Hills Industries Limited

ABN 35 007 573 417

ASX Preliminary final report for the year ended 30 June 2010

Hills Industries Limited
For the year ended 30 June 2010
(Previous corresponding period: Year ended 30 June 2009)

Results for Announcement to the Market
30 June 2010

				A$'000
Revenue from ordinary activities	down	3.0%	to	1,156,326
Profit from ordinary activities after tax attributable to members	up	322.7%	to	40,188
Profit from ordinary activities after tax attributable to members before unusual items	up	43.3%	to	40,188
Earnings per share after unusual items (cents per share)	up	240.8%	to	16.7
Earnings per share before unusual items (cents per share)	up	14.4%	to	16.7

Dividends	Amount per security (cents)	Franked amount per security (cents)
Final dividend		
- current reporting period #	5.5	5.5
- previous corresponding period	2.0	2.0
Interim dividend		
- current reporting period	7.0	7.0
- previous corresponding period	8.0	8.0

Record date for determining entitlements to the final dividend	13 September 2010

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

Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other items 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
Consolidated preliminary income statement
For the year ended 30 June 2010

	Notes	Consolidated 2010 $'000	2009 $'000
Revenue from continuing operations	3	**1,156,326**	1,192,081
Other income	4	**1,921**	2,983
		1,158,247	1,195,064
Expenses, excluding finance costs	5	**(1,092,778)**	(1,149,134)
Results from operations		**65,469**	45,930
Finance income	5	**4,166**	767
Finance costs	5	**(7,575)**	(23,438)
Net finance expense	5	**3,409**	22,671
Profit before income tax		**62,060**	23,259
Income tax expense		**(18,965)**	(7,604)
Profit for the year		**43,095**	15,655
Profit is attributable to:			
Owners of Hills Industries Limited		**40,188**	9,506
Non-controlling interests		**2,907**	6,149
Profit for the year		**43,095**	15,655
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	10	**16.7**	4.9
Diluted earnings per share	10	**16.7**	4.9

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

Hills Industries Limited
Consolidated preliminary statement of comprehensive income
For the year ended 30 June 2010

	Notes	Consolidated 2010 $'000	2009 $'000
Profit for the year		**43,095**	15,655
Other comprehensive income			
Loss on revaluation of land and buildings		**-**	(7,407)
Changes in the fair value of cash flow hedges		**(707)**	329
Exchange differences on translation of foreign operations		**318**	110
Income tax relating to components of other comprehensive income		**212**	2,064
Other comprehensive income for the year, net of tax		**(177)**	(4,904)
Total comprehensive income for the year		**42,918**	10,751
Total comprehensive income for the year is attributable to:			
Owners of Hills Industries Limited		**40,011**	4,602
Non-controlling interests		**2,907**	6,149
		42,918	10,751

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

	Notes	Consolidated 2010 $'000	2009 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	**56,915**	67,978
Trade and other receivables		**186,002**	197,480
Inventories		**181,496**	196,569
Derivative financial instruments		**800**	-
Total current assets		**425,213**	462,027
Non-current assets			
Investments		**2**	2
Property, plant and equipment		**219,658**	227,494
Deferred tax assets		**23,771**	25,828
Intangible assets		**116,300**	114,326
Derivative financial instruments		**-**	333
Total non-current assets		**359,731**	367,983
Total assets		**784,944**	830,010
LIABILITIES			
Current liabilities			
Trade and other payables		**128,048**	120,902
Borrowings		**1,384**	3,852
Current tax liabilities		**10,622**	8,186
Provisions		**33,445**	33,835
Derivative financial instruments		**262**	5,924
Total current liabilities		**173,761**	172,699
Non-current liabilities			
Borrowings		**105,684**	218,498
Provisions		**6,318**	5,975
Derivative financial instruments		**2,682**	4,318
Total non-current liabilities		**114,684**	228,791
Total liabilities		**288,445**	401,490
Net assets		**496,499**	428,520
EQUITY			
Contributed equity	8	**306,595**	248,598
Reserves		**47,899**	46,495
Retained earnings		**126,107**	107,442
Capital and reserves attributable to owners of Hills Industries Limited		**480,601**	402,535
Non-controlling interests		**15,898**	25,985
Total equity		**496,499**	428,520

The above consolidated preliminary statement of financial position should be read in conjunction with the accompanying notes.

		Attributable to owners of Hills Industries Limited					
Consolidated	Notes	**Contributed equity $'000**	**Reserves $'000**	**Retained earnings $'000**	**Total $'000**	**Non-controlling interests $'000**	**Total equity $'000**
Balance at 1 July 2008		**223,091**	**51,369**	**133,759**	**408,219**	**21,298**	**429,517**
Total comprehensive income for the year		**-**	**(4,904)**	**9,506**	**4,602**	**6,149**	**10,751**
Transactions with owners in their capacity as owners:							
Contributions of equity net of transaction costs and tax	8	25,507	-	-	25,507	-	25,507
Non-controlling interest in share capital issued by subsidiary		-	-	-	-	38	38
Non-controlling interest on acquisition of subsidiary	8	-	-	-	-	(83)	(83)
Dividends provided for or paid	9	-	-	(35,863)	(35,863)	-	(35,863)
Dividends paid to non-controlling interests in subsidiaries		-	-	-	-	(1,431)	(1,431)
Executive share options - value of employee services		-	70	-	70	14	84
Transfers to/from reserves		-	(40)	40	-	-	-
Balance at 30 June 2009		**248,598**	**46,495**	**107,442**	**402,535**	**25,985**	**428,520**
Balance at 1 July 2009		**248,598**	**46,495**	**107,442**	**402,535**	**25,985**	**428,520**
Total comprehensive income for the year		**-**	**(177)**	**40,188**	**40,011**	**2,907**	**42,918**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs and tax	8	57,997	-	-	57,997	-	57,997
Non-controlling interest in share capital issued by subsidiary		-	-	-	-	640	640
Change in non-controlling interest on acquisition of subsidiary		-	1,551	-	1,551	(11,551)	(10,000)
Dividends provided for or paid	9	-	-	(21,523)	(21,523)	-	(21,523)
Dividends paid to non-controlling interests in subsidiaries		-	-	-	-	(2,083)	(2,083)
Executive share options - value of employee services		-	30	-	30	-	30
Balance at 30 June 2010		**306,595**	**47,899**	**126,107**	**480,601**	**15,898**	**496,499**

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

	Notes	Consolidated 2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**1,281,583**	1,374,725
Payments to suppliers and employees (inclusive of goods and services tax)		**(1,160,308)**	(1,288,577)
Cash generated from operations		**121,275**	86,148
Interest received		**1,596**	763
Interest paid		**(7,575)**	(13,318)
Income taxes paid		**(13,748)**	(11,260)
Net cash inflow from operating activities		**101,548**	62,333
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired	11	**-**	(3,980)
Payment for acquisition of business operations, net of cash acquired		**(3,953)**	(619)
Payments to increase ownership interest in subsidiary		**(10,064)**	-
Payments for property, plant and equipment		**(19,094)**	(32,047)
Payments for patents, trademarks and intellectual property		**(3,010)**	-
Loans (paid to) / received from other entities		**(1,058)**	272
Proceeds from sale of property, plant and equipment		**4,138**	903
Proceeds from disposal of asset held for sale		**-**	20,850
Rent received		**864**	842
Net cash (outflow) from investing activities		**(32,177)**	(13,779)
Cash flows from financing activities			
Proceeds from issues of shares		**57,098**	25,238
Proceeds from borrowings		**374**	36,707
Repayment of borrowings		**(115,465)**	(26,865)
Proceeds from share issues to non-controlling interests in subsidiaries		**640**	-
Dividends paid to Company's shareholders	9	**(21,523)**	(35,863)
Dividends paid to non-controlling interests in subsidiaries		**(2,630)**	(1,431)
Net cash (outflow) from financing activities		**(81,506)**	(2,214)
Net (decrease) increase in cash and cash equivalents		**(12,135)**	46,340
Cash and cash equivalents at the beginning of the financial year		**67,650**	21,310
Effects of exchange rate changes on cash and cash equivalents		**16**	-
Cash and cash equivalents at the end of the financial year	7	**55,531**	67,650

The above consolidated preliminary 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 Group in its consolidated financial report as at and for the year ended 30 June 2009, except as noted in the changes of accounting policy set out below. 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

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 2009 annual report, the December 2009 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 3 August 2010.

Historical cost convention

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; and
- land and buildings are measured at fair value.

Functional and presentation currency

These consolidated preliminary 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 Group 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.

Critical accounting estimates

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.

Financial statement presentation

During the current year the allocation of expenses by function and the allocation of sales rebates was reviewed. The comparative information has been adjusted to be consistent with the allocations for the current financial year.

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Early adoption of standards

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

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation

(i) Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB 127 *Consolidated and Separate Financial Statements* became operative. The revisions to AASB 127 contained consequential amendments to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*.

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously when the Group ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date control, joint control or significant influence ceased became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 July 2009. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Group Managing Director.

Change in accounting policy

The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting.* The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. Comparatives for 2009 have been restated.

(d) Business combinations

Change in accounting policy

A revised AASB 3 *Business Combinations* became operative on 1 July 2009.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

2 Segment information

(a) Description of segments

The Group has four reportable segments, based upon reports reviewed by the Group Managing Director that are used to make strategic decisions. The following summary describes the operations in each of the Group's reportable segments:

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

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

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

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

The Group principally considers the business from a products and services perspective. The Electronic Security and Entertainment and Home, Hardware and Eco divisions are each managed separately by Group General Managers.

The Home, Hardware and Eco division comprises a number of business units, which individually would not comprise reportable segments, however, rather than reporting these businesses as "other operations" they are reported as Home, Hardware and Eco as this reflects the manner in which the Group manages these businesses.

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

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

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

Overseas
Principally comprises manufacturing facilities and sales offices in New Zealand.

2 Segment information (continued)

(b) Segment information provided to the Group Managing Director

2010	**Electronic Security & Entertainment**	**Home, Hardware & Eco**	**Building & Industrial**	**Korvest Ltd**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Segment revenue	349,506	176,311	574,366	55,279	1,155,462
Segment EBIT	32,525	10,235	20,622	5,706	69,088
Segment assets	133,701	128,274	372,623	35,882	670,480
Segment liabilities	33,099	26,989	81,830	7,070	148,988

2009	Electronic Security & Entertainment	Home, Hardware & Eco	Building & Industrial	Korvest Ltd	Total
	$'000	$'000	$'000	$'000	$'000
Segment revenue	336,019	193,517	598,811	62,892	1,191,239
Segment EBIT	30,852	(3,106)	23,790	8,044	59,580
Total segment assets	145,299	152,544	370,783	33,712	702,338
Total segment liabilities	31,885	30,680	73,472	6,977	143,014

(c) Notes to, and forming part of, the segment information

(i) Accounting policies

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. Segment assets do not include income taxes.

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on a "cost plus" basis and are eliminated on consolidation.

2 Segment information (continued)

(ii) Segment revenue

Segment revenue reconciles to total revenue from continuing operations as follows:

	Consolidated	
	2010 $'000	2009 $'000
Total segment revenue	**1,155,462**	1,191,239
Other revenue	**864**	842
Total revenue from continuing operations (note 3)	**1,156,326**	1,192,081

The Group is domiciled in Australia. The amount of its revenue from external customers in Australia is $1,116,159,000 (2009: $1,149,652,000), and the total of revenue from external customers in other countries is $39,303,000 (2009: $41,587,000). Segment revenues are allocated based on the country in which the customer is located.

(iii) Segment EBIT

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

	Consolidated	
	2010 $'000	2009 $'000
Segment EBIT	**69,088**	59,580
Interest revenue	**1,596**	767
Interest expense	**(7,575)**	(13,298)
Fair value profit/(loss) on interest rate swaps and forward exchange contracts	**2,570**	(10,140)
Restructuring costs	**-**	(14,048)
Impairment of other assets	**(1,680)**	-
Other	**(1,939)**	398
Profit before income tax from continuing operations	**62,060**	23,259

(iv) Segment assets

The amounts provided to the Group Managing Director with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segment assets are reconciled to total assets as follows:

	Consolidated	
	2010 $'000	2009 $'000
Segment assets	**670,480**	702,338
Cash	**56,915**	67,978
Deferred tax assets	**23,771**	25,828
Investments	**2**	2
Derivative financial instruments	**800**	333
Corporate assets	**32,976**	33,531
Total assets as per the statement of financial position	**784,944**	830,010

2 Segment information (continued)

(v) *Segment liabilities*

The amounts provided to the Group Managing Director with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

The Group's borrowings and derivative financial instruments are not considered to be segment liabilities but rather managed by the treasury function.

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

	Consolidated	
	2010	2009
	$'000	$'000
Segment liabilities	**148,988**	143,014
Tax liabilities (including GST payable)	**15,646**	16,528
Borrowings	**107,068**	222,350
Derivative financial instruments	**2,944**	10,242
Corporate liabilities	**13,799**	9,356
Total liabilities as per the statement of financial position	**288,445**	401,490

3 Revenue

	Consolidated	
	2010	2009
	$'000	$'000
From continuing operations		
Sales revenue		
Sale of goods	**1,094,540**	1,122,199
Services	**60,922**	69,040
	1,155,462	1,191,239
Other revenue		
Rents and sub-lease rentals	**864**	842
Dividends	**-**	-
	864	842
	1,156,326	1,192,081

4 Other income

	Consolidated	
	2010	2009
	$'000	$'000
Net gain on disposal of property, plant and equipment	**179**	65
Foreign exchange gains (net)	**14**	34
Other income	**1,728**	2,884
	1,921	2,983

5 Expenses

	Consolidated	
	2010	2009
	$'000	$'000
Classification of expenses by function		
Cost of goods sold	**756,558**	791,128
Cost of services provided	**53,143**	58,381
Distribution expenses	**87,337**	88,576
Sales and marketing expenses	**129,091**	132,707
Administration expenses	**64,486**	63,263
Other expenses	**2,163**	14,994
Net loss on disposal of property plant & equipment	**-**	85
	1,092,778	1,149,134

During the current year the allocation of expenses by function and the allocation of sales rebates was reviewed. The comparative information has been adjusted to be consistent with the allocations for the current financial year.

Net gains and expenses

Profit before income tax includes the following specific expenses:

Depreciation		
Buildings	**1,644**	1,199
Plant and equipment	**21,233**	21,341
Total depreciation	**22,877**	22,540
Amortisation		
Patents and trademarks	**996**	567
Development costs	**40**	-
Total amortisation	**1,036**	567
Total depreciation and amortisation	**23,913**	23,107

5 Expenses (continued)

	Consolidated **2010** **$'000**	2009 $'000
Finance costs		
Interest and finance charges paid/payable	**7,575**	13,298
Fair value loss on derivatives	**-**	10,140
	7,575	23,438
Finance income		
Interest income	**(1,596)**	(763)
Fair value gains on derivatives	**(2,504)**	-
Ineffectiveness in fair value of cash flow hedges	**(66)**	(4)
	(4,166)	(767)
Net finance costs expensed	**3,409**	22,671

Profit after tax for the year includes the following items that are unusual because of their nature and size:

Financial expenses		
(a) Net fair value loss on derivatives	**-**	(10,140)
Less: Applicable income tax benefit	**-**	3,042
	-	(7,098)
Other expenses		
(b) Restructuring costs	**-**	(14,048)
Less: Applicable income tax benefit	**-**	2,600
	-	(11,448)

(a) Net fair value loss on derivatives

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. The Group does not trade in these instruments and does not speculate on movements in rates. In the previous financial year the significant movements in the Australian dollar resulted in a non cash fair value loss before tax on forward exchange contracts of $5.822 million and the significant reduction in interest rates over the previous financial year resulted in a non cash fair value loss before tax on interest rate swaps of $4.318 million.

In the current reporting period, all existing forward exchange contracts from 1 July 2009 and all new forward exchange contracts from inception are designated into hedge relationships and hedge accounting applied. All new interest rate swaps from inception and all existing interest rate swaps from during the first quarter of the current financial year were designated into hedge relationships and hedge accounting applied. This is in accordance with the Group's existing accounting policy - refer the consolidated annual financial report of the Group as at and for the year ended 30 June 2009.

(b) Restructuring costs

In the previous financial year, the Group undertook a detailed review of operations with particular emphasis on the Home, Hardware and Eco Products division. A number of restructuring initiatives were implemented during that 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. This totalled $5.38 million.

6 Ratios

	Consolidated 2010	2009
Profit before tax / revenue % Calculated as profit from ordinary activities before related income tax expense as a percentage of total revenues	**5.4**	1.9
Profit before tax and unusual items / revenue % Calculated as profit from ordinary activities before related income tax expense and unusual items as a percentage of total revenues	**5.4**	3.9
Profit after tax / equity interests % Calculated as net profit attributable to members of the Company as a percentage of equity attributable to members	**8.4**	2.4
Net tangible assets per ordinary share $ Calculated as net assets less intangible assets less outside equity interests in those assets over the total number of shares on issue	**1.47**	1.40
Gearing % Calculated as net debt divided by shareholders equity	**10.1**	36.0

7 Current assets - Cash and cash equivalents

	Consolidated 2010 $'000	2009 $'000
Cash at bank and in hand	**10,610**	63,931
Deposits at call	**46,305**	4,047
	56,915	67,978

(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 2010 $'000	2009 $'000
Balances as above	**56,915**	67,978
Bank overdrafts	**(1,384)**	(328)
Balances per statement of cash flows	**55,531**	67,650

8 Contributed equity

	Company		Company	
	2010	2009	**2010**	2009
	Shares '000	Shares '000	**$'000**	$'000
(a) Share capital				
Ordinary shares				
Fully paid	**247,697**	204,601	**306,595**	248,598

(b) Movements in ordinary share capital:

Date	Details	Number of shares '000	$'000
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	1,022
	Issued under the Share Purchase Plan	10,284	14,912
	Less: Transaction costs arising on share issue	-	(39)
30 June 2009	Balance	204,601	248,598
1 July 2009	Opening balance	204,601	248,598
	Issued under the capital raising	29,185	40,859
	Issued under the Share Purchase Plan	11,956	16,738
	Issued under the Dividend Investment Plan	674	1,255
	Issued under the Share Investment Plan	382	-
	Issued under the Employee Share Bonus Plan	899	373
	Issued under the Executive Share Plan	-	-
	Less: Transaction costs arising on share issue		(1,228)
30 June 2010	Balance	247,697	306,595

(c) Ordinary shares

During the year the Company conducted a placement of ordinary fully paid shares to institutional and sophisticated investors. The share issue price was $1.40 per share.

Following completion of the institutional placement the Company invited shareholders to participate in a Share Purchase Plan. Each shareholder was entitled to purchase up to $5,000 worth of shares at a share issue price of $1.40 per share, the same as the issue price for the institutional placement. The Share Purchase Plan was oversubscribed and shares allotted were scaled back by approximately 50%.

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 shares issued out of the capital account. The issue price was at a 5% 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 Dividends

	Company	
	2010	2009
	$'000	$'000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2009 of 2.0 cents (year ended 30 June 2008: 14.0 cents) per fully paid share paid on 23 November 2009 (year ended 30 June 2008: 29 September 2008)		
Fully franked based on tax paid @ 30%	**4,917**	26,149
Final dividend foregone for Share Investment Plan	**(713)**	(3,993)
	4,204	22,156
Interim dividend for the year ended 30 June 2010 of 7.0 cents (2009: 8.0 cents) per fully paid share paid on 3 March 2010 (2009: 7 April 2009)		
Fully franked based on tax paid @ 30%	**17,319**	15,986
Interim dividend foregone for Share Investment Plan	**-**	(2,279)
	17,319	13,707
Total dividends provided for or paid	**21,523**	35,863

(b) Dividends and share reinvestment plan

The Dividend Investment Plan and Share Investment Plan will not operate in respect of the proposed final dividend.

	Company	
	2010	2009
	$'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 5.5 cents per fully paid ordinary share (2009: 2.0 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 27 September 2010 out of retained profits at 30 June 2010, but not recognised as a liability at year end, is	**13,623**	4,876

10 Earnings per share

	Consolidated	
	2010	2009
	Cents	Cents
(a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company	**16.7**	4.9
Profit from continuing operations before unusual / significant items attributable to the ordinary equity holders of the Company	**16.7**	14.6
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company	**16.7**	4.9
Profit from continuing operations before unusual / significant items attributable to the ordinary equity holders of the Company	**16.7**	14.6

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

	Consolidated	
	2010	2009
	$'000	$'000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**40,188**	9,506
Diluted Earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**40,188**	9,506
Basic earnings per share before unusual / significant items		
Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**40,188**	9,506
Adjusted for unusual / significant items:		
Fair value loss on derivatives	**-**	7,098
Restructuring costs	**-**	11,448
Profit attributable to the ordinary equity holders of the Company before unusual / significant items used in calculating basic earnings per share	**40,188**	28,052

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

	Consolidated	
	2010	2009
	Number '000	Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**240,481**	192,623
Adjustments for calculation of diluted earnings per share:		
Effect of share options on issue	**523**	703
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**241,004**	193,326

11 Business combination

Current period

(a) Summary of acquisition

On 31 May 2010 the Group acquired certain assets of the operations of The Steel Barn in Queensland.

Details of the purchase consideration and the net assets and liabilities acquired are as follows:

	$'000
Purchase consideration	
Cash paid	**3,558**
Total purchase consideration	**3,558**
Fair value of net identifiable assets acquired (refer to (b) below)	**3,558**
Goodwill	**-**

(b) Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $'000
Inventories	**2,359**
Property, plant and equipment	**1,463**
Other assets	**12**
Provision for employee benefits	**(276)**
Net identifiable assets acquired	**3,558**
Add: goodwill	**-**
Net assets acquired	**3,558**

(c) Purchase consideration - cash outflow

	Consolidated	
	2010 $'000	2009 $'000
Outflow of cash to acquire business operation		
Cash consideration	**3,558**	-
Direct costs relating to acquisition	**395**	-
Outflow of cash - investing activities	**3,953**	-

Acquisition-related costs
Acquisition-related costs of $395,000 are included in expenses in Profit or Loss and in Investing Cash Flows in the Statement of Cash Flows.

11 Business combination (continued)

Prior period

(a) Summary of acquisition

On 1 April 2009, the Company acquired 51% of the issued share capital of UHS Systems Pty Ltd (UHS).

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 approximately $10,500,000 and net profit of approximately $1,500,000.

	$'000
Purchase consideration (refer to (b) below):	
Cash paid	**5,100**
Direct costs relating to the acquisition	**107**
Total purchase consideration	**5,207**
Fair value of net identifiable assets acquired	**(86)**
Goodwill	**5,293**

(b) Cash flow information

	Consolidated	
	2010	2009
	$'000	$'000
Outflow of cash to acquire business, net of cash acquired		
Cash consideration	**-**	5,100
Less cash balances acquired	**-**	1,120
Outflow of cash - investing activities	**-**	3,980

(c) Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	**1,120**
Receivables	**3,016**
Inventories	**1,111**
Plant and equipment	**73**
Net deferred tax asset	**28**
Intangible assets: research and development	**200**
Payables	**(1,789)**
Borrowings	**(2,863)**
Employee benefit liabilities, including superannuation	**(221)**
Current tax liability	**(211)**
Provision for dividend	**(550)**
Net identifiable assets acquired *	**(86)**
Add: goodwill	**5,293**
Net assets acquired *	**5,207**

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 UHS into the Hills Group's existing Electronic Security and Entertainment business.

12 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent 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 3rd day of August 2010.

Signed in accordance with a resolution of the directors.

Graham L Twartz
Director

Annual General Meeting

The 53rd Annual General Meeting of Hills Industries Limited will be held at Adelaide Symphony Orchestra office, Hindley Street Adelaide on Friday 5 November 2010 at 2.00 pm.

The Notice of Meeting and Proxy Form will be sent with the Concise Annual Report in late September 2010.