Appendix 4E

Hills Industries Limited
ABN 35 007 573 417
and its Controlled Entities

Preliminary Final Report
Financial Year Ended 30 June 2006

Results for announcement to the market: $A'000

Revenues from ordinary activities	**Up**	**14.9%**	to	**931,799**
Profit from ordinary activities after tax attributable to members	**Up**	**21.8%**	to	**43,261**
Net profit for the period attributable to members	**Up**	**21.8%**	to	**43,261**
Earnings per share	**Up**	**12.1%**		**25.9¢**

Dividends	Amount per security	Franked amount per security
Final dividend (#)		
- current reporting period	**13.0¢**	**13.0¢**
- previous corresponding period	12.0¢	12.0¢
Interim dividend		
- current reporting period	13.0¢	13.0¢
- previous corresponding period	12.0¢	12.0¢

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

Record date for determining entitlements to the dividend	**11 September 2006**

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

Refer attached press release.

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

Hills Industries Limited and its Controlled Entities
Consolidated Preliminary Income Statement for the Year Ended 30 June 2006

	Note	Consolidated 2006 $'000	2005 $'000
Revenue	2	**931,799**	811,046
Other income	2	**3,895**	5,137
		935,694	816,183
Expenses, excluding net financing costs	3	**(862,429)**	(752,472)
Profit before net financing costs and income tax		**73,265**	63,711
Financial income		**965**	1,037
Financial expense	4	**(6,845)**	(4,345)
Net financing costs		**(5,880)**	(3,308)
Profit before income tax expense		**67,385**	60,403
Income tax expense relating to ordinary activities		**(19,175)**	(18,683)
Net profit		**48,210**	41,720
Attributable to:			
Equity holders of the parent		**43,261**	35,510
Minority interest		**4,949**	6,210
Profit for the period		**48,210**	41,720
Basic earnings per share	7	**25.9¢**	23.1¢
Dividends per share in respect of the current reporting period		**26.0¢**	24.0¢

The income statement is to be read in conjunction with the discussion and analysis in the attached press release and the notes to and forming part of the financial statements set out on pages 6 to 28.

Hills Industries Limited and its Controlled Entities
Consolidated Preliminary Statement of Recognised Income and Expense for the Year Ended 30 June 2006

	Consolidated	
	2006 $'000	**2005 $'000**
Translation of foreign operations		
- exchange differences taken to equity	**(1,465)**	(503)
Net income recognised directly in equity	**(1,465)**	(503)
Profit for the period	**48,210**	41,720
Total recognised income and expense for the period	**46,745**	41,217
Attributable to:		
- equity holders of the parent	**41,796**	35,007
- minority interest	**4,949**	6,210
	46,745	41,217

The Statement of Recognised Income and Expense is to be read in conjunction with the discussion and analysis in the attached press release and the notes to and forming part of the financial statements set out on pages 6 to 28.

Hills Industries Limited and its Controlled Entities
Consolidated Preliminary Balance Sheet as at 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000
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
Property, plant and equipment		**172,047**	154,940
Intangible assets		**109,778**	91,079
Deferred tax assets		**23,103**	21,938
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	9	**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		**324,411**	308,487

The balance sheet is to be read in conjunction with the discussion and analysis in the attached press release and the notes to and forming part of the financial statements set out on pages 6 to 28.

Hills Industries Limited and its Controlled Entities
Consolidated Preliminary Statement of Cash Flows for the Year Ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000
Cash Flows from Operating Activities			
Cash receipts in the course of operations		**1,041,647**	894,812
Cash payments in the course of operations		**(959,450)**	(834,405)
Interest received		**965**	1,037
Dividends received		**-**	15
Interest paid		**(7,310)**	(3,723)
Income taxes paid		**(21,454)**	(25,142)
Net cash provided by operating activities		**54,398**	32,594
Cash Flows from Investing Activities			
Proceeds on disposal of property, plant and equipment		**1,119**	3,024
Payments for property, plant and equipment		**(30,995)**	(20,514)
Proceeds on disposal of investments		**482**	-
Proceeds on disposal of business operations (net of cash)		**-**	10,400
Proceeds on disposal of controlled entities (net of cash)	12(a)	**609**	-
Payments for business operations (net of cash acquired)	11(b)	**(15,802)**	-
Payments for controlled entities (net of cash acquired)	11(a)	**(13,103)**	(87,020)
Loans repaid by other entities		**(134)**	8,741
Rent received		**1,170**	526
Net cash provided by / (used in) investing activities		**(56,654)**	(84,843)
Cash Flows from Financing Activities			
Proceeds from borrowings		**29,516**	64,799
Repayment of borrowings		**(325)**	(59,645)
Finance lease payments		**(601)**	(624)
Proceeds from issue of shares by the Company		**9,905**	91,064
Payments for share issue costs by the Company		**-**	(820)
Dividends paid by the Company	10(a)	**(34,482)**	(29,129)
Dividends paid to outside equity interests		**(2,593)**	(18,934)
Net cash provided by / (used in) financing activities		**1,420**	46,711
Net increase / (decrease) in cash held		**(836)**	(5,538)
Cash at the beginning of the year		**13,997**	19,282
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		**(357)**	253
Cash at the end of the year		**12,804**	13,997

The statement of cash flows is to be read in conjunction with the discussion and analysis in the attached press release and the notes to and forming part of the financial statements set out on pages 6 to 28.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

1. *Significant accounting policies*

Hills Industries Limited (the ‘Company’) is a company domiciled in Australia. The consolidated preliminary financial report of the Company for the financial year ended 30 June 2006 comprises the Company and its subsidiaries (together referred to as the ‘consolidated entity’).

The financial report was authorised for issue by the directors on 8 August 2006.

(a) Statement of compliance

The consolidated preliminary financial report which has been prepared in accordance with Accounting Standard AASB 1039 “Concise Financial Reports”, the recognition and measurement requirements of applicable AASB standards, the Corporations Act 2001 and the Appendix 4E to the Australian Stock Exchange listing rules.

International Financial Reporting Standards (‘IFRSs’) form the basis of Australian Accounting Standards (‘AASBs’) adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS (‘AIFRS’) to distinguish from previous Australian GAAP. The financial reports of the consolidated entity and the Company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity’s first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in note 14.

The preliminary financial report is to be read in conjunction with the 2005 annual financial report, the December 2005 half-year report and any public announcements by Hills Industries Limited and its controlled entities during the year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

(b) Basis of preparation

The financial report is presented in Australian dollars. The financial report has been prepared on the basis of historical cost and, except where stated, does not take into account changing money values or fair values of non-current assets.

The preliminary financial report does not include full note disclosure of the type normally included in an annual financial report.

The current reporting period is the full year ended 30 June 2006. The previous corresponding period is the full year ended 30 June 2005.

The preparation of a preliminary financial report in conformity with AASB 1039 *Concise Financial Reports* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

This consolidated preliminary financial report has been prepared on the basis of AIFRSs in issue that are effective or available for early adoption at the consolidated entity's first AIFRS annual reporting date, 30 June 2006. Based on these AIFRSs, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first AIFRS annual financial report is prepared for the year-ending 30 June 2006.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

1. *Significant accounting policies (continued)*

(b) Basis of preparation (continued)

The entity has elected to early adopt the following accounting standards and amendments:

- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 3 *Business Combinations*
- AASB 2006-1 *Amendments to Australian Accounting Standards* (January 2006) amending AASB 121 *The Effects of Changes in Foreign Exchange Rates* (July 2004)
- Interpretation 1052 Tax Consolidation Accounting

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by all entities in the consolidated entity.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exits when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the 'Investment in associates' and 'Share of associates net profit' accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

1. *Significant accounting policies (continued)*

(d) Foreign currency
(i) Foreign currency transactions
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

(e) Property, plant and equipment

(i) Land and Buildings
Land and buildings are stated at fair value. Land and buildings are independently valued at least every four years on an existing use basis, and in the intervening years are valued by the Directors based on the most recent independent valuation.

(ii) Plant and Equipment
Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

(iii) Subsequent costs
The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation
Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Property, plant and equipment, excluding land are depreciated over their estimated useful lives taking into account estimated residual values. The diminishing value, straight line or units of production method is used as considered appropriate.

Buildings	.75%
Lease hold improvements	20.00% to 33.33%
Plant and equipment	5.00% to 33.33%

Depreciation rates are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed, except to the extent that it is included in the carrying value of another asset (generally inventory) as an allocation of production overheads. The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

1. *Significant accounting policies (continued)*

(f) Intangible assets
(i) Goodwill
Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

(ii) Research and development
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(iii) Other intangible assets
Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iv) Subsequent expenditure
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) Amortisation
Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- patents and trademarks 10 to 20 years

(g) Trade and other receivables
Trade and other receivables are stated at their amortised cost less impairment losses.

(i) Inventories
Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(h) Cash and cash equivalents
Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

1. *Significant accounting policies (continued)*

(i) Impairment

The carrying amounts of the consolidated entity's assets other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Goodwill and indefinite-lived intangible assets were tested for impairment at 1 July 2004, the date of transition to AIFRSs, even though no indication of impairment existed.

(i) Calculation of recoverable amount

Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

1. *Significant accounting policies (continued)*

(j) Share capital

(i) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(l) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

(ii) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(iii) Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(iv) Employee Share Bonus Plan

The Employee Share Bonus Plan allows consolidated entity employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares. The fair value of the shares granted is measured using a present value model. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest.

(v) Executive Share Plan

The Executive Share Plan allows consolidated entity employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The valuation method takes into account the exercise price of the option, the life of the option, the current price of the underlying shares, the expected volatility of the share price, the dividends expected of the shares and the risk-free interest rate for the life of the option.

(m) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

1. *Significant accounting policies (continued)*

(m) Provisions (continued)

(i) Claims

A provision for claims is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Provision for Deferred Consideration

Provision is made for consideration payable on the acquisition of businesses and controlled entities where the consideration is payable in the future subject to certain performance measures and those measures are likely to be met. The estimated consideration payable is discounted and the expiration of the discount is recognised as interest expense.

(n) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

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

(o) Revenue

(i) Goods sold and services rendered

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of goods and services to entities outside the Consolidated Entity. Sales revenue is recognised when significant risks and rewards of ownership have been transferred to the buyer, the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date.

(ii) Rental income is recognised in the income statement on a straight line basis over the term of the lease.

(p) Interest income

Interest income is recognised as it accrues using the effective interest method.

(q) Finance costs

Finance costs comprise interest payable. Interest paid is recognised as it accrues.

(r) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(s) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

1. *Significant accounting policies (continued)*

(t) Income tax

Income tax on the income statement for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Hills Industries Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the ‘separate taxpayer within group’ approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

1. *Significant accounting policies (continued)*
Tax consolidation (continued)

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(u) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(v) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

	Consolidated	
	2006 $'000	2005 $'000
2 Revenue and other income		
Revenue		
Sales of goods	**892,352**	786,840
Provision of services	**38,638**	23,316
Property rentals	**809**	890
	931,799	811,046
Other income		
Net gain on disposal of property, plant and equipment	**179**	154
Net gain on disposal of investments	**382**	-
Net gain on disposal of business operations	**-**	2,306
Other income	**3,334**	2,677
	3,895	5,137

The net gain on disposal of business operations in 2005 arose from the sale of the Triton business. Proceeds on the sale were $10,400,000 and the carrying amount of the assets and liabilities sold was $8,094,000.

	2006 $'000	2005 $'000
3 Expenses		
Costs of goods sold	**599,887**	517,524
Cost of services provided	**31,912**	20,359
Sales and marketing expenses	**107,250**	102,143
Distribution expenses	**66,644**	54,908
Administration expenses	**39,836**	39,083
Occupancy expenses	**15,439**	13,715
Other expenses	**1,461**	4,740
Expenses from ordinary activities, excluding financing costs	**862,429**	752,472

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

	Consolidated	
	2006 $'000	2005 $'000
4 Profit from Ordinary Activities		
Profit from ordinary activities before income tax has been arrived at after charging / (crediting) the following items		
Depreciation of buildings	**627**	681
Depreciation of plant and equipment	**16,198**	18,082
Total depreciation of property, plant and equipment	**16,825**	18,763
Impairment of goodwill	**-**	268
Amortisation of patents and trademarks	**741**	1,554
Total amortisation and impairment of intangible assets	**741**	1,822
Total depreciation, impairment and amortisation	**17,566**	20,585
Impairment losses plant and equipment	**-**	1,000
Impairment losses intangible assets	**-**	1,328
Interest paid or payable	**6,843**	4,320
Finance charges on capitalised leases	**2**	25
Total financing costs	**6,845**	4,345
Interest received or receivable	**(965)**	(1,037)
Net financing costs	**5,880**	3,308
Net bad and doubtful debts expense including movements in provision for doubtful debts	**542**	3,180
(Profit)/loss on disposal of non-current assets:		
Net gain on disposal of property, plant and equipment	**(179)**	(154)
Net gain on disposal of investments	**(382)**	-
Net loss/(gain) on disposal of business operations	**344**	(2,306)
	(217)	(2,460)

5 Comparison of Half-Year Profit		
Net profit attributable to members of the Company reported for the first half-year	**21,374**	17,568
Net profit attributable to members of the Company for the second half-year	**21,887**	17,942
	43,261	35,510

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

		Consolidated	
		2006	2005
6	**Ratios**		
(a)	**Net tangible asset (NTA) backing**		
	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	**$1.19**	$1.22
(b)	**Other ratios**		
	Profit before tax / revenue Calculated as profit from ordinary activities before related income tax expense as a percentage of total revenues	**7.2%**	7.4%
	Profit after tax / equity interests Calculated as net profit attributable to members of the Company as a percentage of equity attributable to members	**14.0%**	12.1%

7 Earnings per Share

Basic and diluted earnings per share are the same in both years.

	Number of Shares	
	2006	2005
Weighted average number of shares on issue	**166,801,334**	153,632,521

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

8 Segment Reporting

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 mainly comprise interest and dividend-earning assets and revenues, interest-bearing loans, borrowings and expenses and corporate assets and expenses.

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

Inter-segment pricing is determined on a cost basis for wholly-owned entities and on an arm's-length basis for non-wholly-owned entities.

The consolidated entity's primary reporting format is business segments.

Business segments
The consolidated entity comprises the following main business segments, based on the consolidated entity's management reporting system:

Electronic Security and Entertainment	Communications related products and services, domestic and commercial antennas, master antenna television systems, communications antennas, amplifiers, electronic security systems, closed circuit television systems, home and commercial automation and control systems, professional audio products fibre optic transmission solutions and subscription TV installation services.
Home and Hardware	Outdoor clothes driers, ladders, ironing boards, laundry trolleys, security doors, playtime equipment, garden sprayers, wheelbarrows, scaffold systems, rehabilitation and mobility products, water tanks and other rotationally moulded products.
Building and Industrial	Structural, precision and large steel tubing, galvanising, precision metal cabinets, stainless steel products, steel door frames, 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.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

8 Segment Reporting (continued)

Primary reporting by business segments

	Electronic Security and Entertainment		Home and Hardware		Building and Industrial		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue										
Sales to external customers	**263,854**	206,311	**168,933**	164,928	**498,203**	438,917	**0**	0	**930,990**	810,156
Inter-segment revenue	**0**	0	**0**	0	**11,021**	9,948	**(11,021)**	(9,948)	**0**	0
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	**0**	0	**73,111**	64,132
Unallocated / corporate result									**154**	(421)
									73,265	63,711
Net interest									**(5,880)**	(3,308)
Profit from ordinary activities 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	**0**	0	**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	**0**	0	**12,712**	15,704
Unallocated / corporate other 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	**0**	0	**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	**0**	0	**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	**0**	0	**32,200**	103,176
Unallocated / corporate assets									**1,593**	1,180
									33,793	104,356

Secondary reporting by geographical segments	Australia		Overseas		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue								
External segment revenue by location of customers	**866,460**	752,546	**64,530**	68,584	**0**	(10,974)	**930,990**	810,156
Unallocated / corporate revenue							**809**	890
Total revenue							**931,799**	811,046
Assets								
Segment assets by location of assets	**440,480**	415,952	**25,660**	32,128	**0**	0	**466,140**	448,080
Unallocated / corporate assets							**155,582**	134,385
Consolidated total assets							**621,722**	582,465
Acquisitions of non-current assets	**31,604**	102,641	**596**	535	**0**	0	**32,200**	103,176
Unallocated / corporate assets							**1,593**	1,180
							33,793	104,356

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

	Consolidated	
	2006 **$'000**	2005 $'000
9 Retained Profits		
Balance at the beginning of the year	**105,388**	97,256
Net profit attributable to members of the Company	**43,261**	35,510
Transfer from reserves	**-**	1,751
Disposal of entities	**3,349**	-
Dividends recognised during the year	**(34,482)**	(29,129)
Balance at the end of the year	**117,516**	105,388

10 Dividends

(a) Dividends recognised in the current year by the Company are:

	Cents per share	Total amount $'000	Franked / unfranked	Date of payment
2005				
Interim – ordinary	12.0	19,577	Franked	29 March 2005
Interim dividend forgone for Share Investment Plan		(3,097)		
Final – ordinary	11.5	16,105	Franked	27 September 2004
Final dividend forgone for Share Investment Plan		(3,456)		
Total amount		29,129		
2006				
Interim – ordinary	13.0	21,798	Franked	27 March 2006
Interim dividend forgone for Share Investment Plan		(3,791)		
Final – ordinary	12.0	19,621	Franked	26 September 2005
Final dividend forgone for Share Investment Plan		(3,146)		
Total amount		34,482		

Subsequent events
Since the end of the year, the directors declared the following dividend:

Final – ordinary	13.0	21,930	Franked	25 September 2006

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

All dividends paid or declared are fully franked at the tax rate of 30%. The directors expect that dividends will continue to be fully franked for the foreseeable future.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

10 Dividends (continued)

(b) 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

	The Company	
	2006 **$'000**	2005 $'000
(c) Dividend franking account		
30% franking credits available to shareholders of the Company for subsequent financial years	**41,955**	39,628

The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

(a) franking credits that will arise from the payment of the current tax liability;
(b) franking debits that will arise from the payment of dividends recognised as a liability;
(c) franking credits that will arise from the receipt of dividends recognised as receivables; and
(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

	2006 $'000	2005 $'000
The franking credits available to shareholders disclosed above will allow for the following amounts of after-tax profits to be distributed fully franked at the current tax rate after deducting franking credits to be used in the payment of the proposed final dividend	**76,098**	**72,467**

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

11 Details of Entities Over Which Control Has Been Gained

(a) Acquisition of controlled entities

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	1/01/2006	*4,990	Supplier of access equipment, hired and sold to building contractors.	100%
• Team Poly Pty Ltd	1/04/2006	4,713	Manufacture of rotationally moulded water tanks.	Additional 25% Total 100%
• Audio Telex Group – deferred payment	30/11/2004	3,400		
Total		13,103		

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

(b) Acquisition of business operations

The consolidated entity acquired two business operations during the course of the year. The details of the acquisitions are noted in the table below.

Name of Business	Date of Control	Consideration Net of Cash $'000	Nature of Business
• Brisbane Sheet Metal	1/12/2005	14,841	Roll-forming of metal building products in Brisbane and Coolum.
• Australian Audio Supplies	1/4/ 2006	961	Distributions of professional audio equipment.
		15,802	

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

12 Details of Entities Over Which Control Has Been Lost

Disposal of controlled entities
During the current period 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:

(a) Hills Industries Limited (UK)

	Consolidated 2006 $'000	Consolidated 2005 $'000
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.

(b) Pacom SE Asia Group

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.

13 Events Subsequent to Reporting Date

(a) There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years.

(b) Dividends
For dividends declared after 30 June 2006 see Note 10.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

14 Explanation of transition to AIFRSs
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

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

14 Explanation of transition to AIFRSs (continued)

As stated in significant accounting policies note 1(a), 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 this 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.

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.

(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 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 as at 1 July 2004. For the year ending 30 June 2005 the effect in the Consolidated Entity 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 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.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

14 Explanation of transition to AIFRSs (continued)

(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.

(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 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.

(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.

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.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

14 Explanation of transition to AIFRSs (continued)

(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:

		Consolidated	
		1 July 2004	30 June 2005
In thousands of AUD	*Note*		
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 14(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 14(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.

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

		Consolidated	
		1 July 2004	30 June 2005
In thousands of AUD	*Note*		
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)

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2006

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

		Consolidated		
	Note	**Previous GAAP**	**Effect of Transition to AIFRSs**	**AIFRSs**
In thousands of AUD				
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		23.5¢		23.1¢
Diluted earnings per share from continuing operations		23.5¢		23.1¢

Hills Industries Limited and its Controlled Entities
Compliance Statement

1 This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views.

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 Edwardstown this 8th day of August 2006.

Signed in accordance with a resolution of the directors.

Graham L Twartz
Director and Company Secretary

Annual General Meeting

The 49th Annual General Meeting of Hills Industries Limited will be held at The Grainger Studio, 91 Hindley Street, Adelaide, SA, 5000 on Friday 27 October 2006 at 2.00 pm.

The Notice of Meeting and Proxy Form will be sent with the Annual Report at the end of September 2006.