Hills Holdings Limited

(formerly Hills Industries Limited)

ABN 35 007 573 417

Interim Financial Report for the half-year ended 31 December 2010

Hills Holdings Limited
ASX Half-year information - 31 December 2010

Lodged with the ASX under Listing Rule 4.2A.
This information should be read in conjuction with the
30 June 2010 Annual report

Contents

This Interim Financial Report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2010 and any public announcements made by Hills Holdings Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

This Interim Financial Report covers the consolidated financial statements for the consolidated entity consisting of Hills Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group" and individually as "Group Entities"). The Interim Financial Report is presented in the Australian currency.

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

Hills Holdings Limited
944 - 956 South Road
Edwardstown SA 5039

A description of the nature of the Group's operations is included in the Directors' report on pages 2 to 7, which is not part of this Interim Financial Report.

The Interim Financial Report was authorised for issue by the Directors on 22 February 2011. The Company has the power to amend and reissue the Interim Financial Report.

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

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

Directors' report

Your Directors present their report on the consolidated entity consisting of Hills Holdings Limited (formerly Hills Industries Limited) (the "Company") and the entities it controlled at the end of, or during, the half-year ended 31 December 2010 and the review report thereon.

Directors

The following persons were Directors of Hills Holdings Limited during the whole of the half-year and up to the date of this report:

Jennifer Helen Hill-Ling
Graham Lloyd Twartz
Fiona Rosalyn Vivienne Bennett
Ian Elliot
Roger Baden Flynn
Geoffrey Guild Hill
Peter William Stancliffe
David Moray Spence was appointed a Director on 1 September 2010 and continues in office at the date of this report.

Information on Directors

Jennifer Helen Hill-Ling LLB (Adel) FAICD. *Chairman Non-Independent Non-Executive Director.* Age 48.
Appointed Director in August 1985. Appointed Deputy Chairman in June 2004. Appointed Chairman 28 October 2005.

Graham Lloyd Twartz BA (Adel) DipAcc (Flinders). *Group Managing Director.* Age 53.
Appointed Director in July 1993. Appointed Group Managing Director 1 July 2008.

Fiona Rosalyn Vivienne Bennett BA (Hons) FCA FAICD FAIM. *Independent Non-Executive Director.* Age 54.
Appointed Director on 31 May 2010.

Ian Elliot FAICD. *Independent Non-Executive Director.* Age 57.
Appointed Director in August 2003.

Roger Baden Flynn BEng (Hons) MBA FIE (Aust) FAICD. *Lead Independent Non-Executive Director.* Age 60.
Appointed Director in November 1999.

Geoffrey Guild Hill FCPA FAICD F.S.I BEc (Syd) MBA (NSW). *Independent Non-Executive Director.* Age 64.
Appointed Director in February 1999.

Peter William Stancliffe BE (Civil) FAICD. *Independent Non-Executive Director.* Age 62.
Appointed Director in August 2003.

David Moray Spence BCom CA (SA). *Independent Non-Executive Director.* Age 58.
Appointed Director on 1 September 2010.

Consolidated Result

The consolidated profit after tax for the half year attributable to shareholders of the Company was:

	31 December 2010 $'000	31 December 2009 $'000
Profit for the period before unusual / significant items attributable to the shareholders of the Company	**15,514**	22,058
(Loss) for the period from unusual / significant items (refer Note 4)	**(57,133)**	-
(Loss) / Profit for the period attributable to the shareholders of the Company	**(41,619)**	22,058

Review of operations

A summary of consolidated revenues and operating results for the half-year by operating segments is set out below:

	Segment revenues		Segment results	
	31 December 2010 $'000	31 December 2009 $'000	**31 December 2010 $'000**	31 December 2009 $'000
Electronics and Communications	**166,084**	183,049	**15,253**	17,041
Lifestyle and Sustainability	**78,304**	94,203	**5,746**	5,690
Building and Industrial	**282,141**	282,379	**(292)**	11,220
Korvest Ltd	**30,999**	29,171	**2,541**	3,547
Total segment revenue / operating result	**557,528**	588,802	**23,248**	37,498

Segment results are adjusted operating earnings before interest and tax, which is the measure of segment result before unusual / significant items that is reported to the Group Managing Director to assess the performance of the operating segments. For a reconciliation to operating profit before tax refer to Note 2.

Comments on the operations and the results of those operations are set out below:

(a) **Electronics and Communications**

	6 MONTHS TO 31/12/10 $'000	6 MONTHS TO 31/12/09 $'000	% CHANGE
Total Revenue	166,084	183,049	(9.3%)
Operating profit before interest and tax	15,253	17,041	(10.5%)
% to Sales	9.2%	9.3%	

The Electronics & Communications division continues to produce the highest profit margins and return on assets employed of any of the Hills divisions. During the period the EBIT of the division declined by 10.5%, principally due to poor results from the DGTEC business.

- Hills Electronic Security comprises the market leading business operations of Pacific Communications, Direct Alarm Supplies and Ultra High Speed. Demand for security products remained at acceptable levels, although with the strength of the Australian dollar, selling prices continued to decrease across the period. This business unit markets and extensive range of electronic security products ranging from simple domestic alarms to complex integrated surveillance and access control systems.

  Although the level of large project work remained subdued, the business continued to release a range of new products made specifically for the Australian and New Zealand markets and has delivered an improved result for Hills Electronic Security.

- Hills Antenna & TV Systems business unit provides a full range of reception and distribution equipment for subscription television, free to air television, the wireless voice and data market and DGTEC consumer electronic equipment.

  Demand from the subscription television and free to air television markets were steady during the period. Furthermore, the business has certain opportunities as a result of the Australian Federal Government's decision to progressively shut down the analogue television signal.

  In the previous year, the DGTEC range of consumer electronics experienced good growth and contributed to profit. In the period under review, as a result of reduced demand and falling retail selling prices, this business produced a loss. The business and its product range has been restructured.

- Access Television Services (ATS) in Australia and Signalmaster in New Zealand provide subscription television installation services to AUSTAR and SkyTV respectively. In addition to the steady demand from subscription television providers, our Techlife business has been successful in winning further contracts to provide installation services to non-subscription television providers.

Review of operations (continued)

Of particular note was the successful conclusion to the Mildura and South Australian Federal Government funded project to install digital television solutions for certain qualifying customers. In addition, Techlife has won installation contracts in rolling out fibre to the home networks, including Stage 1 of the National Broadband Network in Tasmania.

- Hills Sound Vision and Lighting (SVL) is the leading provider of professional audio, lighting and control systems to a wide range of customers in Australia and New Zealand and to a number of export markets. SVL's results during the period were pleasing on the back of a range of new products launched under the Crestron and Australian Monitor brands. We continue to look for acquisitions and complementary products to add to our range in line with our strategy to be a one-stop-shop for all of our customer needs.

- Our strategy to expand our exposure to communications markets continued with the establishment of Cygnus, a new 50% joint venture to offer satellite bandwidth to rural and remote markets in Australia. This compliments our other 50% owned joint venture, OptiComm, which provides fibre to the node and fibre to the home in new housing developments. Our open platform offer is generally the preferred solution for customers and developers.

  Opticomm completed Stage 1 of the National Broadband Network's rollout in Tasmania and continues to operate the network operation centre for NBN Tasmania in Hobart. We expect that the business will have significant future opportunities as the National Broadband Network rolls out.

  Also, during the period, Opticomm completed the fibre network in the new Westfield shopping centre in Pitt Street, Sydney. This was a first for OptiComm and for the Australian retail shopping centre market.

(b) **Lifestyle and Sustainability**

	6 MONTHS TO 31/12/10 $'000	6 MONTHS TO 31/12/09 $'000	% CHANGE
Total Revenue	78,304	94,203	(16.9%)
Operating profit before interest and tax	5,746	5,690	1.0%
% to Sales	7.3%	6.0%	

It was pleasing that this division produced a small improvement in profitability while increasing EBIT margins, further building on the improvements of the previous year.

- The results of our traditional Hills Branded Products and Bailey Ladders businesses continued the improvement of the previous year. The business has focussed on a smaller range of products and look to achieve operational excellence in its supply chain and customer service. The rise in the Australia dollar has helped margins and we were pleased with the solid contribution from the LW Gemmell plumbing distribution business.

- Hills Healthcare is the leading manufacturer of rehabilitation, mobility and hospital equipment in Australia. We achieved a small improvement in profit during the period as a result of some additional nursing home construction activity, compared to the prior period, but also as a result of the higher Australian dollar. We believe this business is well placed to grow over the next few years.

- Team Poly is one of Australia's leading manufacturers of rotationally moulded polyethylene water tanks. As a result of significant and widespread rainfall, the level of activity in the water tank industry remains at historically very low levels. During the period other market players have experienced financial difficulties including insolvency. Revenue was reduced this year as compared to the prior comparable period. We have continued to undertake a number of profit improvement initiatives within Team Poly, focussing on improvements in supply chain and the manufacturing process. These initiatives are expected to deliver better results in a difficult market.

Review of operations (continued)

(c) **Building and Industrial**

	6 MONTHS TO 31/12/10 $'000	6 MONTHS TO 31/12/09 $'000	% CHANGE
Total Revenue	282,141	282,379	(0.1%)
Operating profit before interest and tax	(292)	11,220	(102.6%)
% to Sales	(0.13%)	4.0%	

The Hills Building & Industrial Products division continues to be the largest contributor to Hills in terms of revenue, however, results from operations were very disappointing and unsatisfactory. Revenue for the period under review was flat as a result of low demand in the commercial building sector and a lack of project related oil and gas pipeline work at the end of the period.

- Orrcon Steel is a leading manufacturer and distributor of steel tube and pipe in Australia, specialising in the manufacture of precision tube, structural tube, rectangular hollow sections and water, oil and gas pipelines. After delivering an improved result in the prior year, demand for Orrcon's products fell below expectations particularly in the second half of the reporting period.

  The stronger Australian dollar has contributed to a greater market share for imported tube and inventory reductions by our customers saw demand fall in the period.

  In particular, a number of pipeline projects were deferred, which has adversely affected the results from Orrcon's Pipeline and Infrastructure operation.

  Profit improvement initiatives have been initiated as a result of these lower levels of activity, although volumes are not forecast to improve in the second half. This is consistent with information from other industry participants.

- The Fielders rollforming business is a market leader in new and innovative products in a market that is not generally known for innovation.

  While Fielders sales to domestic customers remained strong, the level of commercial building activity remained low, which affected the overall result for Fielders.

  During the period the New South Wales operation relocated to new premises.

(d) **Korvest Ltd**

	6 MONTHS TO 31/12/10 $'000	6 MONTHS TO 31/12/09 $'000	% CHANGE
Total Revenue	30,999	29,171	(6.3%)
Operating profit before interest and tax	2,541	3,547	(28.4%)
% to Sales	8.2%	12.2%	

Hills holds around 49% of Korvest which comprises the market leading EzyStrut cable and pipe support business, Korvest Galvanisers and Indax industrial access equipment. Results for the year were lower than in the previous period. Korvest is a separately listed public company and further details of its results are obtainable from Korvest's website.

(e) **Funding**

The net debt of Hills at 31 December 2010 was $76.7 million (net of cash of $21.0 million). Gearing, measured as debt to equity, stood at 17.5% at the end of the period. Hills bank facilities have been extended such that the earliest date for review of any of the facilities is June 2012, while the remainder of the facilities are committed until November 2012 and June 2013. The Company continues to comfortably meet all of its banking covenants.

Review of operations (continued)

(f) **Unusual Items**

The strengthening of the Australian dollar has led to increased competition for steel and tube products in a very weak market and a number of pipeline projects have been deferred which adversely affected the Orrcon results.

Management have undertaken a restructure of the Orrcon business to focus more on the domestic structural and precision markets and reduce exposure to contracting for large major projects.

Following a review of the carrying value of the Orrcon business the Directors announced a non cash impairment after tax of $48.7 million.

The depressed water tank market was further affected during the period by above average rainfall across much of Australia and the continued lack of government subsidies.

The Directors reviewed the carrying value of the Team Poly business and announced a non cash impairment after tax of $8.4 million.

Management have continued to implement a number of profit improvement initiatives within Team Poly, which are expected to deliver better results in the second half in what continues to be a difficult market.

Full details of these items are set out in Note 4.

Net tangible asset (NTA) backing

	31 December 2010 $	31 December 2009 $
Net tangible assets per ordinary share	**1.26**	1.39

Calculated as net assets less intangible assets less minority interests in those assets over the total number of shares on issue

Dividends - Hills Holdings Limited

The Directors have announced a fully franked dividend of 5.5 cents per share. The Directors have determined not to offer the Dividend Reinvestment Plan or the Share Investment Plan in respect to this interim dividend. The Record Date for the dividend will be 7 March 2011 and the dividend will be paid on 21 March 2011.

2011 Guidance

Whilst the recent Queensland floods disrupted a number of our businesses during January, Hills operations did not suffer any direct damage as a result and the Group is well placed to participate in the reconstruction activity.

The Company has implemented profit improvement plans across the Group to maximise the full year result and reflect the current demand for our products, but trading conditions are forecast to remain difficult in many of the markets in which Hills operates in Australia and New Zealand. The outlook for the commercial building and the steel industry remains subdued and increased competition from imports continues.

In view of the above, the Company is unable to give specific profit guidance for the full year at this time, but expects results to be below last year.

Matters subsequent to the end of the financial half-year

Events subsequent to the reporting date are included in Note 12 of the Notes to the Financial Statements.

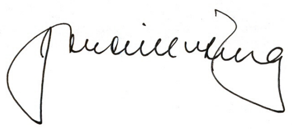
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

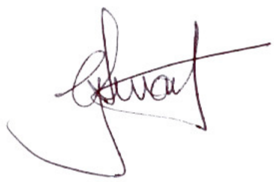
Rounding of amounts

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

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



JH Hill-Ling
Director



GL Twartz
Director

Adelaide

22 February 2011

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

To: the Directors of Hills Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2010 there have been:

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

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

KPMG

KPMG

N T Faulkner
Partner

Adelaide

Dated this the 22 day of February 2011

		Consolidated	
	Notes	**31 December 2010 $'000**	31 December 2009 $'000
Revenue from continuing operations	3	**557,957**	589,712
Other income		**904**	1,420
		558,861	591,132
Expenses, excluding finance costs and impairment	4	**(535,365)**	(554,013)
Impairment expenses	4	**(67,220)**	-
Expenses, excluding finance costs	4	**(602,585)**	(554,013)
Results from operating activities		**(43,724)**	37,119
Net financing costs	4	**(1,794)**	(2,241)
(Loss)/profit before income tax		**(45,518)**	34,878
Income tax expense		**4,630**	(10,461)
(Loss)/profit for the half-year		**(40,888)**	24,417
(Loss)/profit is attributable to:			
Owners of Hills Holdings Limited		**(41,619)**	22,057
Non-controlling interests		**731**	2,360
		(40,888)	24,417
		Cents	Cents
Earnings per share for (loss) / profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	6	**(16.8)**	9.4
Diluted earnings per share	6	**(16.8)**	9.4

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

	Notes	Consolidated 31 December 2010 $'000	31 December 2009 $'000
(Loss)/profit for the half-year		**(40,888)**	24,417
Other comprehensive income			
Changes in the fair value of cash flow hedges		**(963)**	677
Exchange differences on translation of foreign operations		**(1,001)**	201
Other comprehensive income for the half-year, net of tax		**(1,964)**	878
Total comprehensive income for the half-year		**(42,852)**	25,295
Total comprehensive income for the half-year is attributable to:			
Owners of Hills Holdings Limited		**(43,583)**	22,881
Non-controlling interests		**731**	2,414
		(42,852)	25,295

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

	Notes	Consolidated 31 December 2010 $'000	Consolidated 30 June 2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	**21,420**	56,915
Trade and other receivables		**161,100**	186,002
Inventories		**179,170**	181,496
Derivative financial instruments		**-**	800
Total current assets		**361,690**	425,213
Non-current assets			
Investments		**2**	2
Property, plant and equipment		**187,809**	219,658
Deferred tax assets		**33,237**	23,771
Intangible assets		**82,108**	116,300
Total non-current assets		**303,156**	359,731
Total assets		**664,846**	784,944
LIABILITIES			
Current liabilities			
Trade and other payables		**81,170**	128,048
Borrowings		**1,311**	1,384
Current tax liabilities		**4,645**	10,622
Provisions		**33,350**	33,445
Derivative financial instruments		**1,478**	262
Total current liabilities		**121,954**	173,761
Non-current liabilities			
Borrowings		**96,710**	105,684
Provisions		**6,344**	6,318
Derivative financial instruments		**1,293**	2,682
Total non-current liabilities		**104,347**	114,684
Total liabilities		**226,301**	288,445
Net assets		**438,545**	496,499
EQUITY			
Contributed equity		**306,822**	306,595
Reserves		**45,622**	47,899
Retained earnings		**70,865**	126,107
Capital and reserves attributable to owners of Hills Holdings Limited		**423,309**	480,601
Non-controlling interests		**15,236**	15,898
Total equity		**438,545**	496,499

The above 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 half-year		**-**	**878**	**22,058**	**22,936**	**2,414**	**25,350**
Transactions with owners in their capacity as owners:							
Shares issued under the capital raising		40,859	-	-	40,859	-	40,859
Shares issued under the share purchase plan		16,738	-	-	16,738	-	16,738
Shares issued under the dividend investment plan		1,255	-	-	1,255	-	1,255
Shares issued under the employee share bonus plan		221	-	-	221	-	221
Share issue costs		(1,754)	-	-	(1,754)	-	(1,754)
Shares in subsidiaries issued to non-controlling interests		-	-	-	-	595	595
Adjustment to non-controlling interests upon increase in Hills shareholding		-	(495)	-	(495)	495	-
Dividends provided for or paid to shareholders		-	-	(4,203)	(4,203)	-	(4,203)
Non-controlling interest in dividends paid or payable by subsidiaries		-	-	-	-	(916)	(916)
Employee share options - value of employee services		-	3	-	3	-	3
Balance at 31 December 2009		**305,917**	**46,881**	**125,297**	**478,095**	**28,573**	**506,668**
Balance at 1 July 2010		**306,595**	**47,899**	**126,107**	**480,601**	**15,898**	**496,499**
Total comprehensive income for the half-year		**-**	**(1,964)**	**(41,619)**	**(43,583)**	**731**	**(42,852)**
Transactions with owners in their capacity as owners:							
Shares issued under the employee share bonus plan		227	-	-	227	-	227
Shares in subsidiaries issued to non-controlling interests		-	-	-	-	324	324
Adjustment to non-controlling interests upon increase in Hills shareholding		-	(316)	-	(316)	(828)	(1,144)
Dividends provided for or paid to shareholders		-	-	(13,623)	(13,623)	-	(13,623)
Non-controlling interest in dividends paid or payable by subsidiaries		-	-	-	-	(891)	(891)
Employee share options - value of employee services		-	3	-	3	2	5
Balance at 31 December 2010		**306,822**	**45,622**	**70,865**	**423,309**	**15,236**	**438,545**

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

	Notes	Consolidated **31 December 2010 $'000**	 31 December 2009 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**638,263**	645,910
Payments to suppliers and employees (inclusive of goods and services tax)		**(625,368)**	(586,226)
Cash generated from operations		**12,895**	59,684
Net finance costs paid		**(2,534)**	(3,379)
Income taxes paid		**(10,358)**	(7,637)
Net cash inflow from operating activities		**3**	48,668
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired	9	**(1,144)**	-
Payments for property, plant and equipment		**(12,730)**	(8,619)
Payments for patents, trademarks and development costs		**(7)**	-
Proceeds from sale of property, plant and equipment		**377**	2,770
Rent received		**429**	367
Net cash (outflow) from investing activities		**(13,075)**	(5,482)
Cash flows from financing activities			
Proceeds from issues of shares in the Company		**-**	57,098
Proceeds from borrowings		**2,816**	-
Proceeds from issue of shares to non-controlling interests in subsidiaries		**300**	595
Repayment of borrowings		**(10,165)**	(111,523)
Dividends paid to the Company's shareholders		**(13,623)**	(4,203)
Dividends paid to non-controlling interests in subsidiaries		**(891)**	(1,466)
Net cash (outflow) from financing activities		**(21,563)**	(59,499)
Net (decrease) in cash and cash equivalents		**(34,635)**	(16,313)
Cash and cash equivalents at the beginning of the half-year		**55,531**	67,650
Effects of exchange rate changes on cash and cash equivalents		**78**	(7)
Cash and cash equivalents at end of the half-year	5	**20,974**	51,330

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

1 Basis of preparation of half-year report

(a) Basis of preparation of half-year financial report

This general purpose Interim Financial Report for the half-year reporting period ended 31 December 2010 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

This Interim Financial Report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Annual Financial Report for the year ended 30 June 2010 and any public announcements made by Hills Holdings Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

This consolidated Interim Financial Report was approved by the Board of Directors on 22 February 2011.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(b) Critical accounting estimates

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

In preparing this consolidated Interim Financial Report, the judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2010. In addition, further information about critical judgements in applying accounting policies related to impairment of assets is included in Note 4.

(c) Rounding of amounts

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

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

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

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

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

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

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

2 Segment information (continued)

The Lifestyle and 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 and Sustainability as this reflects the manner in which the Group manages these businesses.

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

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

Australia

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

Overseas

Principally comprises manufacturing facilities and sales offices in New Zealand.

(b) Segment information provided to the Group Managing Director

The segment information provided to the Group Managing Director for the reportable segments before unusual items for the half-year ended 31 December 2010 is as follows:

31 December 2010	**Electronics & Communications**	**Lifestyle & Sustainability**	**Building & Industrial**	**Korvest Ltd**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Segment revenue	**166,084**	**78,304**	**282,141**	**30,999**	**557,528**
Segment EBIT	**15,253**	**5,746**	**(292)**	**2,541**	**23,248**
Segment assets	**129,592**	**114,766**	**300,990**	**39,743**	**585,091**
31 December 2009	Electronics & Communications	Lifestyle & Sustainability	Building & Industrial	Korvest Ltd	Total
	$'000	$'000	$'000	$'000	$'000
Segment revenue	183,049	94,203	282,379	29,171	588,802
Segment EBIT	17,041	5,690	11,220	3,547	37,498
Segment assets	149,598	138,270	358,929	33,237	680,034

(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	
	31 December 2010 $'000	31 December 2009 $'000
Total segment revenue	**557,528**	588,802
Other revenue	**429**	910
Total revenue from continuing operations (Note 3)	**557,957**	589,712

(iii) Segment EBIT

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

	Consolidated	
	31 December 2010 $'000	31 December 2009 $'000
Segment EBIT	**23,248**	37,498
Finance income	**543**	767
Finance costs	**(3,077)**	(4,145)
Fair value profit on derivatives	**749**	1,137
Goodwill impairment	**(33,598)**	-
Impairment of other assets	**(33,622)**	-
Other	**239**	(379)
Profit before income tax from continuing operations	**(45,518)**	34,878

(iv) Segment assets

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

	Consolidated	
	31 December 2010 $'000	31 December 2009 $'000
Segment assets	**585,091**	680,034
Unallocated assets:		
Deferred tax assets	**33,237**	26,192
Cash assets	**21,420**	52,194
Investments	**2**	2
Corporate assets	**25,096**	26,560
Derivative financial instruments	**-**	650
Total assets as per the Consolidated statement of financial position	**664,846**	785,632

3 Revenue

	Consolidated	
	31 December 2010 $'000	31 December 2009 $'000
Sales revenue		
Sale of goods	**527,158**	557,614
Services	**30,370**	31,731
	557,528	589,345
Other revenue		
Property rentals	**429**	367
	557,957	589,712

4 Profit for the half-year

	Consolidated	
	31 December 2010 $'000	31 December 2009 $'000
Classification of expenses by function		
Cost of goods sold	**368,315**	389,709
Cost of services provided	**25,895**	26,526
Sales and marketing expenses	**67,784**	64,238
Distribution expenses	**42,787**	41,829
Administration expenses	**30,575**	31,598
Other expenses	**67,229**	113
	602,585	554,013

At 30 June 2010 the allocation of expenses by function and the allocation of sales rebates was reviewed. The comparative information for the half-year ended 31 December 2009 has been adjusted to be consistent with the allocations for the current financial year.

Profit before income tax includes the following specific expenses:

Depreciation		
Buildings	**855**	788
Plant and equipment	**10,727**	10,788
Total depreciation	**11,582**	11,576
Amortisation		
Patents and trademarks	**582**	454
Research and development	**20**	20
Total amortisation	**602**	474
Total depreciation and amortisation	**12,184**	12,050

4 Profit for the half-year (continued)

	Consolidated	
	31 December 2010 $'000	31 December 2009 $'000
Finance income		
Interest income	**(543)**	(767)
Fair value gains on derivatives	**(740)**	(1,137)
	(1,283)	(1,904)
Finance expenses		
Interest and finance charges paid/payable	**3,077**	4,145
Net finance costs expensed	**1,794**	2,241
Loss for the half-year includes the following items that are unusual / significant because of their nature, size or incidence:		
Impairment of assets and goodwill (recognised within Other expenses)	**67,220**	-
Less: Applicable income tax benefit	**(10,087)**	-
	57,133	-

As a result of poor trading conditions during the half year at Orrcon and Team Poly, 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 $67.220 million, comprising impairment to Orrcon inventory of $1.500 million, impairment in Orrcon plant and equipment of $32.122 million, impairment in Orrcon goodwill of $25.213 million and impairment in Team Poly goodwill of $8.385 million. The after tax impact of these impairments is $57.133 million.

The recoverable amount of certain plant and equipment within the Orrcon cash generating unit 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 $32.122 million lower than its carrying amount.

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 13.70% (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 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 $25.213 million and in accordance with Accounting Standards the impairment was allocated against goodwill.

The recoverable amount of the Team Poly cash generating unit was 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 14.27% (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 for EBIT over the five year period to return to levels consistent with 2008. 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 $8.385 million and in accordance with Accounting Standards the impairment was allocated against goodwill.

5 Reconciliation of Cash and cash equivalents

	Consolidated	
	31 December 2010 $'000	30 June 2010 $'000
For the purposes of the Consolidated statement of cash flows, cash and cash equivalents includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the period as shown in the Consolidated statement of cash flows is reconciled to the related items in the Consolidated statement of financial position as follows:		
Cash at bank and in hand	**18,239**	10,610
Deposits at call	**3,181**	46,305
	21,420	56,915
Bank overdrafts	**(446)**	(1,384)
	20,974	55,531

6 Earnings per share

	Consolidated	
	31 December 2010 Cents	31 December 2009 Cents
(a) Basic earnings per share		
Basic earnings per share attributable to the ordinary shareholders of the Company	**(16.8)**	9.4
Basic earnings per share before unusual / significant items attributable to the ordinary shareholders of the Company	**6.3**	9.4
(b) Diluted earnings per share		
Diluted earnings per share attributable to the ordinary shareholders of the Company	**(16.8)**	9.4
Diluted earnings per share before unusual / significant items attributable to the ordinary shareholders of the Company	**6.2**	9.4

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

	Consolidated	
	31 December 2010 $'000	31 December 2009 $'000
(Loss) / Profit attributable to the ordinary shareholders of the Company used in calculating basic earnings per share	**(41,619)**	22,058
Adjusted for unusual / significant items:		
Impairment of assets	**57,133**	-
Profit before unusual / significant items attributable to the ordinary shareholders of the Company used in calculating basic earnings per share	**15,514**	22,058

7 Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2010, the Group acquired assets with a cost of $12,730,000 (six months ended 31 December 2009: $8,619,000). Assets with a net book value of $348,000 were disposed of during the six months ended 31 December 2010 (six months ended 31 December 2009: $3,728,000), resulting in a gain on disposal of $29,000 (six months ended 31 December 2009: gain of $189,000).

Capital commitments

Commitments for the purchase of property, plant and equipment yet to be delivered as at 31 December 2010 were $6,755,000 (as at 31 December 2009: $9,711,000).

8 Dividends

	Consolidated	
	31 December 2010 $'000	31 December 2009 $'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**	4,916
Final dividend foregone for Share Investment Plan	**-**	(713)
	13,623	4,203

In the previous financial year the Company issued ordinary shares under the Dividend and Share Investment Plans.

(b) Dividends not recognised at the end of the half-year

In addition to the above dividends, since the end of the half-year the Directors have recommended the payment of an interim dividend of 5.5 cents per fully paid ordinary share (2010: 7.0 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 21 March 2011 (2010: 3 March 2010) out of retained profits at 31 December 2010, but not recognised as a liability at the end of the half-year, is	**13,648**	17,319

9 Business combination

Current period

During the current reporting period there were no:

- Acquisitions of controlled entities
- Acquisitions of business operations
- Disposal of controlled entities

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 $1,144,000.

9 Business combination (continued)

Prior period

During the prior reporting period there were no:

- Acquisitions of controlled entities
- Acquisitions of business operations
- Disposal of controlled entities

On 16 November 2009 the Group increased its shareholding in Fielders Australia Pty Ltd from 60% to 74.9% through a rights issue. The consideration paid was $19,955,000.

10 Contingencies

There have been no material changes in contingent liabilities or contingent assets since 30 June 2010.

11 Related party transactions

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 30 June 2010 Annual Financial Report.

12 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to half-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 years.

Issued and paid-up capital

No shares have been issued since 31 December 2010.

Dividends

For dividends declared after 31 December 2010 refer to Note 8.

In the opinion of the Directors of Hills Holdings Limited ("the Company"):

(a) the financial statements and notes set out on pages 9 to 21 are in accordance with the *Corporations Act 2001,* including:

   (i) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half-year ended on that date, and

   (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

JH Hill-Ling
Director

GL Twartz
Director

Adelaide
22 February 2011

KPMG

Independent auditor's review report to the members of Hills Holdings Limited

Report on the financial report

We have reviewed the accompanying half-year financial report of Hills Holdings Limited, which comprises the Consolidated Statement of Financial Position as at 31 December 2010, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the half-year ended on that date, Notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The Directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.* As auditor of Hills Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hills Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

KPMG

KPMG

N T Faulkner
Partner

Adelaide

Dated this the 22 day of February 2011