

CHAIRMAN'S ADDRESS

Good Afternoon Ladies and Gentlemen. My name is Jennifer Hill-Ling and as Chairman of your Company I am pleased to welcome you to the 53rd Annual General Meeting of Hills Industries Limited.

I have been advised there is a quorum of members present and I now declare the meeting open. Let me start proceedings today by introducing our directors and Company Secretary to you.

Roger Flynn,
Peter Stancliffe,
Ian Elliot,
Geoff Hill
Fiona Bennett
David Spence
Graham Twartz, - our Managing Director, and
our new Company Secretary - David Lethbridge

We are delighted to have both Fiona and David join the Board this year and believe their backgrounds and skills will add significant value to the ongoing growth of the Hills Group.

I propose that the Notice of Meeting, which was sent to shareholders, be taken as read.

The Minutes of the Company's previous Annual General Meeting, held on 23 October 2009, have been signed by me and are available for any interested shareholders to review.

Our auditor, Neil Faulkner from KPMG, is present today.

Neil is available to answer questions relating to

- the conduct of the audit,
- the audit report,
- accounting policies of the Group,
- the preparation of the financial statements and
- auditor independence.

On behalf of the Board, may I thank those shareholders who have taken the time to send us questions. The questions received fall into two broad categories which I will respond to during the course of my address:

- Executive Remuneration; and
- Directors Remuneration.

Before moving to the formal part of today's meeting I will comment on:

- The Performance of the Hills Group and our business segments during the past 12 months;
- The Board's approach to Remuneration;
- Our Strategy for the year ahead; and
- The outlook for the current financial year.

The annual accounts of the Company and its controlled entities and the reports of the directors and auditors for the year ended 30 June 2010 have been published and distributed to shareholders.

THE YEAR IN REVIEW

In the aftermath of the global financial crisis, the world economy has remained volatile. Compared with many international markets, the Australian economy held up reasonably well in the 2010 financial year, with the government's stimulus package benefiting certain sectors of our economy.

Despite this, the ongoing fallout of the global financial crisis continued to be widely felt. From a Hills perspective, our business was impacted by:

- subdued activity in the Australian and New Zealand construction markets,
- subdued activity in large project work; and
- significantly reduced demand for our Water Products following the breaking of the drought in many parts of Australia and the withdrawal of Government rebates.

Notwithstanding these conditions:

- Your Company's operating profit after tax and before unusual items increased by 43.3% from \$28 million to \$40.2 million on revenue of \$1.156 billion which was a 3% decrease on the previous year;
- Profit after tax and after unusual items and attributable to members, increased from 9.5 million to \$40.2 million;
- Earnings per share before unusual items increased from 14.6 to 16.7¢;
- Earnings per share after unusual items increased from 4.9¢ to 16.7¢; and
- Annual dividend per share was up 25% from 10 cents to 12.5 cents.

Overall, the Group's full-year performance continued to benefit from the implementation of

- cost reduction initiatives;
- operational efficiencies and
- a focus on capital management.

CASH FLOW

Despite a higher tax payment due to improved profit, the Group's cash flow from operations increased by \$39.2 million to a record \$101.5 million at 30 June 2010, due to:

- further working capital reductions,
- an increase in interest received due to the level of funds on deposit during the year, and
- a reduction in interest paid due to lower debt levels.

BALANCE SHEET

During the year, net assets increased by 15.9% or \$68 million to \$496.5 million.

Our issued capital increased during the year in review by \$58 million with shares issued under the:

- Share Placement and
- Share Purchase Plan in August and September 2009

as discussed in detail at last year's AGM.

The net cash received from the increase in contributed equity was used to repay borrowings and buttressed your company against the risks posed by the extreme global economic uncertainty at that time. We are well positioned to capitalise on growth opportunities that arise while maintaining low levels of debt.

Hills' net debt at 30 June 2010 was \$50.2 million compared with \$154.4 million a year earlier at June 30 2009. Our gearing (measured as net debt divided by shareholders' equity) at the end of the past financial year was down significantly at 10.1% .

We have adequate bank facilities in place and we are well within our banking covenants. Our bank facilities with our major lenders are locked in until November 2012.

DIVIDENDS

The two dividend payments made since last year's AGM have seen us pay 75% of after tax profits to shareholders.

Given our strong balance sheet we suspended our Dividend Reinvestment Plan and the Share Investment Plan during the period.

SHAREHOLDERS AND SHARE PRICE

Whilst the price for Hills shares has not rebounded to previous GFC levels, it was pleasing to see some increase from \$1.57 at 30 June 2009 to \$2.15 at 30 June 2010.

As fellow shareholders, I assure you that we are focused on the things we can do to build shareholder value and, to that end, we have a number of growth initiatives under review.

Our Board and management continue to actively engage with brokers, analysts and institutional investors to ensure that Hills' diverse portfolio of businesses is properly understood and fairly rated by the market. As part of the next stage in this "better identification" process, your Directors recommend that later in the meeting you vote in favour of changing the name of the Company from Hills Industries Limited to Hills Holdings Limited.

I would like to turn now to the operating performance of our three main business segments.

ELECTRONIC SECURITY & ENTERTAINMENT (ESE)

This segment continues to be the largest contributor to the profit of the Hills Group and in the past financial year achieved a record level of revenue - increasing by 4% to \$349.5 million - and a 5.4% rise in operating earnings before interest and tax (EBIT) to \$32.5million resulting from:

- Growth in market share;
- Increase in margins;
- Development of our own IP;
- Release of new products across all businesses; and
- Launch of the Techlife business.

Despite this positive performance, we note that the sector felt the impact of:

- a lack of major infrastructure project work;
- reduced demand in the USA, UK and Europe for our products; and
- continued decline in capital expenditure by Australian businesses generally.

We undertook a number of important business development initiatives within this segment during the year including:

- The launch of the Techlife business and expansion of our Opticom business which both participated in the rollout of Fibre to the Home networks, including Stage 1 of the National Broadband Network in Tasmania and

- The supply of many of our products into the University Hill development in Victoria which comprises commercial buildings and over 1000 homes when fully developed.

We continue to view this segment as critical to the growth of the Hills Group and in the current year we will supply:

- fibre infrastructure for over 226 shops in the new Sydney Westfield Centrepoint Shopping Centre; and
- CCTV Cameras for the New South Wales train project and Coles supermarkets;

We are currently reviewing a number of acquisition opportunities in this segment which should see a further increase in revenue and profits in the medium term.

Given the diverse nature and breadth of the businesses in this segment, and to more accurately describe the products and services which we deliver, we intend to rename this division the “**Electronics and Communications**” following today’s meeting.

BUILDING AND INDUSTRIAL PRODUCTS

Our Building & Industrial Products segment has the largest revenue within the Hills Group. Revenue of \$629.7 million for the past year was down by 4.8% while the segment’s operating EBIT decreased by 17.3% to \$26.4 million resulting from:

- lower revenues;
- reduced demand in the commercial building sector; and
- subdued levels of project work.

The Building and Industrial Products division undertook a number of important business development initiatives during the year including:

- Orrcon’s increased distribution network with the purchase of the Steel Barn Business in Queensland, and the
- Hills’ acquisition in April of the balance of shares in Fielders.

We were pleased to report that during the period under review:

- Orrcon supplied large pipe for the major QSN3 project in Queensland; and
- Fielders opened a new factory in New South Wales.

Our ongoing strategy for the businesses in this sector is to

- continue to develop and add new products to the current range, and
- continue to expand our geographical footprint.

HOME HARDWARE AND ECO

Following a complete review and restructure of the Home and Hardware Products business, this sector recorded a very pleasing turn around from the disappointing result in the previous year. Revenue decreased by 8.9% to \$176.3 million but EBIT increased from a loss last year to \$10.2 million.

Our thanks to Ric Gros and his team for the hard work undertaken during the year to produce such an improved result.

In addition to the restructuring of the Home and Hardware Products business the Sector undertook a number of important business development initiatives during the year including:

- release of new products in all of the businesses;
- improvements in supply chain and customer service;
- restructuring of Team Poly; and
- merging of the two healthcare factories in Western Australia.

Despite these initiatives, the sector felt the impact of:

- subdued activity in the water market as a result of widespread rainfall and a reduction in Government subsidies, and
- a decline in the number of Nursing Home projects in the Healthcare sector.

Our strategy for this segment this year and in the medium term will be to

- develop and release new products in all businesses;
- broaden our distribution network; and
- extend our presence in the Solar industry.

Given the diverse nature and breadth of the businesses in this segment and to more accurately describe the products and services which we deliver, we intend to rename it the “**Lifestyle and Sustainability**” segment following today’s meeting.

CORPORATE GOVERNANCE

Ensuring high standards of corporate governance to protect and advance shareholder value continues as a prime focus of the Hills Board. During the past year, the Board undertook a detailed review of the Company’s corporate governance framework and practices to ensure that they continue to meet the interests of our stakeholders.

A description of Hills’ main corporate governance practices are set out on pages 46 to 49 of the Concise Annual Report.

SUSTAINABILITY

Hills recognises its responsibility to consider the different needs of its stakeholders to ensure sustainable outcomes for our business. Your Company’s sustainability efforts are centred around four key areas:

- the importance of our people;
- our commitment to ensuring the health and safety of our workforce;
- the impact on the environment in which we operate; and
- the communities where we work.

Details of our policy are set out on pages 8 and 9 of the Concise Annual Report

The Hills Group now employs over 2,800 staff in full-time, part-time and casual positions across Australia and New Zealand and we remain committed to the safety and wellbeing of our people and it is most pleasing to report that we have further improved our safety record and will continue to invest and strive to have an accident-free workplace. In the past two years, the Hills Group has seen a 63% reduction in its Lost Time Injury Frequency Rate, and a 46% reduction in the Total Recordable Incident Frequency Rate.

REMUNERATION

Hills performance depends on the quality of its people and how it attracts, retains and motivates talented executives to deliver the Group's objectives. At Hills we are fortunate to have a capable and experienced management team ably led by our Managing Director, Graham Twartz. I will now comment on the Board's approach to remuneration and provide further explanation on the actions we have taken in relation to executive remuneration. It is clearly a critical function entrusted by shareholders to the Directors and it is a role your Board takes very seriously.

During the period under review, save in respect of some special circumstances, your Board continued its freeze on:

- the fixed component of all Senior Executive management salaries at levels set in September 2008 (save in respect of some special circumstances where a promotion or significant increase in responsibilities was involved); and
- non-executive director's fees at levels set in September 2008.

This financial year, with the assistance of external advisers, Hills undertook a review of executive remuneration and our remuneration framework to ensure it meets your Company's business needs, shareholder expectations and contemporary market practice. The outcomes of this review are set out in the Remuneration Report on pages 34 to 43 of the Concise Annual Report

Our Remuneration strategy is designed to reward executives for performance against business plans and longer term shareholder returns. The executive pay and reward framework comprises:

- Fixed remuneration and
- Variable remuneration.

Incentive plans and performance measures are aligned with Hills' short and long term success and are driven by targets that focus on external and internal measures of financial and non financial performance.

In August this year, the Board reviewed the Executive Share Scheme and has implemented a new Long Term Incentive Share Plan under which eligible employees or their nominees may be offered:

- Performance Rights; or
- Deferred shares

which vest subject to the satisfaction of performance conditions set by the Board at the time of the grant.

The Board believes that the new Plan will be better understood and more readily valued by the participants. The key terms of the Plan have been detailed in the Explanatory Memorandum accompanying the Notice of today's meeting. However I will highlight some important aspects of the operation of the Plan for the current year:

- The Board proposes to grant a total of 134,062 performance rights to key members of the Senior Executive Team and subject to shareholder approval later in the meeting, 118,926 performance rights to your Managing Director, Mr Twartz. The share price used to calculate the number of Performance Rights is \$2.31237 per share.
- The Incentive Plan has two triggers
 - ~ the first is based on compound growth in Earnings per Share over a three year period; and
 - ~ the second is based on Hills_Total Shareholder Return outperforming the ASX 200 Industrials Accumulation Index over a three year period.
- No payment is required for the grant of the Performance Rights.
- There will not be any re-testing of the performance hurdles after the performance period.

In setting the level of non-executive directors' fees for the current year, the Remuneration Committee obtained market benchmarking data from an external remuneration consultant to ensure that the fees are market based and fairly represent the complexity of the Group and the responsibilities and time spent by the non-executive directors on Company matters.

Later in the meeting we will be seeking approval for an increase in the pool available for the payment of Directors fees in order to provide some head room for future years and to meet the Company's contractual obligation to pay a retirement allowance to Mr Hill who will be retiring in April next year. In November 2000 a retirement benefit scheme for non-executive directors was established. Subsequently in September 2003, the Board determined to discontinue the scheme with the benefit multiple for those directors entitled to participate under the scheme at that time being fixed (to a maximum of two times annual fees). The only directors entitled to payment of a retirement benefit are Mr Hill and myself. The amounts to be paid to Mr Hill and myself have been accrued in the Group accounts over past years.

GROUP STRATEGY

Our strategy is to consistently grow shareholder value over time, investing in a number of diverse businesses that deliver superior service and innovative products in market segments that exhibit attractive growth potential. This approach is built on a commitment to mitigate the impact of short-term changes to individual markets and economies.

The very strong nature of our balance sheet provides us with confidence that we can implement our growth initiatives for the benefit of Hills shareholders.

Our objective over the next 12 months and beyond is to:

- maximise profit and earnings per share
- retain the business improvements implemented over the past 2 years;
- further reduce operating costs;
- effectively manage the capital employed in the Group; and
- improve our development and retention rate of our prime resource – our people.

The proposed change in the Company's name to Hills Holdings Limited reflects the transition of the Hills Group from an industrial company which owns the "Hills Hoist" to an investor in and operator of a variety of businesses.

Whilst our traditional Home and Hardware businesses will continue to use the current Hills logo we will introduce a new Corporate logo which will be used at a Corporate level and by the businesses in our Electronics and Communications segment and the Building and Industrial Products segment.

OUTLOOK

The markets in which we operate continue to experience volatility and uncertainty and whilst the Australian economy continues to outperform other developed nations, we remain cautious about the year ahead. Positive domestic signs including improvements in employment and consumer confidence are tempered by:

- concerns about increases in interest rates,
- a high Australian dollar
- weak economic conditions in Europe and the US;

- the impact of the withdrawal of the Federal government's stimulus package; and
- fears that China's growth may slow.

Our Electronics and Communications Segment and Lifestyle and Sustainability Sector recorded solid results in the first quarter of this year. However our Building and Industrial Segment felt the impact of the subdued construction market, destocking by a number of our customers and increased competition from imports.

Last year was very much a story of two halves, and you will recall that our profit in the first half of last financial year was substantially higher than in the second half. We are anticipating the opposite trend in this financial year and whilst we expect that the net profit for the first half of F2011 will be around 10% higher than the second half of F2010 we anticipate that it will be around 10% below the corresponding period last year and given the extra shares on issue, our earnings per share to be around 15% lower.

We remain cautiously optimistic about the future performance of the Hills Group and continue to forecast a modest improvement for the full year, however, results will largely be driven by the level of activity in commercial building and construction and the rate of increase in project work in the electronics and healthcare sectors.

The implementation of recent restructuring initiatives and with further operational improvements in place, Hills is well positioned to take advantage of any improved economic conditions during the coming year.

In closing I would like to thank my Board colleagues for their commitment and high level of engagement and enthusiasm throughout the year. In particular I would like to make special mention of the contribution made by Geoff Hill who retires as a director in April next year, after 11 years on the Board of Hills. Geoff's active participation as a director has contributed to the growth and strategic development of the Group. On behalf of the Board, I would like to thank him for his service to the Group.

On behalf of the Board and shareholders I express our appreciation to Graham Twartz for his commitment and dedication to the role of Managing Director, his management team and all our staff for their effort and contribution in achieving the improved financial result for the Group in challenging market conditions.

Finally, I take the opportunity of thanking you, the shareholders, for your support over the past year. It is appreciated – and like you - we all look forward to further improvement in the current financial year.

I will now hand over to our Managing Director, Graham Twartz, who will provide you with some more information on the activities and developments within the Group.

Good afternoon.