# HILLS FULL YEAR RESULTS IN LINE WITH FORECAST

The Directors of diversified Australian company Hills Industries Limited (ASX:HIL), today announced the following results for the year ended 30 June 2009.

Key points from today's results announcement include:-

- **Record group revenue of $1.2 billion**
- **Record cash flow from operations of $62.3 million**
- **Full-year profit in line with previous guidance to the market**
- **10 cents per share annual dividend**
- **Modest profit improvement expected in 2009-10 financial year**
- **Minimum $28.5 million underwritten share placement to institutions and Share Purchase Plan to existing shareholders(to raise in total a maximum of around $50 million)**
- **Banking facilities with principal lender extended to November 2011**

| | 12 MONTHS TO 30/6/09 $'000 | 12 MONTHS TO 30/6/08 $'000 | % CHANGE |
|---|---|---|---|
| Total Revenue from Ordinary Activities # | 1,210,802 | 1,184,737 | + 2.2% |
| | | | |
| Profit from Ordinary Activities before interest and Tax # | 59,978 | 86,990 | (31.1)% |
| **Profit after tax from Ordinary Activities attributable to Owners #** | 28,052 | 48,036 | (41.6)% |
| **Earnings per share (cents) * #** | 14.6 | 27.3 | (48.7)% |
| **Dividend Per Share** | 10.0 | 27.5 | (63.6)% |

* Based on the weighted average number of shares on issue during the year.
# Before individually unusual / significant items

Hills Chairman, Ms Jennifer Hill-Ling, said the full year profit from operations was in line with previous guidance given to the market and was delivered in extremely difficult trading conditions across most of the company's businesses.

Revenue from the Group's diverse operations across Australia and New Zealand was a new record, up 2.2% to $1,211 million.

"The slowdown in economic activity in Australia and in particular New Zealand has been well documented. As we stated in our first half results, the margins on Hills record revenue were eroded by unprecedented volatility in steel prices and the effect of the devaluation of the Australian dollar. We have seen some of this reverse in the latter part of the second half of the year." Ms Hill-Ling said

"As previously advised to the market Directors had decided to discontinue the policy of paying 100% of after tax profits to shareholders as dividends. The Board views this as more prudent in these times when there still remains a great deal of uncertainty in financial markets. We are pleased to declare a fully franked dividends of 10 cents per share for the year, including a final dividend of 2 cents per share, which represents about 60% of our after tax profit from operations for the second half".

## CAPITAL RAISING

"Furthermore, today we are announcing that we are conducting a placement of ordinary fully paid shares to institutional and sophisticated investors. The placement will be followed by a Share Purchase Plan (SPP). We anticipate that the maximum amount to be raised through this placement and the SPP will be around $50 million. Shares issued under the placement and SPP will rank pari passu with existing shares.

The capital raising will further strengthen Hills balance sheet and increase our funding flexibility. The proceeds from the capital raising will be used to reduce drawn debt under the company's existing debt facilities. Following this capital raising, the company will have adequate debt facilities to weather the current trading conditions, while at the same time providing flexibility to pursue acquisition opportunities that may arise in the future", Ms Hill-Ling said.

Commonwealth Securities ("CommSec") has underwritten the placement of approximately 20.4 million new Hills shares at $1.40 per share.

The company is pleased to advise that our major shareholder, Poplar Pty Ltd, has indicated that it intends to apply for $1.5 million worth of shares in the placement, subject to certain conditions being met. Because Poplar is a related party of Hills, this component of the placement will be subject to approval at the Annual General Meeting, which is scheduled to be held in October.

The Board believes that the institutional placement will strengthen the Hills share register and add liquidity to the market for Hills shares.

Following completion of the placement, eligible shareholders will be offered the opportunity to subscribe for Hills shares through a non-underwritten Share Purchase Plan. Further details of that Plan will be sent to shareholders in due course. The record date for entitlements to participate in this SPP will be Monday 10 August, 2009.

## DEBT FACILITIES

"Also today we can advise that we have extended the term of our banking facilities with our principal lender to November 2011", Ms Hill-Ling said.

## 2010 GUIDANCE

Ms Hill-Ling said that there continued to be much public comment and debate about the state of global markets. Economic forecasters continue to have a wide range of views about the timing and speed of an economic recovery in Australia and New Zealand.

"As such we expect trading conditions to remain subdued in the first half of the 2009-10 financial year, however we are forecasting improved trading conditions in the second half of the financial year", she said.

"Over the course of 2009, we have undertaken a detailed review of operations, with particular emphasis on the Home and Hardware Products division. As a result of this review, we expect improved operating performance as a result of the restructuring initiatives implemented during the year. These changes, which included the closure of some operations, a reduction in headcount, supply chain improvement initiatives and changes to our product offering, were undertaken to better position the company and the future demand in customer requirements", Ms Hill-Ling said.

Based on the above, Hills expects a modest improvement in operating profit in the financial year ending 30 June 2010.

## BUSINESS UNIT RESULTS

Hills Industries Managing Director, Mr Graham Twartz, said that most businesses within the Hills diverse portfolio had experienced very challenging trading conditions.

"While the results from the Electronic Security & Entertainment and the Building & Industrial Products divisions were below last year, we felt that they were reasonable given the economic settings in general", Mr Twartz said.

"On the other hand, our Home, Hardware & Eco division delivered a very poor result. We have undertaken extensive restructuring initiatives in this division and believe that we have a structure that can deliver improved results next year, particularly when trading conditions return to more normal levels", he said.

Mr Twartz released the following detailed summary of the performance of Hills key operating divisions during the 12 months ended June 30, 2009.

## ELECTRONIC SECURITY & ENTERTAINMENT

| | 12 MONTHS TO 30/6/09 $'000 | 12 MONTHS TO 30/6/08 $'000 | % CHANGE |
|---|---|---|---|
| Total Revenue | 343,278 | 312,322 | + 9.9% |
| | | | |
| Operating profit before interest and tax # | 30,852 | 38,098 | (19.0)% |
| | | | |
| % to Sales # | 9.0% | 12.2% | |

# Before individually significant items

The Hills Electronic Security & Entertainment division achieved a record level of revenue and continues to record the highest EBIT margins of any of the Hills businesses. EBIT margins were reduced due to the cost increases associated with a rapid devaluation of the Australian dollar late in the first half of the financial year.

- Pacific Communications is the leading supplier of CCTV solutions to the Australian and New Zealand markets. During the year we saw a noticeable slowdown in the volume of projects that were awarded. The reduction in the level of capital expenditure undertaken by Australian businesses has been well documented, and the competition for those projects that were awarded was quite intense. We have maintained our share of the diminished market.

  Pacom undertook a number of important business development initiatives during the year. The first was the launch of its own EVO branded product range, which we believe represents the best value for money in the industry. These products are highly featured, cost competitive and designed to our specifications. Secondly, in February 2009 Pacom commenced distribution of the market leading Panasonic range of CCTV products. The addition of Panasonic, along with our other important partners including Pelco, make the product range on offer at Pacific Communications the most compelling in the industry.

- Direct Alarm Supplies is the largest supplier of domestic and commercial electronic security equipment in Australia and New Zealand. This business suffered the effects of sharp cost increases as a result of the devaluation of the Australian dollar. The competitive nature of the industry resulted in DAS being unable to pass on all of these cost increases in full, although margins have improved towards the end of the financial year.

  This year was important in the transition of DAS from a distributor of other people's products to a developer of its own range of products. In January we acquired the rights to the Intellectual Property of our core range of control panels. This will enable us to develop products tailored to our markets. In June, the market launch of our VoiceNav product, containing our own proprietary IP, was an important and long-term improvement in our product portfolio. In general, we now have far greater control over the future development of the products for our markets.

- The Antenna & TV Systems business provides wireless solutions for the reception and transmission of video and data signals. In addition, it owns and distributes the DGTEC range of consumer electronic products. The business also supplies Australia's leading subscription television providers, Foxtel and AUSTAR, with a wide range of equipment for installation in the homes of consumers. This business performed very well during the year and in particular towards the end of the financial year. The Government's decision to progressively turn off the analogue television signal across Australia over the next 4 years has resulted in increased demand for digital antennas and digital set top boxes. In addition, demand for subscription TV remained quite buoyant.

- Access Television Services in Australia and Signalmaster in New Zealand, provide subscription television installation services to AUSTAR and Sky TV respectively. This business made a solid contribution to our results and continues to meet the service expectations of our customers. We did experience some growth in the market during the year as we became the exclusive installation provider for AUSTAR when we acquired the rights to undertake the work in Far North Queensland.

- Hills Sound, Vision and Lighting (SVL) is the leading provider of professional audio, lighting and control solutions to a wide range of customers in Australia and New Zealand, and to a large number of export markets. This market was also affected in the second half by a slowdown in project related expenditure from corporate Australia. Also, export markets into Europe and the UK were very subdued due to economic conditions in those markets. We continue to gain market share with our Crestron Control equipment. Very late in the year we saw the arrival of Crestron Lighting Control and Energy Management solutions, which we believe will further add to Crestron's market penetration. The development of our digital range of products under the Australian Monitor brand continued during the period and we expect to be in a position to launch these very soon.

- We were delighted during the period to acquire a 51% interest in Ultra High Speed Pty Ltd (UHS). UHS is best known for its development of market leading products in the electronics and wireless communications market, particularly in security, telemetry and monitoring. UHS products, when combined with our security division products, provide a compelling solution to a wide range of customer needs. UHS has achieved penetration into European and UK markets already. With the financial support of Hills and the advantages of working with our Security division we see great prospects for this partly owned subsidiary.

- Our 50% owned joint venture, Opticomm, provides infrastructure services to the Fibre to the Node and Fibre to the Home developments generally in new housing developments. During the year we continued to win contracts to provide fibre networks to new home developments. Our open platform offer is very popular with customers and developers. The announcement during the period of the Federal Government's National Broadband Network mandates the provision of a fibre network to all new developments in the future. This is a very positive development for Opticomm. We continue to invest in this rapidly growing market and expect improved returns in future years.

## BUILDING & INDUSTRIAL PRODUCTS

| | 12 MONTHS TO 30/6/09 $'000 | 12 MONTHS TO 30/6/08 $'000 | % CHANGE |
|---|---|---|---|
| Total Revenue | 663,368 | 643,060 | + 3.2% |
| | | | |
| Operating profit before interest and tax# | 31,834 | 35,389 | (10.0)% |
| | | | |
| % to Sales# | 4.8% | 5.5% | |

# Before individually significant items

The Hills Building & Industrial Products division is the largest contributor to revenue and profit in the Group. All businesses in this division experienced a very strong first half but more subdued trading conditions in the second half.

- The difficulties associated with the Australian Steel Industry in recent times has been well publicised. The results for the Orrcon Steel business, after a very strong first half, were quite subdued.

Steel prices, which had risen strongly in the first part of the financial year, declined steadily as world stockpiles increased and demand decreased. In the second half the industry reacted to the falling level of demands by reducing inventory holdings at all levels. This saw a reduction in volume of products sold across the industry.

In addition, volumes through our Unanderra Large Pipe & Tube Mill were somewhat reduced as there was less project work available.

We have seen further reductions in steel prices from July, which will make Australian tube more competitive against low priced imports. With the inventory reduction programme across the industry now largely complete, over the full course of 2010 we expect Orrcon results will improve.

- The Fielders roll forming business performed strongly in the period. Fielders is a market leader in new and innovative products in a market that is not generally known for innovation. Our Centenary Carport & Verandah business continues to expand and the Angle Cut roofing system also continues to grow market share.

  The relocation to our new state of the art manufacturing facility in Perth was completed during the second half. It was a tremendous achievement by all to perform this move without any disruption to our customers.

  Commercial building activity was quite subdued in the second half and continues to be so. Fielders continues to grow market share and we forecast improvements in our Eastern States operations in the new year.

- The Korvest business, which comprises the market leading EzyStrut cable and pipe support business, Korvest Galvanisers and Indax, an industrial access operation achieved increased sales and profits during the period. Further information about the Korvest result can be obtained from Korvest's recently announced full year profit release.

## HOME, HARDWARE & ECO PRODUCTS

| | 12 MONTHS TO 30/6/09 $'000 | 12 MONTHS TO 30/6/08 $'000 | % CHANGE |
|---|---|---|---|
| Total Revenue | 203,313 | 227,558 | (10.6)% |
| | | | |
| Operating profit before interest and tax # | (3,106) | 13,806 | (122.5)% |
| | | | |
| % to Sales # | (1.5)% | 6.1% | |

# Before individually significant items

The Hills Home Hardware and Eco division is the smallest of the three Hills divisions. The results delivered were most disappointing and well below our expectations.

- Hills Healthcare is a leading manufacturer of rehabilitation, mobility and hospital equipment. In the face of increasing competition from imports, sales and profits in this business held up quite well, however, the previously mentioned steel price increase and Australian dollar devaluation caused some margin compression during the period. We were pleased with sales growth in our nursing bed offer as well as our Air Comfort Seating System range of products.

- The results for our traditional Home Hardware Products business, consisting of Hills Branded Products and the Bailey range of ladders, were very poor during the period.

  As a result of this poor performance a complete review and restructure of this business unit was undertaken. A number of product categories were discontinued where it was felt that these products could not meet our return on investment benchmarks. The closure of the Alquip business was a consequence of this process. The Home and Hardware business unit

now has a reduced and focused product range, improved supply chain and logistics, improved customer service and improved quality and product benchmarks.
We believe that these changes when fully implemented will deliver improved results for this business unit for Hills shareholders.

- Team Poly is Australia's leading manufacturer of water tanks. After a period of very strong activity, changes to Government subsidies and rainfall in Queensland and New South Wales saw a dramatic reduction in industry volumes. Industry profitability was generally affected and several players in the market experienced financial difficulties and insolvency.

  In response to these market changes, Team Poly undertook a restructuring of its cost base and method of operations. As a result of this we closed our Toowoomba branch and focused on the more profitable rural market in areas surrounding our three plants, in Bathurst, Ballarat and Adelaide. Team Poly has now returned to profitability despite the industry remaining characterized by subdued demand and over capacity.

- The LW Gemmell business performed in line with our expectations during the year. LW Gemmell is a specialist distributor of imported plumbing products. Although commercial building activity was lower towards the end of the year, LW Gemmell has a firm niche in the market place.

  After many years of poor performance we reached the view that we could not achieve our benchmark returns in the traditional Woodroffe business. Late in the year the business closure was announced and will be completed by the end of September.

## UNUSUAL / SIGNIFICANT ITEMS

In the period under review the Group booked a number of non-trading losses as a result of the restructuring initiatives referred to above as well as the "mark to market" adjustment. The bulk of these unusual/significant items were non-cash, the largest two being the write off of the Alquip goodwill and the mark to market adjustment.

The Group holds certain interest rate swaps and foreign currency forward exchange contracts to protect against volatility in interest rates and exchange rates. While the Group does not trade in these instruments and does not speculate on movements in rates, accounting standards require that at the balance date these instruments be measured at fair/market value. The Directors have determined to change accounting policies and to prospectively adopt hedge accounting, which will remove the need to book to the profit and loss account these unusual items in future.

Full details about the other unusual/significant items including restructuring charges are set out in the attached Appendix 4E.

## FUNDING

Gearing, measured as debt to equity, of 36% at 30 June 2009 is under our internally generated target level of 45%. Cash flows in the second half were extremely strong as we implemented a number of working capital reduction initiatives in the second half of the financial year. Following the capital raising announced today gearing will be a maximum of 30%.

The earliest date for Hills bank facilities renegotiation is November 2010, however following a recent negotiation with Hills major lender, the majority ($140 million) is not due for renegotiation until November 2011.

The company continues to meet all of its banking covenants.

## DIVIDEND POLICY

The Directors have announced a fully franked final dividend of 2 cents per share. The dividend can be taken as cash, reinvested in Hills shares at a 5% discount or reinvested as bonus shares at a 5% discount or any combination of the above. Record date for the dividend will be 9 November 2009. The dividend will be paid on 23 November 2009.

Shares issued under the placement and Share Purchase Plan will qualify for this dividend.

**JENNIFER HILL-LING**
**CHAIRMAN**

**GRAHAM TWARTZ**
**MANAGING DIRECTOR**

5 August 2009

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# Hills Industries Limited

ABN 35 007 573 417

# Appendix 4E
# ASX Preliminary final report
# for the year ended 30 June 2009

# Appendix 4E

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

## Preliminary Final Report
## Financial Year Ended 30 June 2009

**Results for announcement to the market:** $A'000

| | | | | |
|---|---|---|---|---|
| **Revenues from ordinary activities** | **Up** | **2.2%** | to | **1,210,802** |
| **Profit from ordinary activities after tax attributable to members** | **Down** | **79.7%** | to | **9,506** |
| **Profit from ordinary activities after tax attributable to members before unusual items** | **Down** | **41.6%** | to | **28,052** |
| **Earnings per share before unusual items** | **Down** | **46.5%** | to | **14.6¢** |
| **Earnings per share after unusual items** | **Down** | **81.5%** | to | **4.9¢** |

| Dividends | Amount per security | Franked amount per security |
|---|---|---|
| **Final dividend (#)** | | |
| **- current reporting period** | **2.0¢** | **2.0¢** |
| **- previous corresponding period** | 14.0¢ | 14.0¢ |
| **Interim dividend** | | |
| **- current reporting period** | 8.0¢ | 8.0¢ |
| **- previous corresponding period** | 13.5¢ | 13.5¢ |

**# 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** | **9 November 2009** |

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 Securities Exchange under listing rule 4.3A.**

| | Notes | Consolidated 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **Revenue from continuing operations** | 4 | **1,210,802** | 1,184,737 |
| Other income | 5 | **2,950** | 10,384 |
| | | **1,213,752** | 1,195,121 |
| Expenses, excluding finance costs | 6 | **(1,167,822)** | (1,112,247) |
| **Results from operating activities** | | **45,930** | 82,874 |
| Finance income | 6 | **763** | 781 |
| Finance expense | 6 | **(23,434)** | (15,155) |
| Net finance expense | 6 | **(22,671)** | (14,374) |
| **Profit before income tax** | | **23,259** | 68,500 |
| Income tax expense | | **(7,604)** | (16,140) |
| **Profit for the year** | | **15,655** | 52,360 |
| Profit is attributable to: | | | |
| Equity holders of Hills Industries Limited | | **9,506** | 46,807 |
| Minority interest | | **6,149** | 5,553 |
| Profit for the year | | **15,655** | 52,360 |
| | | **Cents** | Cents |
| **Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:** | | | |
| Basic earnings per share | 11 | **4.9** | 26.6 |
| Diluted earnings per share | 11 | **4.9** | 26.4 |
| | | **Cents** | Cents |
| **Dividends per share:** | | | |
| Dividends paid on ordinary shares during the year ended 30 June | 10 | **22.0** | 27.5 |
| Final and interim dividend for the year ended 30 June | 10 | **10.0** | 27.5 |

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

| | Notes | Consolidated 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | **67,978** | 21,549 |
| Trade and other receivables | | **197,480** | 244,761 |
| Inventories | | **196,569** | 180,341 |
| Total current assets | | **462,027** | 446,651 |
| **Non-current assets** | | | |
| Receivables | | **-** | 17,285 |
| Derivative financial instruments | | **333** | - |
| Other financial assets | | **2** | 2 |
| Property, plant and equipment | | **227,494** | 226,425 |
| Deferred tax assets | | **25,927** | 16,403 |
| Intangible assets | | **114,326** | 114,162 |
| Total non-current assets | | **368,082** | 374,277 |
| **Total assets** | | **830,109** | 820,928 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **120,902** | 139,922 |
| Borrowings | | **3,852** | 6,191 |
| Derivative financial instruments | | **5,924** | - |
| Current tax liabilities | | **8,186** | 4,317 |
| Provisions | | **33,835** | 32,260 |
| Total current liabilities | | **172,699** | 182,690 |
| **Non-current liabilities** | | | |
| Borrowings | | **218,498** | 203,497 |
| Provisions | | **5,975** | 5,224 |
| Derivative financial instruments | | **4,318** | - |
| Total non-current liabilities | | **228,791** | 208,721 |
| **Total liabilities** | | **401,490** | 391,411 |
| **Net assets** | | **428,619** | 429,517 |
| **EQUITY** | | | |
| Contributed equity | 8 | **248,598** | 223,091 |
| Reserves | | **46,594** | 51,369 |
| Retained profits | 9(a) | **107,442** | 133,759 |
| **Capital and reserves attributable to equity holders of Hills Industries Limited** | | **402,634** | 408,219 |
| Minority interest | | **25,985** | 21,298 |
| **Total equity** | | **428,619** | 429,517 |

*The above preliminary consolidated balance sheet should be read in conjunction with the accompanying notes.*

| | Notes | Consolidated 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| Revaluation of land and buildings, net of tax | | **(5,243)** | 28,595 |
| Exchange differences on translation of foreign operations | | **111** | (2,340) |
| **Net income recognised directly in equity** | | **(5,132)** | 26,255 |
| Profit for the year | | **15,655** | 52,360 |
| **Total recognised income and expense for the year** | | **10,523** | 78,615 |
| **Total recognised income and expense for the year is attributable to:** | | | |
| Equity holders of Hills Industries Limited | | **4,374** | 71,968 |
| Minority interest | | **6,149** | 6,647 |
| | | **10,523** | 78,615 |

*The above preliminary consolidated statement of recognised income and expense should be read in conjunction with the accompanying notes.*

**Hills Industries Limited**
**Preliminary consolidated statement of cash flows**
**For the year ended 30 June 2009**

| | Notes | Consolidated 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | **1,374,725** | 1,236,662 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(1,288,577)** | (1,205,856) |
| Cash generated from operations | | **86,148** | 30,806 |
| Interest received | | **763** | 781 |
| Interest paid | | **(13,318)** | (15,143) |
| Dividends received | | **-** | 1 |
| Income taxes paid | | **(11,260)** | (22,459) |
| **Net cash inflow (outflow) from operating activities** | | **62,333** | (6,014) |
| **Cash flows from investing activities** | | | |
| Payment for purchase of business operations, net of cash acquired | 13 | **(619)** | (7,097) |
| Payment for acquisition of subsidiaries, net of cash acquired | 13 | **(3,980)** | (356) |
| Payments for property, plant and equipment | | **(32,047)** | (35,366) |
| Repayments / (payments) of loans to other entities | | **272** | (285) |
| Proceeds from sale of property, plant and equipment | | **903** | 840 |
| Proceeds from disposal of asset held for sale | | **20,850** | 3,500 |
| Rent received | | **842** | 836 |
| **Net cash (outflow) inflow from investing activities** | | **(13,779)** | (37,928) |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of shares | 8 | **25,238** | 44,860 |
| Proceeds from borrowings | | **10,707** | 40,101 |
| Repayment of borrowings | | **(865)** | (3,827) |
| Dividends paid to company's shareholders | 10 | **(35,863)** | (40,611) |
| Dividends paid to minority interests in subsidiaries | | **(1,431)** | (2,387) |
| **Net cash inflow (outflow) from financing activities** | | **(2,214)** | 38,136 |
| **Net increase (decrease) in cash and cash equivalents** | | **46,340** | (5,806) |
| Cash and cash equivalents at the beginning of the financial year | | **21,310** | 26,923 |
| Effects of exchange rate changes on cash and cash equivalents | | **-** | 193 |
| **Cash and cash equivalents at the end of the financial year** | 7 | **67,650** | 21,310 |

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

## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated preliminary financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2008. The consolidated preliminary financial report includes preliminary financial statements for the consolidated entity consisting of Hills Industries Limited (the “Company”) and its subsidiaries (together referred to as the "Group" or "Consolidated Entity" and individually as "Group Entities").

### (a) Basis of Preparation

**(i) Statement of compliance**

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

The preliminary financial report should be read in conjunction with the 2008 annual report, the 31 December 2008 half year report and any announcement by Hills Industries Limited or its controlled entities in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The Board of Directors approved the preliminary financial report on 5 August 2009.

**(ii) Basis of measurement**

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

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

**(iii) Functional and presentation currency**

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

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

**(iv) Use of estimates and judgements**

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

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

**(v) Early adoption of standards**

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

## 2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for risk minimisation purposes, ie not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

Risk management is carried out by a central treasury department (Treasury) under policies approved by the Board of Directors. Treasury identifies, evaluates and minimises financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Consolidated Entity's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2008.

## 3 Segment information

### (a) Description of segments

**Business segments**
The Group comprises the following main business segments:

Electronic Security and Entertainment:

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

Home, Hardware and Eco:

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, solar hot water products, stainless steel products and plumbing products.

Building and Industrial:

Structural, precision and large steel tubing, galvanising, cable tray and pipe systems, steel doorframes, roll-formed metal building products, carports and shed systems.

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

The Group'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.

## 3 Segment information (continued)

### (b) Primary reporting format - business segments

| **2009** | Electronics, Security and Entertainment $'000 | Home, Hardware and Eco $'000 | Building and Industrial $'000 | Eliminations $'000 | Consolidated $'000 |
|---|---|---|---|---|---|
| **Segment revenue** | | | | | |
| Sales to external customers | 343,279 | 203,313 | 663,368 | - | 1,209,960 |
| Intersegment sales | - | - | 3,475 | (3,475) | - |
| Total sales revenue | 343,279 | 203,313 | 666,843 | (3,475) | 1,209,960 |
| Unallocated revenue | | | | | 842 |
| **Total segment revenue** | **343,279** | **203,313** | **666,843** | **(3,475)** | **1,210,802** |
| **Consolidated revenue** | | | | | **1,210,802** |
| **Segment result** | | | | | |
| **Segment result** | **30,572** | **(15,960)** | **30,920** | **-** | **45,532** |
| Net finance expense | | | | | (22,671) |
| Unallocated/corporate revenue less unallocated/corporate expenses | | | | | 398 |
| Profit before income tax | | | | | 23,259 |
| Income tax expense | | | | | (7,604) |
| **Profit for the year** | | | | | **15,655** |
| **Segment assets and liabilities** | | | | | |
| **Segment assets** | **145,299** | **152,544** | **404,495** | **-** | **702,338** |
| Intersegment elimination | | | | | - |
| Unallocated / corporate assets | | | | | 127,771 |
| **Total assets** | | | | | **830,109** |
| **Segment liabilities** | **31,885** | **30,680** | **80,449** | **-** | **143,014** |
| Unallocated / corporate liabilities | | | | | 258,476 |
| **Total liabilities** | | | | | **401,490** |
| **Other segment information** | | | | | |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 3,678 | 4,400 | 22,545 | - | 30,623 |
| Unallocated / corporate | | | | | 1,424 |
| Total acquisitions | | | | | 32,047 |
| Depreciation and amortisation expense | 2,700 | 7,018 | 12,308 | - | 22,026 |
| Unallocated / corporate | | | | | 1,080 |
| Total depreciation and amortisation | | | | | 23,106 |
| Impairment of goodwill | - | 5,380 | - | - | 5,380 |

## 3 Segment information (continued)

| **2009** | Electronics, Security and Entertainment $'000 | Home, Hardware and Eco $'000 | Building and Industrial $'000 | Corporate / Unallocated $'000 | Consolidated $'000 |
|---|---|---|---|---|---|
| **Segment result including analysis of unusual / significant items** | | | | | |
| **EBITDA** (pre unusual / significant items) | **33,552** | **3,912** | **44,142** | **1,478** | **83,084** |
| Depreciation & amortisation | (2,700) | (7,018) | (12,308) | (1,080) | 23,106 |
| **EBIT** (pre unusual / significant items) | **30,852** | **(3,106)** | **31,834** | **398** | **59,978** |
| Unusual / significant items – restructuring costs | (280) | (12,854) | (914) | - | (14,048) |
| **EBIT** | **30,572** | **(15,960)** | **30,920** | **398** | **45,930** |
| **Net finance expense** (pre unusual / significant items) | | | | **(12,531)** | **(12,531)** |
| Unusual / significant items – financial expenses | | | | (10,140) | (10,140) |
| **Net finance expense** | | | | **(22,671)** | **(22,671)** |
| Profit before income tax | | | | | 23,259 |
| Income tax expense | | | | | (7,604) |
| **Profit for the year** | | | | | **15,655** |

## 3 Segment information (continued)

| **2008** | Electronics, Security and Entertainment $'000 | Home, Hardware and Eco $'000 | Building and Industrial $'000 | Eliminations $'000 | Consolidated $'000 |
|---|---|---|---|---|---|
| **Segment revenue** | | | | | |
| Sales to external customers | 312,322 | 227,558 | 643,060 | - | 1,182,940 |
| Intersegment sales | - | - | 5,353 | (5,353) | - |
| Total sales revenue | 312,322 | 227,558 | 648,413 | (5,353) | 1,182,940 |
| Unallocated revenue | | | | | 1,797 |
| **Total segment revenue** | **312,322** | **227,558** | **648,413** | **(5,353)** | **1,184,737** |
| **Consolidated revenue** | | | | | **1,184,737** |
| **Segment result** | | | | | |
| **Segment result** | **38,098** | **13,806** | **23,891** | **-** | **75,795** |
| Net finance expense | | | | | (14,374) |
| Unallocated/corporate revenue less unallocated/corporate expenses | | | | | 7,079 |
| Profit before income tax | | | | | 68,500 |
| Income tax expense | | | | | (16,140) |
| **Profit for the year** | | | | | **52,360** |
| **Segment assets and liabilities** | | | | | |
| **Segment assets** | **127,940** | **157,189** | **401,814** | **-** | **686,943** |
| Unallocated/corporate assets | | | | | 133,984 |
| **Total assets** | | | | | **820,927** |
| **Segment liabilities** | **32,239** | **24,235** | **96,287** | **-** | **152,761** |
| Unallocated/corporate liabilities | | | | | 238,649 |
| **Total liabilities** | | | | | **391,410** |
| **Other segment information** | | | | | |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 3,908 | 7,965 | 19,148 | - | 31,021 |
| Unallocated/corporate | | | | | 4,170 |
| Total acquisitions | | | | | 35,191 |
| Depreciation and amortisation expense | 2,897 | 6,574 | 10,952 | - | 20,423 |
| Unallocated/corporate | | | | | 1,361 |
| Total depreciation and amortisation | | | | | 21,784 |

## 3 Segment information (continued)

### (c) Secondary reporting format - geographical segments

| | Segment revenues from sales to external customers | | Segment assets | | Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Australia | **1,168,373** | 1,127,552 | **695,776** | 665,359 | **30,367** | 30,828 |
| Overseas | **41,587** | 55,388 | **6,562** | 21,584 | **256** | 193 |
| Unallocated/corporate | **842** | 1,797 | **127,771** | 133,985 | **1,424** | 4,170 |
| | **1,210,802** | 1,184,737 | **830,109** | 820,928 | **32,047** | 35,191 |

## 4 Revenue

| | Consolidated | |
|---|---|---|
| | **2009** | 2008 |
| | **$'000** | $'000 |
| **From continuing operations** | | |
| **Sales revenue** | | |
| Sale of goods | **1,140,920** | 1,130,531 |
| **Other revenue** | | |
| Services | **69,040** | 53,369 |
| Rents and sub-lease rentals | **842** | 836 |
| Dividends | **-** | 1 |
| | **69,882** | 54,206 |
| | **1,210,802** | 1,184,737 |

## 5 Other income

| | Consolidated | |
|---|---|---|
| | **2009** | 2008 |
| | **$'000** | $'000 |
| Net gain on disposal of property, plant and equipment | **32** | 113 |
| Foreign exchange gains (net) | **34** | 571 |
| Other Income | **2,884** | 2,949 |
| Net gain on disposal of asset held for sale | **-** | 6,751 |
| | **2,950** | 10,384 |

## 6 Expenses

| | Consolidated 2009 $'000 | Consolidated 2008 $'000 |
|---|---|---|
| **Classification of expenses by function** | | |
| Cost of goods sold | **793,579** | 765,893 |
| Cost of services provided | **58,381** | 44,259 |
| Distribution expenses | **81,472** | 82,338 |
| Sales and marketing expenses | **145,293** | 138,186 |
| Occupancy expenses | **23,996** | 20,727 |
| Administration expenses | **50,024** | 49,063 |
| Other expenses | **14,992** | 11,717 |
| Net loss on disposal of property plant & equipment | **85** | 64 |
| | **1,167,822** | 1,112,247 |

During the period the Company reviewed the classification of certain prior year expenses and has reclassified the impairment of Orrcon inventory from cost of goods sold to other expenses.

**Net gains and expenses**

**Profit before income tax includes the following specific expenses:**

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| *Finance expenses* | | |
| Interest and finance charges paid/payable | **13,298** | 15,155 |
| Fair value loss on interest rate swaps and forward exchange contracts | **10,140** | - |
| Hedge ineffectiveness on cash flow hedges | **(4)** | - |
| | **23,434** | 15,155 |
| *Finance income* | | |
| Interest income | **(763)** | (781) |
| Net finance costs expensed | **22,671** | 14,374 |

**Profit for the year includes the following items that are unusual because of their nature, size or incidence:**

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| *Financial Expenses* | | |
| (a) Net fair value loss on interest rate swaps and forward exchange contracts | **(10,140)** | - |
| Less: Applicable income tax expense / benefit | **3,042** | - |
| | **(7,098)** | - |
| *Losses & Gains* | | |
| (b) Restructuring costs (disclosed within other expenses) | **(14,048)** | - |
| Less: Applicable income tax expense / benefit | **2,600** | - |
| (c) Gain on sale of asset held for sale (disclosed within other income) | **-** | 6,750 |
| Less: Applicable income tax expense / benefit | **-** | 174 |
| (d) Impairment of inventory - Orrcon (disclosed within other expenses) | **-** | (11,649) |
| Less: Applicable income tax benefit | **-** | 3,495 |
| | **(11,448)** | (1,230) |

*(a) Net fair value loss on interest rate swaps and forward exchange contracts*

The Group manages its financial risk relating to interest rates and currency through the use of fixed interest rate swaps and forward exchange contracts respectively. In previous financial years the net fair value gains relating to these contracts have not been brought to account on the basis of materiality. The Group does not trade in these instruments and does not speculate on movements in rates. In the current financial year the significant movements in the Australian dollar resulted in a non cash fair value loss on forward exchange contracts of $5,822,000 and the significant reduction in interest rates over the financial year resulted in a non cash fair value loss on interest rate swaps of $4,318,000.

## 6 Expenses (continued)

*(b) Restructuring costs*

Over the course of 2009, a detailed review of operations with particular emphasis on the Home and Hardware products division was undertaken. A number of restructuring initiatives were implemented during the year, including a reduction in headcount in all businesses, the closure of the Alquip business and satellite manufacturing operations of Team Poly in Toowoomba. Furthermore, a number of non performing product lines were rationalised and discontinued. The total after tax cost of these restructuring initiatives was $11.448 million, of which the cash cost was $2.564 million. Included in the non cash costs was the impairment of the goodwill associated with the Alquip business amounting to $5.38 million.

*(c) Gain on sale of Asset held for sale*

During the previous financial year a contract was entered into for the sale of the land and building at the Hills manufacturing site in Edwardstown South Australia. The impact of the sale of this property was a decrease in assets held for sale of $15,946,000 and an increase in profit after tax of $6,924,000. Tax payable on this gain was calculated after absorbing certain capital tax losses.

*(d) Impairment of Inventory - Orrcon*

As part of a review in the previous financial year of the large pipe and tube business of Orrcon it was determined that certain inventory on hand was impaired. A contract to supply water pipe to a major customer in Queensland was cancelled due to the quality of the pipe received from our overseas supplier. Directors consider it prudent to write down the value of the pipe to expected recoverable value. In addition, all other costs that are related to this contract have been expensed. All of these costs are included in the impairment charge. Since the impairment was recognised, a quantity of the pipe has been sold and the remaining pipe on hand as at 30 June 2009 has been valued at estimated realisable value.

## 7 Current assets - Cash and cash equivalents

| | **Consolidated** | |
|---|---|---|
| | **2009 $'000** | 2008 $'000 |
| Cash at bank and in hand | **63,931** | 19,397 |
| Deposits at call | **4,047** | 2,152 |
| | **67,978** | 21,549 |

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

The above figures are reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows as follows:

| | **Consolidated** | |
|---|---|---|
| | **2009 $'000** | 2008 $'000 |
| Balances as above | **67,978** | 21,549 |
| Bank overdrafts | **(328)** | (239) |
| Balances per statement of cash flows | **67,650** | 21,310 |

## 8 Contributed equity

| | Company 2009 Shares '000 | Company 2008 Shares '000 | Company 2009 $'000 | Company 2008 $'000 |
|---|---|---|---|---|
| **(a) Share capital** | | | | |
| Ordinary shares | | | | |
| Fully paid | **204,601** | 185,789 | **248,598** | 223,091 |
| **Total contributed equity - parent entity** | | | **248,598** | 223,091 |

### (b) Movements in ordinary share capital:

| Date | Details | Number of shares '000 | $'000 |
|---|---|---|---|
| 1 July 2007 | Opening balance | 172,827 | 178,031 |
| | Issued under the Dividend Investment Plan | 2,447 | 11,336 |
| | Issued under the Share Investment Plan | 1,548 | - |
| | Issued under the Employee Share Bonus Plan | 192 | 200 |
| | Issued under the Executive Share Plan | 67 | 74 |
| | Issued under the Share Placement Plan | 8,708 | 33,515 |
| | Less: Transaction costs arising on share issue | - | (65) |
| 30 June 2008 | Balance | 185,789 | 223,091 |
| 1 July 2008 | Opening balance | 185,789 | 223,091 |
| | Issued under the Dividend Investment Plan | 4,648 | 9,342 |
| | Issued under the Share Investment Plan | 3,006 | - |
| | Issued under the Employee Share Bonus Plan | 554 | 270 |
| | Issued under the Executive Share Plan | 320 | 1,021 |
| | Issued under the Share Placement Plan | 10,284 | 14,912 |
| | Less: Transaction costs arising on share issue | - | (38) |
| 30 June 2009 | Balance | 204,601 | 248,598 |

### (c) Ordinary shares

During the year the Company invited shareholders to participate in a Share Purchase Plan. Each shareholder was entitled to purchase up to $5,000 worth of shares. The price of the shares was at a 10% discount to the volume weighted average price of the Company's ordinary shares for the 10 days up to the date prior to the closing date of 25 February 2009. The share issue price was $1.45 per share.

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

### (d) Dividend investment plan and share investment plan

The Company issued ordinary shares under a Dividend Investment Plan and a Share Investment Plan during the year. Under the Dividend Investment Plan, participating shareholders elected 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 elected to forgo dividends in whole or in part and to substitute for shares issued out of the capital account. The issue price was at a 10% discount on the market price.

Shares under the Dividend Investment Plan are recognised in equity at the value of the dividends applied to purchase those shares. The value of shares issued slightly exceeds the value of the dividends applied due to the rounding up of shares issued to the nearest whole share. Shares issued under the Share Investment Plan are recognised in equity at nil value as the dividends are forgone and substituted for shares issued for no consideration.

## 8 Contributed equity (continued)

### (e) Employee share scheme

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

## 9 Reserves and retained profits

### (a) Retained profits

Movements in retained profits were as follows:

| | Consolidated | |
|---|---|---|
| | **2009** | 2008 |
| | **$'000** | $'000 |
| Opening retained earnings | **133,759** | 127,618 |
| Net profit for the year | **9,506** | 46,807 |
| Dividends | **(35,863)** | (40,611) |
| Reserves transferred to / (from) retained earnings | **40** | (55) |
| Balance 30 June | **107,442** | 133,759 |

## 10 Dividends

| | Company | |
|---|---|---|
| | **2009** | 2008 |
| | **$'000** | $'000 |
| **(a) Ordinary shares** | | |
| Final dividend for the year ended 30 June 2008 of 14.0 cents (2007: 14.0 cents) per fully paid share paid on 29 September 2008 (2007: 24 September 2007) | | |
| Fully franked based on tax paid @ 30% | **26,149** | 24,201 |
| Final dividend foregone for Share Investment Plan | **(3,993)** | (3,779) |
| | **22,156** | 20,422 |
| Interim dividend for the year ended 30 June 2009 of 8.0 cents (2008: 13.5 cents) per fully paid share paid 7 April 2009 (2008: 31 March 2008) | | |
| Fully franked based on tax paid @ 30% | **15,986** | 23,579 |
| Final dividend foregone for Share Investment Plan | **(2,279)** | (3,390) |
| | **13,708** | 20,189 |
| Total dividends provided for or paid | **35,863** | 40,611 |

## 10 Dividends (continued)

### (b) Dividends and share reinvestment plan

The Dividend Investment Plan and Share Investment Plan will operate in respect of the proposed final dividend (refer (c) below). 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: 9 November 2009

| | Company | |
|---|---|---|
| | **2009** | 2008 |
| | **$'000** | $'000 |
| **(c) Dividends not recognised at year end** | | |
| In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 2.0 cents per fully paid ordinary share (2008: 14.0 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 23 November 2009 out of retained profits at 30 June 2009, but not recognised as a liability at year end, is | **4,092** | 26,154 |

## 11 Earnings per share

| | Consolidated | |
|---|---|---|
| | **2009** | 2008 |
| | **Cents** | Cents |
| **(a) Basic earnings per share** | | |
| Profit from continuing operations attributable to the ordinary equity holders of the Company | **4.9** | 26.6 |
| Profit from continuing operations before unusual items attributable to the ordinary equity holders of the Company | **14.6** | 27.3 |
| **(b) Diluted earnings per share** | | |
| Profit from continuing operations attributable to the ordinary equity holders of the Company | **4.9** | 26.4 |

## 11 Earnings per share (continued)

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

| | Consolidated | |
|---|---|---|
| | **2009** **$'000** | 2008 $'000 |
| *Basic earnings per share* | | |
| Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share - from continuing operations | **9,506** | 46,807 |
| *Diluted earnings per share* | | |
| Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share | **9,506** | 46,807 |
| *Basic earnings per share before unusual items* | | |
| Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per share | **9,506** | 46,807 |
| Adjusted for unusual items | **-** | - |
| Fair value loss on derivatives | **7,098** | - |
| Restructuring costs | **11,448** | - |
| Gain on sale of asset held for sale | **-** | (6,924) |
| Impairment of inventory - Orrcon | **-** | 8,154 |
| Profit attributable to the ordinary equity holders of the Company before unusual items used in calculating basic earnings per share | **28,052** | 48,037 |

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

| | Consolidated | |
|---|---|---|
| | **2009** **Number** | 2008 Number |
| **In thousands of shares** | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **192,623** | 175,976 |
| Adjustments for calculation of diluted earnings per share: Effect of share options on issue | **703** | 1,090 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | **193,326** | 177,066 |

## 12 Ratios

| | Consolidated 2009 | 2008 |
|---|---|---|
| **Profit before tax / revenue %**<br>Calculated as profit from ordinary activities before related income tax expense as a percentage of total revenues | **1.9** | 5.8 |
| **Profit before tax and unusual items / revenue %**<br>Calculated as profit from ordinary activities before related income tax expense and unusual items as a percentage of total revenues | **3.9** | 6.2 |
| **Profit after tax / equity interests %**<br>Calculated as net profit attributable to members of the Company as a percentage of equity attributable to members | **2.4** | 11.5 |
| **Net tangible assets per ordinary share $**<br>Calculated as net assets less intangible assets less outside equity interests in those assets over the total number of shares on issue | **1.40** | 1.58 |
| **Gearing %**<br>Calculated as net debt divided by shareholders equity | **36.0** | 43.8 |

## 13 Business combination

### Acquisition of subsidiaries

### (a) Summary of acquisition

On 1 April 2009 the Company acquired 51% of the issued share capital of the UHS Systems Pty Ltd and its controlled entity (“UHS Group”).

The acquired business contributed revenues of $3,857,000 and net profit after tax of $280,000 for the period from 1 April 2009 to 30 June 2009. Had the business been acquired at the beginning of the reporting period it would have contributed revenues of $10,500,000 and net profit of $1,500,000.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

| | $'000 |
|---|---|
| Purchase consideration | |
| Cash paid | **5,100** |
| Fair value of shares issued | **-** |
| Direct costs relating to the acquisition | **107** |
| Total purchase consideration | **5,207** |
| Fair value of net identifiable assets / (liabilities) acquired (refer to (c) below) | **(86)** |
| Goodwill (refer to (c) below) and | **5,293** |

The goodwill recognised on the acquisition is attributable mainly to the skills, technical talent and product portfolio of the acquired business and its workforce and to the synergies expected to be achieved from integrating the UHS Group into the Hills Group’s existing Electronics, Security and Entertainment business.

## 13 Business combination (continued)

### (b) Cash flow information

| | $'000 |
|---|---|
| Outflow of cash to acquire business, net of cash acquired | |
| Cash consideration | 5,100 |
| Less: Balances acquired | |
| Cash | 1,120 |
| Outflow of cash | 3,980 |

### (c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

| | $'000 |
|---|---|
| Cash and cash equivalents | 1,120 |
| Receivables | 3,016 |
| Inventories | 1,111 |
| Property, plant and equipment | 73 |
| Net deferred tax asset | 28 |
| Payables | (1,789) |
| Borrowings | (2,863) |
| Employee benefit liabilities, including superannuation | (221) |
| Current tax liability | (211) |
| Provisions | (550) |
| R&D capitalised | 200 |
| Net assets | (86) |
| Add: Goodwill | 5,293 |
| Net identifiable assets acquired | 5,207 |

**Acquisition of subsidiaries in the prior reporting period.**

On 5 October 2007 the Company acquired 50% of the shares in Opticomm Co Pty Ltd (Opticomm), for consideration of $756,000. The Company controls Opticomm by virtue of conditions contained in the shareholders agreement.

Opticomm operates in the provision of fibre infrastructure to deliver high-speed voice, data and video to homes and multi-residential developments. The acquired business contributed revenues of $1,851,000 and net loss of $80,000 for the period from 5 October 2007 to 30 June 2008. As Opticomm was not actively trading prior to acquisition, had the acquisition occurred on 1 July 2007, the profit for the year ended 30 June 2008 would have been the same.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

The purchase consideration was $756,000 with cash consideration of $350,000, contingent consideration of $400,000 and acquisition costs of $6,000.

Opticomm was not trading and as such there were no assets acquired as part of the acquisition. Accordingly, the entire acquisition price was attributable to goodwill.

**Acquisition of business operations**

### (a) Summary of acquisition

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

During the current reporting period an amount of $619,000 was paid under a deferred payment arrangement for inventory in relation to the acquisition of the business of Impressive Steel. This business was acquired on 1 May 2007.

## 13 Business combination (continued)

**Acquisition of business operations in the prior reporting period.**

On 1 March 2008 the Group acquired the business operations of L. W. Gemmell & Associates (Aust) Pty Ltd (Gemmell) for $5,938,000 in cash. Gemmell manufactures and distributes a range of specialised plumbing products including pressure reducing valves and backflow prevention devices. It is not practicable to estimate the effect on the income statement had the business been acquired at 1 July 2007 nor is it practicable to individually estimate the profit or loss since acquisition due to synergies expected to be realised within the Group.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

The purchase consideration was $5,938,000 and comprised cash consideration.

The fair value of net identifiable assets acquired was $2,614,000 with goodwill of $3,324,000

Net assets acquired, at fair value comprised inventory $2,520,000, plant and equipment $212,000 and trade payables $118,000.

Pre-acquisition carrying amounts were determined based on applicable AASBs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values

The goodwill recognised on the acquisition was attributable mainly to the skills and technical talent of the acquired business's work force and the synergies expected to be achieved from integrating the company into the Group's existing Home, Hardware and Eco business

## 14 Events occurring after the reporting period

On 5 August 2009 the Company announced an underwritten share placement to institutional and sophisticated investors to raise a minimum of $28.5 million. In addition, the intention to offer a Share Purchase Plan was announced. In total the Company plans to raise a maximum of around $50 million.

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

## Hills Industries Limited and its Controlled Entities
## Compliance statement

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

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

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

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

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

Dated at Edwardstown this 5th day of August 2009.

Signed in accordance with a resolution of the directors.

**Graham L Twartz**
Director

### *Annual General Meeting*

The 52nd Annual General Meeting of Hills Industries Limited will be held at Adelaide Symphony Orchestra office, Hindley Street Adelaide on Friday 23 October 2009.

The Notice of Meeting and Proxy Form will be sent with the Concise Annual Report in late September 2009.