

Appendix 4E

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

Preliminary Final Report Financial Year Ended 30 June 2007

Results for announcement to the market:

\$A'000

Revenues from ordinary activities	Up	8.8%	to	1,013,999
Profit from ordinary activities after tax attributable to members	Up	9.0%	to	47,173
Net profit for the period attributable to members	Up	9.0%	to	47,173
Earnings per share	Up	6.6%	to	27.6¢
Dividends	Amount per security		Franked amount per security	
Final dividend (#)				
- current reporting period	14.0¢		14.0¢	
- previous corresponding period	13.0¢		13.0¢	
Interim dividend				
- current reporting period	13.5¢		13.5¢	
- previous corresponding period	13.0¢		13.0¢	
# Final dividend proposed in respect of the current reporting period. The financial effect of this dividend will be recognised in the next reporting period.				
Record date for determining entitlements to the dividend	10 September 2007			
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.

**Hills Industries Limited and its Controlled Entities
Consolidated Preliminary Income Statement
For the Year Ended 30 June 2007**

		Consolidated	
<i>In thousands of AUD</i>		2007	2006
	Note		
Revenue	4	1,013,999	931,799
Other income	4	2,372	3,895
		<u>1,016,371</u>	<u>935,694</u>
Expenses, excluding net financing costs	5	(934,098)	(862,429)
Profit before net financing costs and income tax		<u>82,273</u>	<u>73,265</u>
Financial income		716	965
Financial expense		(9,821)	(6,845)
Net financing costs	6	<u>(9,105)</u>	<u>(5,880)</u>
Profit before income tax expense		73,168	67,385
Income tax expense relating to ordinary activities		(21,126)	(19,175)
Net profit		<u>52,042</u>	<u>48,210</u>
Attributable to:			
Equity holders of the parent		47,173	43,261
Minority interest		4,869	4,949
Profit for the period		<u>52,042</u>	<u>48,210</u>
Basic and dilutive earnings per share	10	27.6¢	25.9¢
Dividends per share in respect of the current reporting period		27.5¢	26.0¢

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

Hills Industries Limited and its Controlled Entities
Consolidated Preliminary Statement of Recognised Income and Expense
For the Year Ended 30 June 2007

	Consolidated	
<i>In thousands of AUD</i>	2007	2006
Translation of foreign operations - exchange differences taken to equity	1,442	(1,465)
Net income recognised directly in equity	1,442	(1,465)
Profit for the period	52,042	48,210
Total recognised income and expense for the period	53,484	46,745
Attributable to:		
- equity holders of the parent	48,615	41,796
- minority interest	4,869	4,949
	53,484	46,745

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

Hills Industries Limited and its Controlled Entities
Consolidated Preliminary Balance Sheet as at 30 June 2007

<i>In thousands of AUD</i>	Note	Consolidated	
		2007	2006 Restated
Current Assets			
Cash and cash equivalents		27,434	20,223
Trade and other receivables		172,655	160,716
Inventories		175,507	135,853
Assets classified as held for sale		15,946	-
Total current assets		391,542	316,792
Non-Current Assets			
Receivables		-	-
Investments		2	2
Property, plant and equipment		173,157	172,047
Intangible assets		111,369	104,809
Deferred tax assets		30,811	28,072
Total non-current assets		315,339	304,930
Total Assets		706,881	621,722
Current Liabilities			
Bank overdraft		511	7,419
Trade and other payables		133,947	113,882
Interest-bearing loans and borrowings		1,593	10,370
Employee benefits		25,741	23,949
Income tax payable		12,742	5,857
Provisions		7,099	7,574
Total current liabilities		181,633	169,051
Non-Current Liabilities			
Interest-bearing loans and borrowings		171,582	121,539
Employee benefits		4,574	6,361
Provisions		328	360
Total non-current liabilities		176,484	128,260
Total Liabilities		358,117	297,311
Net Assets		348,764	324,411
Equity			
Issued capital		178,031	167,525
Reserves		26,077	24,911
Retained earnings	12	127,618	117,516
Total equity attributable to equity holders of the parent		331,726	309,952
Minority interest		17,038	14,459
Total Equity		348,764	324,411

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

**Hills Industries Limited and its Controlled Entities
Consolidated Preliminary Statement of Cash Flows
For the Year Ended 30 June 2007**

		Consolidated	
<i>In thousands of AUD</i>	Note	2007	2006
Cash Flows from Operating Activities			
Cash receipts in the course of operations		1,132,806	1,041,647
Cash payments in the course of operations		(1,059,405)	(959,450)
Interest received		718	965
Interest paid		(10,585)	(7,310)
Income taxes paid		(16,712)	(21,454)
Net cash provided by operating activities		46,822	54,398
Cash Flows from Investing Activities			
Proceeds on disposal of property, plant and equipment		4,502	1,119
Payments for property, plant and equipment		(38,459)	(30,995)
Proceeds on disposal of investments		-	482
Payments for intangible assets		(176)	-
Proceeds on disposal of controlled entities (net of cash)	15	526	609
Payments for business operations (net of cash acquired)	14(b)	(11,422)	(15,802)
Payments for controlled entities (net of cash acquired)	14(a)	(86)	(13,103)
Loans to other entities		(297)	(134)
Rent received		787	1,170
Net cash provided by / (used in) investing activities		(44,625)	(56,654)
Cash Flows from Financing Activities			
Proceeds from borrowings		44,901	29,516
Repayment of borrowings		(3,469)	(325)
Finance lease payments		-	(601)
Proceeds from issue of shares by the Company		10,206	9,905
Dividends paid by the Company	13(a)	(37,322)	(34,482)
Dividends paid to outside equity interests		(2,343)	(2,593)
Net cash provided by / (used in) financing activities		11,973	1,420
Net increase / (decrease) in cash held		14,170	(836)
Cash at the beginning of the year		12,804	13,997
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(51)	(357)
Cash at the end of the year		26,923	12,804

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

Hills Industries Limited and its Controlled Entities

Notes to the Financial Statements for the Year Ended 30 June 2007

1. Reporting entity

Hills Industries Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 944-956 South Road Edwardstown SA 5039. The consolidated preliminary financial statements of the Company as at and for the year ended 30 June 2007 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group primarily is involved in manufacturing and distribution in businesses as detailed in note 11.

2. Basis of preparation

(a) Statement of compliance

The preliminary financial report is a financial report which 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 2006 annual report, the December 2006 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 7 August 2007.

(b) Basis of measurement

The consolidated 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.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is 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.

(d) 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.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

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

- AASB 101 Presentation of Financial Statements (October 2006).

Certain comparative amounts have been restated in compliance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and AASB 3 *Business Combinations*. (See note 8).

(a) Basis of consolidation

(i) Subsidiaries

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

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2007

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

Foreign currency differences are recognised directly in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the Foreign Currency Translation Reserve is transferred to profit or loss.

(c) Financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2007

3. Significant accounting policies (continued)

(c) Financial Instruments (continued)

(iii) Trade and other receivables

Trade and other receivables are stated at amortised cost less any impairment charges.

(iv) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Group, and are measured at amortised cost.

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

(v) Interest-bearing loans and borrowings

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

(vi) Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(d) Property, plant and equipment

(i) Land and Buildings

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

(ii) Plant and Equipment

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

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

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

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

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

Hills Industries Limited and its Controlled Entities

Notes to the Financial Statements for the Year Ended 30 June 2007

3. Significant accounting policies (continued)

(d) Property, Plant and Equipment (continued)

(iv) Depreciation (continued)

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

(e) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Acquisitions prior to 1 July 2004

As part of its transition to AASBs, the Group elected to restate only those business combinations that occurred on or after 1 July 2004. In respect of acquisitions prior to 1 July 2004, goodwill represents the amount recognised under the Group's previous accounting framework, Australian GAAP.

Acquisitions on or after 1 July 2004

For acquisitions on or after 1 July 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

(iii) Patents and trademarks

Patent and trademark assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and any accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

(v) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- Patents and trademarks 10 to 20 years

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

The Group adopted Interpretation 4 Determining whether an Arrangement Contains a Lease, which is mandatory for annual periods beginning on or after 1 January 2006, in its 2006 consolidated financial statements.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2007

3. Significant accounting policies (continued)

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2007

3. Significant accounting policies (continued)

(i) Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are measured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(j) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

(ii) Long-term benefits

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

(iii) Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

Employee Share Bonus Plan

The Employee Share Bonus Plan allows Group employees to acquire shares of the Company. Shares are allotted to employees who have served a qualifying period. Up to \$1,000 per year in shares is allotted to each qualifying employee. The fair value of shares issued is recognised as an employee expense with a corresponding increase in equity. The fair value of the shares granted is measured using a present value method.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2007

3. Significant accounting policies (continued)

(j) Employee benefits (continued)

Executive Share Plan

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

(k) Provisions

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

(i) Claims

A provision for claims is the estimated future liability of the Group's self-insurance arrangements. The value of the provision is determined in consultation with the company's actuaries or legal advisers as appropriate.

(ii) Provision for Deferred Consideration

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

(l) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Rental

Rental income, including any lease incentives granted, are recognised in the income statement on a straight-line basis over the term of the lease.

(m) Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues. Finance expenses comprise interest expense on borrowings. Interest paid is recognised as it accrues.

(n) Operating lease payments

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

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2007

3. Significant accounting policies (continued)

(o) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) Tax consolidation

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

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

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

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

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

(ii) Nature of tax funding arrangements and tax sharing arrangements

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

Hills Industries Limited and its Controlled Entities

Notes to the Financial Statements for the Year Ended 30 June 2007

3. Significant accounting policies (continued)

(o) Income tax (continued)

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

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

(p) Goods and services tax

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

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

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

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

(s) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require extensive additional disclosures with respect to the Group's financial instruments and share capital.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings Per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the consolidated financial report.

Hills Industries Limited and its Controlled Entities

Notes to the Financial Statements for the Year Ended 30 June 2007

3. Significant accounting policies (continued)

(s) New standards and interpretations not yet adopted (continued)

- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Group as the standard is only concerned with disclosures.
- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 102 *Inventories*, AASB 107 *Cash Flow Statements*, AASB 119 *Employee Benefits*, AASB 127 *Consolidated and Separate Financial Statements*, AASB 134 *Interim Financial Reporting*, AASB 136 *Impairment of Assets*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments*. This standard is only expected to impact disclosures contained within the financial report.
- Interpretation 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the Group's 2008 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of AASB 136 and AASB 139 respectively (i.e., 1 July 2004 and 1 July 2005, respectively). The adoption of Interpretation 10 is not expected to have an impact on the financial results of the Company and the Group.
- Interpretation 11 AASB 2 *Share-based Payment -- Group and Treasury Share Transactions* addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another group entity are transferred, in the financial statements of the entity receiving the services. Interpretation 11 will become mandatory for the Group's 2008 financial report. Interpretation 11 is not expected to have any impact on the financial results of the Company and the Group.
- AASB 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation II amends AASB 2 *Share-based Payments* to insert the transitional provisions of AASB 2, previously contained in AASB 1 *First-time Adoption of Australian Equivalents to international Financial Reporting Standards*. AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the Group or Company.
- Interpretation 12 *Service Concession Arrangements* addresses the accounting for service concession operators, but not grantors, for public to private service concession arrangements. Interpretation 12 will apply for the 2009 financial report and is not expected to have any impact on the Group or Company. At this time an entity must also adopt the revised Interpretation 4 *Determining when an arrangement contains a lease* and Interpretation 129 *Service Concession Arrangements: Disclosures*.
- AASB 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12 makes amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 120 *Accounting for Government Grants and Disclosures of Government Assistance*, AASB 121 *The Effects of Changes in Foreign Exchange Rates*, AASB 127 *Consolidated and Separate Financial Statements*, AASB 131 *Interest in Joint Ventures*, and AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 2007-2 is applicable for annual reporting periods beginning on or after 1 January 2008 and must be applied at the same time as Interpretation 12 *Service Concession Arrangements*.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2007

		Consolidated	
		2007	2006
4	Revenue and other income		
	<i>In thousands of AUD</i>		
	Revenue		
	Sales of goods	967,435	892,352
	Provision of services	45,777	38,638
	Property rentals	787	809
		1,013,999	931,799
	Other income		
	Net gain on disposal of property, plant and equipment	-	179
	Net gain on disposal of investments	-	382
	Net gain on disposal of business operations	526	-
	Other income	1,846	3,334
		2,372	3,895
5	Expenses		
	<i>In thousands of AUD</i>		
	Costs of goods sold	646,161	599,887
	Cost of services provided	37,503	31,912
	Sales and marketing expenses	117,450	107,250
	Distribution expenses	69,490	66,644
	Administration expenses	44,760	39,836
	Occupancy expenses	17,561	15,439
	Net loss on disposal of property, plant and equipment	347	-
	Other expenses	826	1,461
		934,098	862,429
6	Profit from ordinary activities		
	<i>In thousands of AUD</i>		
	Profit from ordinary activities before income tax has been arrived at after charging / (crediting) the following items		
	Depreciation of buildings	731	627
	Depreciation of plant and equipment	17,650	16,198
	Total depreciation of property, plant and equipment	18,381	16,825
	Impairment of goodwill	-	-
	Amortisation of patents and trademarks	607	741
	Total amortisation and impairment of intangible assets	607	741
	Total depreciation, impairment and amortisation	18,988	17,566
	Interest paid or payable	9,821	6,843
	Finance charges on capitalised leases	-	2
	Total financing costs	9,821	6,845
	Interest received or receivable	(716)	(965)
	Net financing costs	9,105	5,880

Hills Industries Limited and its Controlled Entities

Notes to the Financial Statements for the Year Ended 30 June 2007

6 Profit from ordinary activities (continued)

	Consolidated	
<i>In thousands of AUD</i>	2007	2006
Net receivable impairment charge	1,002	542
(Profit)/loss on disposal of non-current assets:		
Net loss/(gain) on disposal of property, plant and equipment	347	(179)
Net gain on disposal of investments	-	(382)
Net (gain)/loss on disposal of business operations	(526)	344
	(179)	(217)

7 Comparison of half-year profit

<i>In thousands of AUD</i>		
Net profit attributable to members of the Company reported for the first half-year	23,942	21,374
Net profit attributable to members of the Company for the second half-year	23,231	21,887
	47,173	43,261

8 Restatement of prior year goodwill on consolidation and deferred tax assets

Prior period goodwill on consolidation and deferred tax assets have been restated. Goodwill has been decreased by \$4,969,000 and deferred tax assets increased by \$4,969,000 owing to the recognition of a deferred tax asset arising from the acquisition of the Orrcon Group on 1 March 2005. The nature of the adjustment was known at the time of the acquisition, however the amount was not determinable until the current period. In accordance with AASB 3 *Business Combinations*, adjustments in respect of business combinations cannot be made after 12 months of the acquisition date and therefore the adjustment is now recognised as an error. In accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, prior period goodwill and deferred tax assets are accordingly restated. There is no effect on net profit, net assets or earnings per share.

9 Ratios

(a) Net tangible asset (NTA) backing

Net tangible assets per ordinary share

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

(b) Other ratios

Profit before tax / revenue

Calculated as profit from ordinary activities before related income tax expense as a percentage of total revenues

Profit after tax / equity interests

Calculated as net profit attributable to members of the Company as a percentage of equity attributable to members

10 Earnings per share

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

Weighted average number of shares on issue

	Consolidated	
	2007	2006
	\$1.27	\$1.19
	7.2%	7.2%
	14.2%	14.0%
	Number of Shares	
	170,822,904	166,805,334

Hills Industries Limited and its Controlled Entities Notes to the Financial Statements for the Year Ended 30 June 2007

11 Segment reporting

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest and dividend-earning assets and revenues, interest-bearing loans, borrowings and expenses and corporate assets and expenses.

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

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

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

Prior year assets segments have been restated to reallocate a prior year misallocation. This had the effect of increasing the Building and Industrial asset segment by \$47,670,000 and decreasing the Unallocated/corporate assets segment by the same amount. The Australia asset segment was increased and the Unallocated/corporate segment decreased by the same amount in the reporting by geographical segments.

Business segments

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

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

Geographical segments

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

The consolidated entity's business segments operate geographically as follows:

Australia	Manufacturing facilities and sales offices and customers in all states and territories.
Overseas	Manufacturing facilities and sales offices in New Zealand.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2007

11 Segment reporting (continued)

	Electronic, Security and Entertainment		Home, Hardware & Eco		Building and Industrial		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
<i>In thousands of AUD</i>										
Revenue										
Sales to external customers	277,174	263,854	191,354	168,933	544,684	498,203	-	-	1,013,212	930,990
Inter-segment revenue	-	-	-	-	7,457	11,021	(7,457)	(11,021)	-	-
Total segment revenue	277,174	263,854	191,354	168,933	552,141	509,224	(7,457)	(11,021)	1,013,212	930,990
Rentals									787	809
Total revenue									1,013,999	931,799
Result										
Segment result (before interest and tax)	31,726	34,024	13,817	12,325	36,025	26,762	-	-	81,568	73,111
Unallocated/corporate result									705	154
Net interest									82,273	73,265
Profit before income tax									(9,105)	(5,880)
Income tax expense									73,168	67,385
Net profit									(21,126)	(19,175)
Depreciation and amortisation	3,098	3,014	5,573	5,023	9,185	8,414	-	-	17,856	16,451
Unallocated/corporate depreciation and amortisation									1,132	1,115
Other non-cash expenses	4,186	2,221	2,132	2,295	11,561	8,196	-	-	18,988	17,566
Unallocated/corporate non-cash expenses									17,879	12,712
									415	1,972
									18,294	14,684
Assets										
Segment assets (2006 restated)	117,506	124,470	125,229	93,183	342,240	296,157	-	-	584,975	513,810
Unallocated/corporate assets (2006 restated)									121,906	107,912
Consolidated total assets									706,881	621,722
Liabilities										
Segment liabilities	32,312	32,272	27,064	22,330	92,393	71,003	-	-	151,769	125,605
Unallocated/corporate liabilities									206,348	171,706
Consolidated total liabilities									358,117	297,311
Acquisitions of non-current assets	4,597	6,838	9,946	9,723	22,183	15,639	-	-	36,726	32,200
Unallocated/corporate assets									1,909	1,593
									38,635	33,793

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2007

11 Segment reporting (continued)

Secondary reporting by geographical segments

	Australia		Overseas		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenue								
External segment revenue by location of customers	954,953	866,460	58,259	64,530	-	-	1,013,212	930,990
Unallocated/corporate revenue							787	809
Total revenue							1,013,999	931,799
Assets								
Segment assets (2006 restated)	566,134	488,150	18,841	25,660	-	-	584,975	513,810
Unallocated/corporate assets (2006 restated)							121,906	107,912
Consolidated total assets							706,881	621,722
Acquisitions of non-current assets	36,490	31,604	236	596	-	-	36,726	32,200
Unallocated/corporate assets							1,909	1,593
							38,635	33,793

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2007

	Consolidated	
	2007	2006
12 Retained profits		
<i>In thousands of AUD</i>		
Balance at the beginning of the year	117,516	105,388
Net profit attributable to members of the Company	47,173	43,261
Transfer from reserves	251	-
Disposal of entities	-	3,349
Dividends recognised during the year	(37,322)	(34,482)
	<u>127,618</u>	<u>117,516</u>
Balance at the end of the year		

13 Dividends

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

<i>In thousands of AUD</i>	Cents per share	Total amount	Franked / unfranked	Date of payment
2007				
Interim – ordinary	13.5	23,059	Franked	26 March 2007
Interim dividend forgone for Share Investment Plan		(3,864)		
Final – ordinary	13.0	21,930	Franked	25 September 2006
Final dividend forgone for Share Investment Plan		(3,803)		
Total amount		<u>37,322</u>		
2006				
Interim – ordinary	13.0	21,798	Franked	27 March 2006
Interim dividend forgone for Share Investment Plan		(3,791)		
Final – ordinary	12.0	19,621	Franked	26 September 2005
Final dividend forgone for Share Investment Plan		(3,146)		
Total amount		<u>34,482</u>		

Subsequent events

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

<i>In thousands of AUD</i>	Cents per share	Total amount	Franked / unfranked	Date of payment
Final – ordinary	14.0	24,080	Franked	24 September 2007

The financial effect of this dividend has not been brought to account in this financial report for the year ended 30 June 2007. The financial effect of the dividend will be recognised in the next year.

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

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2007

13 Dividends (continued)

(b) Dividend and share reinvestment plans

The Dividend Investment Plan and Share Investment Plan will operate in respect of the proposed final dividend. Under the Dividend Investment Plan, participating shareholders elect to apply dividends in whole or in part to the purchase of ordinary shares at an issue price. Under the Share Investment Plan, participating shareholders elect to forgo dividends in whole or in part and to substitute shares issued out of the capital account.

A discount of 5.0% will apply under the rules of the plans.

Last date for receipt of election notice for the dividend plans: 10 September 2007

(c) Dividend franking account

In thousands of AUD

30% franking credits available to shareholders of the Company for subsequent financial years

Consolidated	
2007	2006
41,103	41,955

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

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

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

In thousands of AUD

The franking credits available to shareholders disclosed above will allow for the following amounts of after-tax profits to be distributed fully franked at the current tax rate after deducting franking credits to be used in the payment of the proposed final dividend

2007	2006
71,827	76,098

Hills Industries Limited and its Controlled Entities

Notes to the Financial Statements for the Year Ended 30 June 2007

14 Details of entities over which control has been gained

(a) Acquisition of controlled entities

The Group did not acquire any subsidiaries during the current reporting period. During the current reporting period the Group paid \$86,000 deferred payment in respect of the Alquip Group acquired in January 2006.

The Group acquired one entity and increased control in one other entity during the prior reporting period. During the prior reporting period the Group paid \$3,400,000 deferred payment in respect of the acquisition of the Audio Telex Group acquired in 2005.

Company Name	Date of Control	Consideration Net of Cash	Nature of Business	% Acquired
<i>In thousands of AUD</i>				
2007				
Alquip Group – deferred payment	01/01/2006	86		
Total		<u>86</u>		
2006				
Alquip Group	01/01/2006	*4,990	Supplier of access equipment hired and sold to building contractors.	100%
Team Poly Pty Ltd	01/04/2005	4,713	Manufacturer of rotationally moulded water tanks and related products	Additional 25% Total 100%
Audio Telex Group – deferred payment	01/06/2005	3,400		
Total		<u>13,103</u>		

*Excludes an estimated payment of \$1,000,000. The 2007 actual payment was \$86,000.

In the current reporting period the difference between the actual and estimated deferred payment for the Alquip Group resulted in a decrease of \$914,000 in goodwill on consolidation.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2007
14 Details of entities over which control has been gained (continued)
(a) Acquisition of controlled entities (continued)

In the prior period the acquisition of the Alquip Group had the following effect on the group's assets and liabilities.

2006
Acquiree's net liabilities at the acquisition date

In thousands of AUD

	Recognised values	Fair value adjustments	Carrying amounts
Property, plant and equipment	4,163	-	4,163
Inventories	1,860	-	1,860
Trade and other receivables	2,968	-	2,968
Deferred tax asset	439	-	439
Bank overdraft	(1,428)	-	(1,428)
Interest-bearing loans and borrowings	(596)	-	(596)
Other loans and borrowings	(6,535)	-	(6,535)
Trade and other payables	(1,560)	-	(1,560)
Tax payable	(221)	-	(221)
Provisions	(248)	-	(248)
Net identifiable assets and liabilities	<u>(1,158)</u>	-	<u>(1,158)</u>
Net identifiable assets and liabilities	(1,158)		
Goodwill on acquisition	5,720		
Deferred consideration	<u>(1,000)</u>		
Consideration paid, satisfied in cash*	3,562		
Bank overdraft (acquired)	<u>1,428</u>		
Net cash outflow	<u>4,990</u>		

*Includes legal fees and taxes amounting to \$64,000.

The goodwill arose from the ability of the Alquip Group to earn a higher return on the Alquip Group's collective net assets than would be expected from those net assets acting separately. This reflected the synergies of the assets. The goodwill also stemmed from the synergies that resulted from the combination of the Hills and Alquip Groups. The goodwill arose on acquisition because certain items did not meet the AASB 3 *Business Combinations* criteria for recognition as intangible assets at the date of acquisition.

The consideration for the acquisition included a deferred amount of \$1,000,000. The deferred payment was payable provided certain performance criteria were met.

In the prior reporting period it was not practicable to estimate the effect on the income statement had the business been acquired at the beginning of the reporting period. The business would undergo a number of changes as a result of the ownership by Hills, including new product initiatives.

In the prior reporting period there was no material effect on profit for the period as a result of the Alquip acquisition.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2007
14 Details of entities over which control has been gained (continued)
(a) Acquisition of controlled entities (continued)

Aggregated details of the acquisitions are as follows:

	Consolidated	
	2007	2006
<i>In thousands of AUD</i>		
Consideration paid for new and increased control entities (Cash)/bank overdraft acquired	-	8,275
Outflow of cash for new and increased control entities	-	9,703
Deferred consideration paid	86	3,400
Total outflow of cash	<u>86</u>	<u>13,103</u>

(b) Acquisition of business operations

During the current reporting period the Group acquired two business operations. A deferred payment of \$261,000 was made in respect of the Australian Audio Supplies business acquired in the previous reporting period. Provision for future deferred payments for the Australian Audio Supplies business was increased in the current year by \$839,000. Results for the businesses since the date of their respective acquisitions have been included in the consolidated results. During the prior reporting period the Group acquired two business operations. Results for the businesses since the date of their respective acquisitions have been included in the consolidated results. The details of the acquisitions are noted in the table below.

Name of business	Date of Control	Consideration Net of Cash	Nature of Business
<i>In thousands of AUD</i>			
2007			
Air Comfort Seating Systems	01/05/2007	*6,537	Manufacturer of pressure care seating for the aged care sector. Steel distribution business based in Bunbury in Western Australia
Impressive Steel	01/05/2007	4,624	
Australian Audio Supplies – deferred payment		**261	
		<u>11,422</u>	
2006			
Brisbane Sheet Metal	01/12/2005	14,841	Roll forming of metal building products in Brisbane and Coolool. Distribution of professional audio equipment.
Australian Audio Supplies	01/04/2006	961	
		<u>15,802</u>	

* Excludes a deferred payment payable of \$859,000

**Excludes a deferred payment payable of \$839,000

Hills Industries Limited and its Controlled Entities

Notes to the Financial Statements for the Year Ended 30 June 2007

14 Details of entities over which control has been gained (continued)

(b) Acquisition of business operations (continued)

Aggregated details of the acquisitions are as follows:

<i>In thousands of AUD</i>	Consolidated	
	2007	2006
Cash	-	212
Inventories	2,782	2,141
Trade and other receivables	981	2,906
Property, plant and equipment	1,233	4,606
Patents	87	-
Goodwill purchased	7,072	8,189
Employee benefits	(105)	(208)
Trade and other payables	(30)	(1,832)
Fair value of assets and liabilities acquired	12,020	16,014
Less cash acquired	-	(212)
Less deferred payment payable	(859)	-
Cash flow on acquisition net of cash acquired	11,161	15,802

The goodwill arose on acquisition because certain items did not meet the AASB 3 *Business Combinations* criteria for recognition as intangible assets at the date of acquisition. The goodwill is mainly represented by management expertise, work force, distribution channels and geographic presence.

It is not practicable to estimate the effect on the income statement had the businesses been acquired at the beginning of the financial year. The businesses will undergo a number of changes as a result of the ownership of Hills including new product initiatives.

There was no material effect on profit for the period as a result of these acquisitions.

The consideration for Air Comfort Seating Systems includes a deferred amount of \$859,000. The deferred payment is payable provided certain performance criteria are met. The deferred payment amount of \$839,000 in respect of Australian Audio Supplies is payable provided certain performance criteria are met.

15 Details of entities over which control has been lost

In the prior reporting period we reported on the disposal of Hills Industries Limited (UK). During the current year the terms of the sale contract were renegotiated resulting in increased proceeds of \$526,000. This had the effect of changing the previously reported loss on disposal of \$344,000 to a profit on disposal of \$182,000.

Hills Industries Limited and its Controlled Entities

Notes to the Financial Statements for the Year Ended 30 June 2007

15 Details of entities over which control has been lost (continued)

During the prior reporting period the Group disposed of the subsidiaries Hills Industries Limited (UK) and the Pacom SE Asia Group including Pacom SE Asia Pte Ltd and Pacific Communications Services Snd Bhd. Details of the disposals are as follows:

<i>In thousands of AUD</i>	Consolidated	
	2007	2006
Cash/(overdraft)	-	(2,773)
Inventories	-	3,526
Trade and other receivables	-	3,762
Property, plant and equipment	-	3,831
Deferred tax assets	-	346
Trade and other payables	-	(1,764)
Current interest bearing liabilities	-	(5,885)
Provisions	-	(361)
	-	682
Fair value of assets and liabilities disposed	-	(2,502)
Less minority interest therein	-	2,773
Add overdraft of Hills Industries Limited (UK)	-	(344)
Loss on disposal	-	609
Cash flow on disposal net of overdraft disposed	-	609

Hills Industries Limited (UK) was disposed of on 1 July 2005. Results of operations since that date have been excluded from the results of the Group.

Pacom SE Asia Group

During the prior reporting period the Pacom SE Asia Group was liquidated, as it was no longer an operating entity. There was no gain or loss on liquidation.

Deregistrations

During the current reporting period the Group deregistered a number of non-trading companies. These deregistrations had no effect on profit or loss. The deregistered companies are listed below:

Company	Country of Incorporation
Spraygen Sprayers Limited	United Kingdom
Precision Tube Company Ltd	Australia
Tube Specialist Pty Ltd	Australia
ATS 2004 Pty Ltd	Australia
Universal Communications Corp Pty Ltd	Australia
ACN 089 140 134 Pty Ltd	Australia

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2007

16 Events subsequent to reporting date

- (a) Land and buildings at the manufacturing site at Edwardstown in South Australia have been transferred from Property, Plant and Equipment to current assets held for sale. The progressive transfer of a number of product lines offshore over the last few years has resulted in a substantial under utilisation of the facility. A post year-end sale agreement of \$24.3 million, excluding costs, has been reached. In compliance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* the assets are measured at the lower of their carrying value and their fair value less costs to sell.

As announced to the market on July 3 2007, revenues expected from the South East Queensland Water Grid Pipeline project have significantly reduced due to the failure of a supplier to deliver product in accordance with the agreed specification. Legal action against the supplier has commenced.

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

(b) **Dividends**

For dividends declared after 30 June 2007 see Note 13.

Hills Industries Limited and its Controlled Entities Compliance Statement

- 1 This report has been prepared in accordance with AASB Standards (including the 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 7th day of August 2007.

Signed in accordance with a resolution of the directors.

Graham L Twartz
Director and Company Secretary

Annual General Meeting

The 50th Annual General Meeting of Hills Industries Limited will be held at The Grainger Studio, 91 Hindley Street, Adelaide, SA, 5000 on Friday 9 November 2007 at 2.00 pm.

The Notice of Meeting and Proxy Form will be sent with the Concise Annual Report in early October 2007.