impairment of Orrcon plant and equipment (recognised within Other expenses)	**34,622**	-
Less: Applicable income tax benefit	**(10,387)**	-
	24,235	-
(b) Impairment of Orrcon inventory (recognised within Other expenses)	**7,324**	-
Less: Applicable income tax benefit	**(2,197)**	-
	5,127	-
(c) Impairment of Orrcon goodwill (recognised within Other expenses)	**49,590**	-
Less: Applicable income tax benefit	**-**	-
	49,590	-
(d) Impairment of Team Poly plant and equipment (recognised within Other expenses)	**1,748**	-
Less: Applicable income tax benefit	**(524)**	-
	1,224	-
(e) Impairment of Team Poly goodwill (recognised within Other expenses)	**16,592**	-
Less: Applicable income tax benefit	**-**	-
	16,592	-
(f) Closure costs (recognised within Other Expenses)	**4,963**	-
Less: Applicable income tax benefit	**(1,489)**	-
	3,474	-

As a result of poor trading conditions during the year at Orrcon and Team Poly and the decision to close Orrcon's Unanderra operations, the Group has undertaken a comprehensive review of the carrying values of the assets including the goodwill of Orrcon and Team Poly. This has resulted in total non cash impairment of assets and goodwill of $109.876 million, comprising impairment to Orrcon inventory of $7.324 million, impairment in Orrcon plant and equipment of $34.622 million, impairment in Orrcon goodwill of $49.590 million, impairment in Team Poly goodwill of $16.592 million and impairment in Team Poly assets relating to decommissioned assets of $1.748 million. The after tax impact of these impairments is $96.768 million.

The recoverable amount of certain plant and equipment within the Orrcon cash generating unit (Unanderra plant and equipment) was determined on a fair value less cost to sell basis, using an independent valuation of these assets. Based on this assessment the recoverable amount of this plant and equipment was determined to be $34.622 million lower than its carrying amount.

5 Expenses (continued)

The recoverable amount of the Orrcon cash generating unit was then estimated based on its value in use for the Orrcon business. The estimate of value in use was determined using a pre tax discount rate of 13.19% (2010: 14.17%). Cash flow projections have been based on Board agreed forecasts with key assumptions for future years relating to sales, gross margins and expenses. Sales are based on management assessments with allowances for future growth based upon assessments of growth rates in the markets to which the assets belong. Gross margins and expense levels are based on past experience. The Orrcon cash generating unit recoverable amount is sensitive to a possible change in EBIT. The Orrcon business is forecasting annualised EBIT growth of 2% - 3% per annum over the five year model period. A terminal value has been determined at the end of the five year strategic plan using a growth rate of 2.5% (2010: 3%), which is no greater than the long term average growth rate for the market to which the assets are dedicated. Based on this assessment assets are impaired by $49.590 million and in accordance with Accounting Standards the impairment was allocated against goodwill.

The decision to close Orrcon's Unanderra operations was announced and communicated to affected parties in June 2011. Costs associated with the closure totalling $4.963 million have been recognised in the financial statements at 30 June 2011. The after tax impact of these costs is $3.474 million.

The recoverable amount of certain plant and equipment within the Team Poly cash generating unit which is being decommissioned was determined on a fair value less cost to sell basis. Based on this assessment the recoverable amount of this plant and equipment was determined to be $1.748 million lower than its carrying amount.

The recoverable amount of the Team Poly cash generating unit was then estimated based on its value in use for the Team Poly business. The estimate of value in use was determined using a pre tax discount rate of 14.91% (2010: 14.77%). Cash flow projections have been based on Board agreed forecasts with key assumptions for future years relating to sales, gross margins and expenses. Sales are based on management assessments with allowances for future growth based upon assessments of growth rates in the markets to which the assets belong. Gross margins and expense levels are based on past experience. The Team Poly cash generating unit recoverable amount is sensitive to a possible change in EBIT. The Team Poly business is forecasting average annualised EBIT growth of 3% - 3.5% per annum over the five year model period. A terminal value has been determined at the end of the five year strategic plan using a growth rate of 3% (2010: 3%), which is no greater than the long term average growth rate for the market to which the assets are dedicated. Based on this assessment assets are impaired by $16.592 million and in accordance with Accounting Standards the impairment was allocated against goodwill.

6 Ratios

	Consolidated	
	2011	2010
Profit before tax / revenue % Calculated as profit from ordinary activities before related income tax expense as a percentage of total revenues	**(7.2)**	5.4
Profit before tax and unusual/significant items / revenue % Calculated as profit from ordinary activities before related income tax expense and unusual/significant items as a percentage of total revenues	**3.3**	5.4
Profit after tax / equity interests % Calculated as net profit attributable to members of the Company as a percentage of equity attributable to members	**(19.4)**	8.4
Profit after tax and before unusual/significant items / equity interests % Calculated as net profit attributable to members of the Company before unusual/significant items as a percentage of equity attributable to members	**6.6**	8.4
Net tangible assets per ordinary share $ Calculated as net assets less intangible assets less outside equity interests in those assets over the total number of shares on issue	**1.23**	1.47
Gearing % Calculated as net debt divided by shareholders equity	**22.7**	10.1

7 Current assets - Cash and cash equivalents

	Consolidated 2011 $'000	Consolidated 2010 $'000
Cash at bank and in hand	**6,396**	10,610
Deposits at call	**762**	46,305
	7,158	56,915

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

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

	Consolidated 2011 $'000	Consolidated 2010 $'000
Balances as above	**7,158**	56,915
Bank overdrafts	**(1,512)**	(1,384)
Loan account - at call	**(5,000)**	-
Balances per preliminary consolidated statement of cash flows	**646**	55,531

8 Contributed equity

	2011 Shares '000	2010 Shares '000	2011 $'000	2010 $'000
(a) Share capital				
Ordinary shares				
Fully paid	**248,636**	247,697	**306,790**	306,595

(b) Movements in ordinary share capital:

Date	Details	Number of shares '000	$'000
1 July 2009	Opening balance	204,601	248,598
	Issued under the capital raising	29,185	40,859
	Issued under the Share Purchase Plan	11,956	16,738
	Issued under the Dividend Investment Plan	674	1,255
	Issued under the Share Investment Plan	382	-
	Issued under the Employee Share Bonus Plan	899	373
	Less: Transaction costs arising on share issue	-	(1,228)
30 June 2010	Balance	247,697	306,595
1 July 2010	Opening balance	247,697	306,595
	Issued under the Employee Share Bonus Plan	939	375
	Less: Movement in deferred tax asset relating to transaction costs arising on share issue	-	(180)
30 June 2011	Balance	248,636	306,790

8 Contributed equity (continued)

(c) Ordinary shares

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

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(d) Dividend investment plan and share investment plan

The Dividend Investment Plan and the Share Investment Plan did not operate in respect of dividends issued during the financial year.

(e) Employee share scheme

The Company made two issues of ordinary shares under the Employee Share Bonus Plan during the year. All employees meeting the service criteria were eligible to participate in the issue. The shares are issued at market value.

(f) Capital risk management

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

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

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

During 2011, the Group's strategy, which was unchanged from 2010, was to maintain a target gearing ratio less than 45%. The gearing ratios at 30 June 2011 and 30 June 2010 were as follows:

	Consolidated	
	2011	2010
	$'000	$'000
Total borrowings	**98,312**	107,068
Less: cash and cash equivalents	**(7,158)**	(56,915)
Net debt	**91,154**	50,153
Total equity	**402,307**	496,499
Gearing ratio	**22.7%**	10.1%

The increase in the gearing ratio during 2011 resulted primarily from lower levels of cash generated from operations and the decrease in total equity, due to the impairment of assets recorded.

The Group is not subject to externally imposed capital requirements.

9 Dividends

	Consolidated	
	2011	2010
	$'000	$'000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2010 of 5.5 cents (year ended 30 June 2009: 2.0 cents) per fully paid share paid on 27 September 2010 (year ended 30 June 2009: 23 November 2009)		
Fully franked based on tax paid @ 30%	**13,623**	4,917
Final dividend foregone for Share Investment Plan	**-**	(713)
	13,623	4,204
Interim dividend for the year ended 30 June 2011 of 5.5 cents (2010: 7.0 cents) per fully paid share paid on 21 March 2011 (2010: 3 March 2010)		
Fully franked based on tax paid @ 30%	**13,650**	17,319
Total dividends provided for or paid	**27,273**	21,523

(b) Dividends and share reinvestment plan

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

	Consolidated	
	2011	2010
	$'000	$'000
(c) Dividends not recognised at the end of the reporting period		
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 4.5 cents per fully paid ordinary share (2010: 5.5 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 26 September 2011 out of retained profits at 30 June 2011, but not recognised as a liability at year end, is	**11,189**	13,623

(d) Franked dividends

The franked portions of the final dividends recommended after 30 June 2011 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2012.

	2011	2010
	$'000	$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2010: 30%)	**32,713**	41,240

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

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

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

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

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

9 Dividends (continued)

The impact on the franking account of the dividend recommended by the directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of $4,795,000 (2010: $5,838,000).

10 Earnings per share

	Consolidated	
	2011	2010
	Cents	Cents
(a) Basic earnings per share		
From profit from continuing operations attributable to the ordinary equity holders of the Company	**(30.2)**	16.7
From profit from continuing operations before unusual / significant items attributable to the ordinary equity holders of the Company	**10.2**	16.7
(b) Diluted earnings per share		
From profit from continuing operations attributable to the ordinary shareholders of the Company	**(30.1)**	16.7
From profit before unusual / significant items attributable to the ordinary shareholders of the Company	**10.2**	16.7

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

	Consolidated	
	2011	2010
	$'000	$'000
Basic earnings per share		
(Loss) / profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**(74,955)**	40,188
Diluted earnings per share		
(Loss) / profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**(74,955)**	40,188
Basic earnings per share before unusual / significant items		
(Loss) / profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**(74,955)**	40,188
Adjusted for unusual / significant items:		
Impairment of Orrcon plant and equipment	**24,235**	-
Impairment of Orrcon inventory	**5,127**	-
Impairment of Orrcon goodwill	**49,590**	-
Impairment of Team Poly plant and equipment	**1,224**	-
Impairment of Team Poly goodwill	**16,592**	-
Closure costs	**3,474**	-
Profit attributable to the ordinary equity holders of the Company before unusual / significant items used in calculating basic earnings per share	**25,287**	40,188

10 Earnings per share (continued)

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

	Consolidated	
	2011 **Number '000**	2010 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**248,171**	240,481
Adjustments for calculation of diluted earnings per share:		
Effect of share options on issue	**503**	523
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**248,674**	241,004

11 Contingent liabilities

Responding to a request from the Environmental Protection Authority, the extent of groundwater contamination potentially originating from the Company's former Edwardstown site is being assessed by the Company. The Company has provided for the anticipated cost of ongoing assessment. At this time the possibility of or cost of potential claims is unknown and no provision has been made.

12 Business combination

Current period

There were no acquisitions of subsidiaries or business operations in the current reporting period.

On 23 August 2010 the Group increased its shareholding in Korvest Ltd from 45.9% to 48.8% through an on market acquisition of 250,000 shares at $4.56. The total consideration paid was $1.143 million.

Prior period

(a) Summary of acquisition

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

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

Purchase consideration	
Cash paid	**3,558**
Total purchase consideration	**3,558**
Fair value of net identifiable assets acquired (refer to (b) below)	**3,558**
Goodwill	**-**

(b) Assets and liabilities acquired

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

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

(c) Purchase consideration - cash outflow

	Consolidated	
	2011	2010
	$'000	$'000
Outflow of cash to acquire business operation:		
Cash consideration	**-**	3,558
Direct costs relating to acquisition	**-**	395
Outflow of cash - investing activities	**-**	3,953

Acquisition-related costs

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

13 Events occurring after the reporting period

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

Hills Holdings Limited and its Controlled Entities
Compliance statement

1 This report has been prepared in accordance with AASB Standards (including Australian Accounting Interpretations) and other AASB authoritative pronouncements.

2 This report, and the accounts upon which the report is based, use the same accounting policies.

3 This report gives a true and fair view of the matters disclosed.

4 This report is based on accounts which are in the process of being audited.

5 The accounts on which this report is based are not likely to be subject to dispute or qualification.

Dated at Adelaide this 23rd day of August 2011.

Signed in accordance with a resolution of the Directors.

Graham L Twartz
Director

Annual General Meeting

The 54rd Annual General Meeting of Hills Holdings Limited will be held at Adelaide Symphony Orchestra office, Hindley Street Adelaide on Friday 4 November 2011 at 2.00 pm.

The Notice of Meeting and Proxy Form will be sent with the Concise Annual Report in late September 2011.