



# Annual Report 2004

- > Electronic Security and Entertainment
- > Home and Hardware
- > Building and Industrial



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# Hills Home Hub

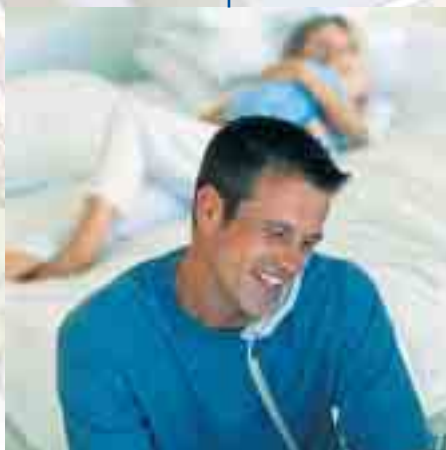
## YOU CAN AFFORD TO HAVE IT AND CAN'T AFFORD TO LIVE WITHOUT IT

Hills Home Hub is a built-in wiring system that provides you and your family with a fully integrated and affordable entertainment, security and communications system.

Incorporating Hills Integrated Security Entertainment and Communications (ISEC™) technology, the Hills Home Hub lets you access and adapt today's and tomorrow's technology. So you can upgrade or add phones, computer networks, home entertainment systems, security systems and more wherever and whenever you need them. All for a surprisingly affordable price that's in reach of everyone building a new home (the entry level starter pack is priced well under \$2,000 fully installed).

## HOME SECURITY MADE EASY

- Security camera pictures can be sent to any and every television in the house, so you can keep an eye on the kids in the pool while you're busy in the kitchen, or see who is at the front door.
- Turn your alarm system on at night from the comfort of your bedroom or disarm the alarm and lift up the garage door via remote control.
- Turn off all the lights in the house with one switch.





# The complete, built-in security, entertainment and communications system for every new home.



*The built-in home security,  
entertainment and communications system*

## HOME ENTERTAINMENT MADE EASY

- Rather than having multiple DVD, CD and VCR players, your entertainment centre can be controlled from anywhere in the house and played on any television in the house.
- You can play Pay TV on every television so you only need one set top box.
- A movie being played on a DVD or VCR can be watched on every television in your house at the same time.
- Each television accepts your video signals on separate channels so different members of the family can watch different formats all at the same time (i.e. television, video, DVD and Pay TV).
- Gives you infra-red signals through your entire home so your remote control can be used from any room in the house.
- You can have music playing in any and every room in the house.

## HOME COMMUNICATIONS AND COMPUTING MADE EASY

- One telephone line can have multiple points anywhere in the house.
- Print from a PC in the study while you're working on your laptop in the bedroom.
- The kids can access the internet while you're on the phone.

Plus, because the cabling is already in your walls, if you want, for example, to change a bedroom into a study, you don't need to hire costly electricians and telecommunications technicians.

And best of all, you don't have to have it all now. As you add technology or systems, it's as easy as plugging it into the Hills Home Hub. It has the flexibility to not just keep pace with the future, but to stay one step ahead of it.

**For more details call Hills Consumer Advice 1300 300 564**



# Overview of 2004

## DIVIDENDS

Our policy is that we will pay 100% of our after tax profits to shareholders as dividends as long as the following conditions are met:

- The debt to equity ratio remains around or below 45% taking into account the funding needed to finance growth.
- No changes in the law in connection with the distribution of accumulated franking credits.
- Profitability continues at an acceptable level.

As a result of this policy, shareholders have received a total of 22.5 cents per share fully franked dividends in respect of the year ended June 2004. Earnings per share for the same period were 22.6 cents. At balance date the debt to equity ratio stood at 26.9%.

## GROUP STRATEGY

Our strategy is to develop competitive businesses in three main industry segments being Electronic Security and Entertainment, Home and Hardware and Building and Industrial. We aim to achieve a sensible level of diversification within each industry segment to minimise the impact of short term changes to markets and economies. We aim to be product innovators and market leaders.

Overall our objective is to grow revenue and earnings through a combination of organic growth and acquisitions. We aim to be good corporate citizens in all aspects of our business dealings.

## TRADING CONDITIONS

Trading conditions in the year under review were favourable in Australia and New Zealand. Commercial building activity and consumer confidence were strong which translated into reasonable or improved results in each of our divisions.

## **HILLS GROUP ACHIEVES TWELFTH CONSECUTIVE RECORD PROFIT**

**The Hills Industries Group achieved a group profit after tax attributable to Hills shareholders of \$31.3 million excluding individually significant items. This was an increase of 14.4% over the previous year and represents**

**the twelfth consecutive year of record profits for the Group. Gearing was reduced during the year as all businesses continued to generate good cash flows.**

### **LIKELY DEVELOPMENTS**

Australia has enjoyed several years of strong economic growth. Economic forecasters are predicting some slow down in domestic building activity but a continuation of high levels of activity in the commercial building market.

Whilst exchange rates are significantly above the lows seen over the last few years, they are also well below recent highs creating a reasonable environment for Australian manufacturers. Your directors anticipate an acceptable profit result for the year ended June 2005.

### **HILLS PEOPLE**

We encourage our managers to direct and operate their businesses with a high degree of autonomy. We find that employees react well in this environment and consistently initiate changes and improvements to our great advantage.

### **SHAREHOLDERS**

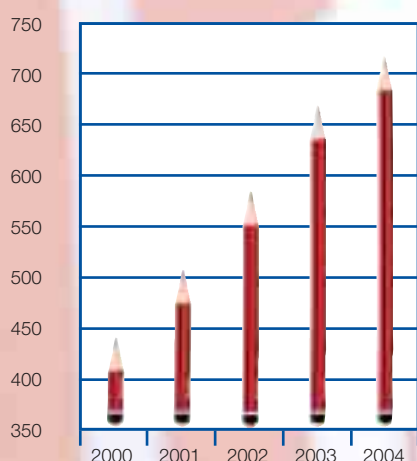
The number of shareholders in the company continued to grow during the year from 15,000 to nearly 18,000. The Hills share price has remained relatively strong during the course of the year, underpinned by consistent profitability, good cash flows and an attractive dividend yield.

We continue to offer our dividend re-investment plans to shareholders at discount levels that the directors feel are attractive for re-investment. We also continued our practice of ensuring that the maximum number of employees participate in our Employee Share Scheme. We believe that widespread share ownership by our employees has many positive benefits for both the employees and the company.

# 5 Year Summary

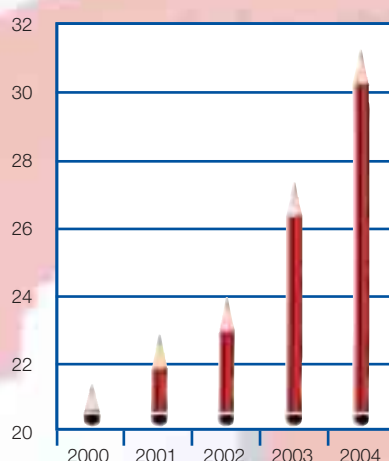
## Total revenue

\$ million



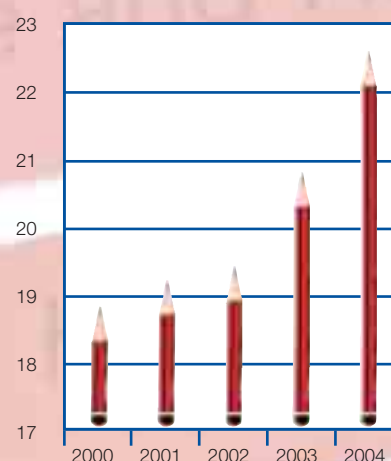
## Net profit attributable to members

\$ million



## Earnings per share

cents



	2000	2001	2002	2003	2004
Total revenue (\$'000)	439,081	506,151	585,308	669,410 •	718,666 •
Net profit attributable to members (\$'000)	21,278 •	22,770	23,864	27,315 •	31,260 •
Depreciation and amortisation (\$'000)	11,579	10,735	13,727	18,042	19,723
Net borrowing costs (\$'000)	1,654	3,315	4,291	4,348	4,539
Shareholders' equity (\$'000)	113,605	123,426	136,100	175,869	199,516
Net profit attributable to members					
– as a % of shareholders' equity	18.7 % •	18.4 %	17.5 %	15.5 % •	15.7 % •
– as a % of total revenue	4.8 % •	4.5 %	4.1 %	4.1 % •	4.3 % •
Earnings per share (cents)	18.8 •	19.2	19.4	20.8 •	22.6 •
Dividends per share (cents) ♦	19.0	19.4	20.0	21.0	22.5
Employees at year end					
	2,155	2,338	2,314	2,420	2,666
Shareholders at year end					
	5,962	7,073	9,915	14,263	17,125

• Excluding individually significant items

♦ Dividends relating to financial year including final dividend proposed after year end



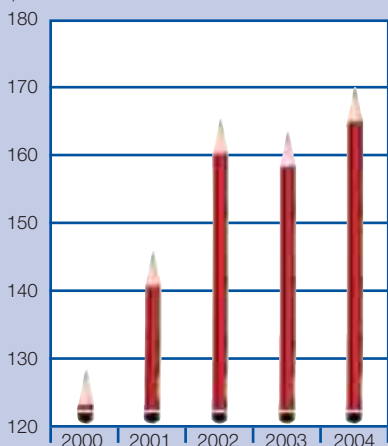
# Group Profile

## Electronic Security and Entertainment

- Communications related products and services
- Domestic and commercial antennas
- Master antenna television systems
- Communications antennas
- Satellite dishes
- Amplifiers
- Electronic security systems
- Closed circuit television systems
- Home automation systems
- Fibre optic transmission solutions

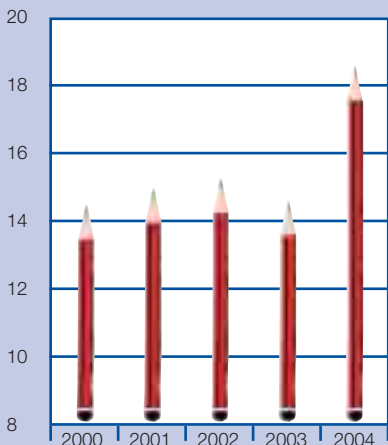
### Revenue

\$ million



### EBIT\*

\$ million

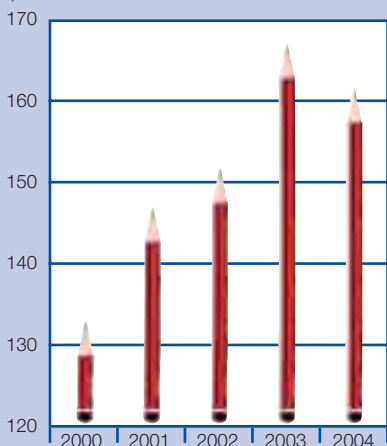


## Home and Hardware

- Outdoor clothes dryers
- Ladders
- Ironing boards
- Laundry trolleys
- Security doors
- Playtime equipment
- Garden sprayers
- Wheelbarrows
- Do-It-Yourself woodworking equipment
- Rehabilitation and mobility products

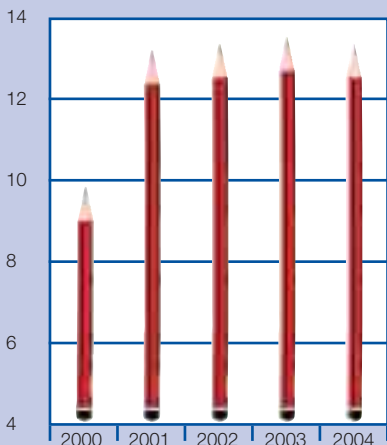
### Revenue

\$ million



### EBIT\*

\$ million

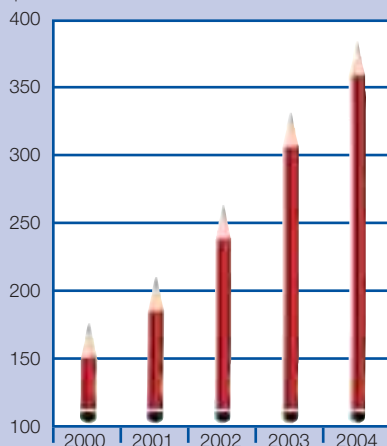


## Building and Industrial

- Structural, precision and large steel tubing
- Hot-dip galvanising
- Precision metal cabinets
- Stainless steel products
- Steel door frames
- Roll-formed metal building products
- Carports and shed systems
- Cable and pipe support systems

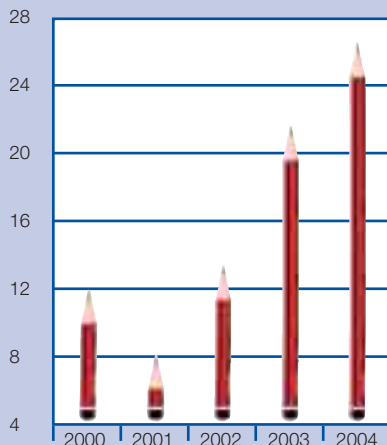
### Revenue

\$ million



### EBIT\*

\$ million



\*EBIT – Earnings before interest and tax

# Board of Directors



**Robert Donald Hill-Ling**

AO FIE(Aust) FAICD CPEng

Chairman – Non-Executive Director

Age 71. Joined the Company in 1952. Director since June 1958. Managing Director November 1965 to December 1992. Appointed Chairman in December 1966.

Chairman of the Remuneration and Nomination Committees and member of the Audit and Compliance Committee.



**Jennifer Helen Hill-Ling**

LLB(Adel)

Deputy Chairman – Non-Executive Director

Age 42. Appointed Director in August 1985. Appointed Deputy Chairman in June 2004.



**David James Simmons**

BA(Accountancy) FCPA

Managing Director

Age 50. Joined the Company in 1984. Appointed Finance Director in July 1987. Appointed Managing Director in December 1992.



**Ian Elliot**

GAICD

Independent Non-Executive Director

Age 50. Appointed Director in August 2003.



**Roger Baden Flynn**

BEng(Hons) MBA FIE(Aust)

Independent Non-Executive  
Director

Age 54. Appointed Director  
in November 1999.



**Geoffrey Guild Hill**

FCPA FAICD ASIA  
BEcon(Syd) MBA(NSW)

Independent Non-Executive  
Director

Age 58. Appointed Director  
in February 1999.

Member of the Audit and  
Compliance, Remuneration  
and Nomination Committees.



**Peter William Stancliffe**

BE(Civil) FAICD

Independent Non-Executive  
Director

Age 56. Appointed Director  
in August 2003.

Chairman of the Audit and  
Compliance Committee and  
member of the Remuneration  
and Nomination Committees.



**Graham Lloyd Twartz**

BA(Adel) DipAcc(Flinders)

Finance Director

Age 47. Joined the Company  
in 1993. Appointed Director  
in July 1993.



# Electronic Security and Entertainment

## HILLS ELECTRONIC SECURITY

This business unit markets an extensive range of electronic security products ranging from simple domestic alarm systems to complex integrated surveillance and access control systems. We represent a number of the world's leading security companies and have achieved a market leading position on the base of superior customer service and convenient locations.

As has been the trend over recent years, the profile of security throughout the world has continued to increase resulting in a greater penetration of domestic security and upgrades to commercial security applications. Growth in revenue in this business unit was below the historical trend due to a reduction in the zero cost domestic alarm market towards the end of the previous year.

The industry practice of offering heavily subsidised installations in return for long-term monitoring contracts had the effect of expanding the market in the prior year. This style of marketing has virtually disappeared resulting in a small decline in the size of the domestic security market.

The closure of the ePic and Pacom UK operations at the end of 2003 (which were loss making operations) contributed to the significant increase in profitability in this business. The strong exchange rate saw margins improve a little during the year.

In January 2004 we formed the Hills Technology Solutions Group. This group aims to bring together all of the Hills products as a single bundled offer to architects and developers of properties.

We have featured in this annual report our market leading Hills Home Hub product range. During the year we achieved further distribution of this product and we see this as a key market initiative for this business unit.



**The Electronic Security and Entertainment segment comprises Hills Electronic Security and the Hills Antenna & TV Systems business.**

**Revenue of \$170.3 million was 4.1% higher than the previous year. EBIT of \$18.6 million was 27.4% higher than 2003.**



### **HILLS ANTENNA & TV SYSTEMS**

This business unit provides a full range of reception and distribution equipment for the Pay TV, free to air television and wireless voice and data markets.

We enjoyed a very strong year through a combination of new product initiatives and growth in traditional markets.

This business unit is the major supplier of signal reception equipment to the Pay TV industry. During the year both AUSTAR and Foxtel launched their digital programming package which saw increased demand for Pay TV and Hills products as a result.

Our Hills Signal Master business in New Zealand continued to perform very well in both equipment supply and the installation of Sky Television services.

We continue to look for further product diversification and additional products to complete our product range. We are currently in the process of upgrading our branch networks to allow us to better support the growing home entertainment, audio/video and lifestyle products that we make and represent.





# Home and Hardware

## AUSTRALIA AND NEW ZEALAND

This business unit manufactures and distributes a range of predominantly metal based branded products to consumers, trade customers and government utilities. Our market leading brands, including Hills, Bailey, Oldfields Ladders, Kelso and Triton enjoyed steady demand during the year. Additional competition was encountered from lower specification products which are imported into this country. Whilst we will continue to provide the high quality innovative products in our flagship brands, strategies to compound these cheaper entry level products are well in hand.

The higher value of the Australian dollar reduces the competitive position of product manufactured in Australia in this business unit. We continue to work hard on our cost control of the Australian operations and we supplement products made in Australia with product imported from overseas manufacturers. For a long time we have been an importer of Home and Hardware products and this trend will continue.

Although the Triton results were below our expectations, we anticipate improved results in 2005 due to additional listings in our UK Triton business.

There are a number of new product initiatives in all of our Australian and New Zealand businesses which are increasingly focused on product design and excellence in innovation.



The Home and Hardware segment is made up of our branded Consumer Products operations in Australia, New Zealand and the United Kingdom as well as the K•Care and Kerry Equipment businesses.

During the year revenue declined by 3.3% to \$161.8 million and EBIT declined by 1.2% to \$13.4 million.



### HILLS UNITED KINGDOM

Based in Wales in the United Kingdom this business unit manufactures a range of outdoor drying products for sale in the UK and Europe. This business is jointly owned with Freudenberg Household Products who market products under their market leading Vileda brand.

Results for the UK for the year under review were well below our expectations. This business is undergoing a review process to ensure that these losses do not continue.

As a result of this review your directors determined that certain assets of Hills United Kingdom should be written down to better reflect their economic value. Write downs of \$1 million were recorded as an individually significant item in the period.

### K•CARE AND KERRY EQUIPMENT

This business unit based in Perth manufactures a range of mobility and rehabilitation products.

The market for K•Care and Kerry products is growing due to the ageing population and the growth in nursing homes and aged care facilities. We believe that this business has significant potential to grow over the next two or three years, by geographic and range extension.



# Building and Industrial

## ORRCON

This business unit manufactures and distributes a complete range of steel tube and piping. With manufacturing plants in South Australia, Queensland and the Large Pipe and Tube Mill in Wollongong we are able to service all segments of the market nationally.

In January 2004 the Large Pipe and Tube Mill achieved API accreditation enabling it to market its high quality products to the gas and fluids pipeline industry. Since the end of the year we have commenced the supply of a 4,500 tonne order to an American company.

The traditional Orrcon businesses of Precision and Structural Tube continued to grow and Orrcon increased its market share in the year under review. Rising steel prices was a major business issue during the year.

## FIELDERS

Fielders manufactures and distributes a range of roll-formed metal building products (roof and gutter material, downpipes, steel flooring systems, carports, sheds and purlins) for the commercial and domestic building industries throughout Australia.

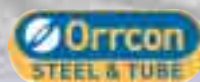
Fielders growth is based on a number of innovative new product developments. During the year we continued to grow the market for metal flooring systems and we achieved significant growth in our Centenary carports business. We also launched the Endurance sheds business in Australia. A number of new product initiatives are on the drawing board for the current year.





**The Building and Industrial segment consists of Orrcon, Fielders, Korvest and Woodroffe Equipment.**

**Revenues improved by 16.1% to \$385.3 million and EBIT improved by 22.8% to \$26.6 million.**



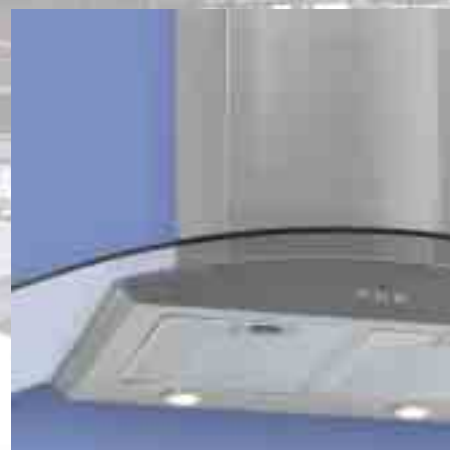
### **KORVEST**

Korvest is a small publicly listed company involved in the manufacture of cable support systems and galvanising.

Korvest announced the sale of its Elite Built filing cabinet business in May 2004, which produced an individually significant profit of \$1.3 million during the year.

### **WOODROFFE EQUIPMENT**

This business unit manufactures and distributes a range of metal products. Results for the year were poor, however the recent success in securing the supply contract for stainless steel doors for the Electrolux dishwasher and our competitively priced imported stainless steel range should see improved results in the current year.



# Directors' Report

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

The directors present their report together with the financial report of Hills Industries Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2004 and the auditor's report thereon.

## Directors

The directors of the Company at any time during or since the end of the financial year are:

**Robert Donald Hill-Ling** AO FIE(Aust) FAICD CPEng  
**Chairman – Non-Executive Director**

Age 71. Joined the Company in 1952. Director since June 1958. Managing Director November 1965 to December 1992. Appointed Chairman in December 1966.

Chairman of the Remuneration and Nomination Committees and member of the Audit and Compliance Committee.

Director of Argo Investments Ltd.

Bob Hill-Ling has been a director of Hills Industries for 46 years and Chairman for 38 years. Over this time, he has gained considerable experience in the consumer products industry in Australia, along with the other sectors within which the Group operates. He has previously held many directorships including Chairman of Bedford Industries Inc and Deputy Chairman of the Carrick Hill Trust. Mr Hill-Ling has a background in engineering, is a councillor of the Australian Industry Group and has been past president of the Engineering Employers Association of South Australia.

**Jennifer Helen Hill-Ling** LLB(Adel)  
**Deputy Chairman – Non-Executive Director**

Age 42. Appointed Director in August 1985. Appointed Deputy Chairman in June 2004.

Jennifer Hill-Ling has extensive experience in corporate and commercial law. She specialises in corporate and business structuring, mergers and acquisitions, joint ventures and related commercial transactions. She has practiced in the law for some 20 years and is currently a consultant to Sydney law firm Blessington Judd. Ms Hill-Ling has previously served on the Company's Audit Committee and Remuneration Committee.

**David James Simmons** BA(Accountancy) FCPA  
**Managing Director**

Age 50. Joined the Company in 1984. Appointed Finance Director in July 1987. Appointed Managing Director in December 1992.

Director of Korvest Ltd, Fielders Australia Pty Ltd and Orrcon Ltd.

David Simmons is the Group Managing Director and is responsible for group operations, including business strategy and acquisitions. Mr Simmons has extensive financial and general management experience.

**Ian Elliot** GAICD  
**Independent Non-Executive Director**

Age 50. Appointed Director in August 2003.

Chairman of Zenith Media Pty Ltd and Penfold Buscombe Pty Ltd.

Ian Elliot has spent 30 years in marketing. His speciality is brand building, with extensive involvement in a number of icon brands. Mr Elliot is a fellow of the AICD and graduate of the Harvard Business School Advanced Management Program.

**Roger Baden Flynn** BEng(Hons) MBA FIE(Aust)  
**Independent Non-Executive Director**

Age 54. Appointed Director in November 1999.

Managing Director of ION Limited and Non-Executive Director of Wattyl Ltd and Coventry Group Ltd.

Roger Flynn has 37 years experience working in a range of technical and commercial roles in manufacturing and distribution industries in Australia and the United States, as well as 27 years of board experience in ASX listed companies.

**Geoffrey Guild Hill** FCPA FAICD ASIA BEcon(Syd) MBA(NSW)  
**Independent Non-Executive Director**

Age 58. Appointed Director in February 1999.

Member of the Audit and Compliance, Remuneration and Nomination Committees.

Principal of Pitt Capital Partners Ltd. Chairman of Pacific Strategic Investments Ltd.

Director of Biron Corporation Ltd, Huntley Investment Company Ltd and Heritage Gold NZ Ltd.

Geoffrey Hill is a merchant banker with over 30 years experience in the securities industry. He has worked both in Europe and the United States and has managed merchant banks in Australia since 1989. Mr Hill specialises in mergers and acquisitions and corporate reconstructions and has been active in the South Australian corporate field since 1979.

**Peter William Stancliffe** BE(Civil) FAICD  
**Independent Non-Executive Director**

Age 56. Appointed Director in August 2003.

Chairman of the Audit and Compliance Committee and member of the Remuneration and Nomination Committees.

Chairman of Victorian Regional Executives Group.

Peter Stancliffe has over 35 years experience in the management of large industrial companies both in Australia and overseas and has held various senior management positions, including Chief Executive Officer. He has extensive experience in strategy development and a detailed knowledge of modern company management practices. Mr Stancliffe is a graduate of the MIT Senior Management Program and the AICD Company Directors' Course.

**Graham Lloyd Twartz** BA(Adel) DipAcc(Flinders)  
**Finance Director**

Age 47. Joined the Company in 1993. Appointed Director in July 1993.

Director of Korvest Ltd, Fielders Australia Pty Ltd and Orrcon Ltd.

Graham Twartz is the Finance Director and Company Secretary and has over 20 years experience in his field. Mr Twartz held senior management positions in diversified companies before joining Hills in 1993.



# Directors' Report

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings		Audit and Compliance Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	Attended	Held*	Attended	Held*	Attended	Held*	Attended	Held*
RD Hill-Ling	12	13	5	5	1	1	1	1
JH Hill-Ling	13	13			1	1		
DJ Simmons	13	13			1	1		
I Elliot	12	12						
RB Flynn	13	13	5	5				
GG Hill	12	13	5	5	1	1	1	1
PW Stancliffe	12	12					1	1
GL Twartz	13	13						

\* Number of meetings held during the time the director held office during the year

## Consolidated Result

The consolidated profit for the year attributable to members of the Company was:

	2004 \$'000	2003 \$'000
Profit from ordinary activities after related income tax expense	37,989	33,926
Net profit attributable to outside equity interests	6,875	6,678
Net profit attributable to members of the Company	31,114	27,248

## Principal Activities

The principal activities of the consolidated entity during the financial year were the manufacture and/or distribution of communications related products and services, domestic and commercial antennas, master antenna television systems, communications antennas, satellite dishes, amplifiers, electronic security systems, closed circuit television systems, home automation systems, fibre optic transmission solutions, outdoor clothes driers, ladders, ironing boards, laundry trolleys, security doors, Playtime equipment, garden sprayers, wheelbarrows, Do-It-Yourself woodworking equipment, rehabilitation and mobility products, structural, precision and large steel tubing, hot-dip galvanising, precision metal cabinets, office storage systems, stainless steel products, steel door frames, roll-formed metal building products, carports and shed systems and cable and pipe support systems.

The consolidated entity sold its office storage systems business in May 2004. Refer note 18(d) of the financial statements for further information.

## Review and Results of Operations

The Hills Industries Group achieved a group profit after tax attributable to Hills' shareholders of \$31.114 million. This was an increase of 14.2% over the previous year and represents the twelfth consecutive year of record profits for the Group. Gearing was reduced during the year as all businesses continued to generate good cash flows.

Trading conditions in the year under review were favourable in Australia and New Zealand. Commercial building activity and consumer confidence were strong which translated into reasonable or improved results in each of the divisions.

The results for the individual business units were as follows:

### Electronic Security and Entertainment

The Electronic Security and Entertainment segment comprises Hills Electronic Security and the Hills Antenna & TV Systems business. Revenue of \$170.262 million was 4.1% higher than the previous year. EBIT of \$18.618 million was 27.4% higher than 2003.

#### Hills Electronic Security

This business unit markets an extensive range of electronic security products ranging from simple domestic alarm systems to complex integrated surveillance and access control systems. Hills represents a number of the world's leading security companies and has achieved a market leading position on the base of superior customer service and convenient locations. As has been the trend over recent years, the profile of security throughout the world has continued to increase resulting in a greater penetration of domestic security and upgrades to commercial security applications. Growth in revenue in this business unit was below the historical trend due to a reduction in the zero cost domestic alarm market towards the end of the previous year. The industry practice of offering heavily subsidised installations in return for long-term monitoring contracts had the effect of expanding the market in the prior year. This style of marketing has virtually disappeared resulting in a small decline in the size of the domestic security market.

The closure of the ePic and Pacom UK operations at the end of 2003 (which were loss making operations) contributed to the significant increase in profitability in this business. The strong exchange rate saw margins improve a little during the year.

In January 2004 the Hills Technology Solutions Group was formed. This group aims to bring together all of the Hills products as a single bundled offer to architects and developers of properties.

# Directors' Report

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## Review and Results of Operations (continued)

### Electronic Security and Entertainment (continued)

#### *Hills Antenna & TV Systems*

This business unit provides a full range of reception and distribution equipment for the Pay TV, free to air television and wireless voice and data markets. It enjoyed a very strong year through a combination of new product initiatives and growth in traditional markets.

This business unit is the major supplier of signal reception equipment to the Pay TV industry. During the year both AUSTAR and Foxtel launched their digital programming package which saw increased demand for Pay TV and Hills products as a result.

The Hills Signal Master business in New Zealand continued to perform very well in both equipment supply and the installation of Sky Television services.

#### **Home and Hardware**

The Home and Hardware segment is made up of the branded Consumer Products operations in Australia, New Zealand and the United Kingdom as well as the K•Care and Kerry Equipment businesses. During the year revenue declined by 3.3% to \$161.774 million and EBIT declined by 1.2% to \$13.392 million.

#### *Australia and New Zealand*

This business unit manufactures and distributes a range of predominantly metal based branded products to consumers, trade customers and government utilities. Market leading brands, including Hills, Bailey, Oldfields Ladders, Kelso and Triton enjoyed steady demand during the year. Additional competition was encountered from lower specification products which are imported into this country. Whilst Hills will continue to provide the high quality innovative products in its flagship brands, strategies to compound these cheaper entry level products are well in hand.

The higher value of the Australian dollar reduces the competitive position of product manufactured in Australia in this business unit. It continued to work hard on its cost control of the Australian operations and supplement products made in Australia with product imported from overseas manufacturers. For a long time Hills has been an importer of Home and Hardware products and this trend will continue.

#### *Hills United Kingdom (50% owned)*

Based in Wales in the United Kingdom, this business unit manufactures a range of outdoor drying products for sale in the UK and Europe. This business is jointly owned with Freudenberg Household Products who market products under their market leading Vileda brand.

Results for the UK for the year under review were well below expectations. This business is undergoing a review process to ensure that these losses do not continue.

As a result of this review it was determined that certain assets of Hills United Kingdom should be written down to better reflect their economic value. Write downs of \$1.000 million were recorded as an individually significant item in the period.

#### *K•Care and Kerry Equipment*

This business unit based in Perth manufactures a range of mobility and rehabilitation products. The market for K•Care and Kerry products is growing due to the ageing population and the growth in nursing homes and aged care facilities.

### **Building and Industrial**

The Building and Industrial segment consists of Orrcon, Fielders, Korvest and Woodroffe Equipment. Revenues improved by 16.1% to \$385.281 million and EBIT improved by 22.8% to \$26.599 million.

#### *Orrcon (50% owned)*

This business unit manufactures and distributes a complete range of steel tube and piping. With manufacturing plants in South Australia, Queensland and the Large Pipe and Tube Mill in Wollongong, Orrcon is able to service all segments of the market nationally.

In January 2004 the Large Pipe and Tube Mill achieved API accreditation enabling it to market its high quality products to the gas and fluids pipeline industry. Since the end of the year Orrcon commenced the supply of a 4,500 tonne order to an American company.

The traditional Orrcon businesses of Precision and Structural Tube continued to grow and Orrcon increased its market share in the year under review. Rising steel prices were a major business issue during the year.

#### *Fielders (60% owned)*

Fielders manufactures and distributes a range of roll-formed metal building products (roof and gutter material, downpipes, steel flooring systems, carports, sheds and purlins) for the commercial and domestic building industries throughout Australia.

Fielders growth is based on a number of innovative new product developments. During the year it continued to grow the market for metal flooring systems and achieved significant growth in the Centenary carports business. Fielders also launched the Endurance sheds business in Australia.

#### *Korvest (47% owned)*

Korvest is a small publicly listed company involved in the manufacture of cable support systems and galvanising.

Korvest announced the sale of its Elite Built filing cabinet business in May 2004, which produced an individually significant profit of \$1.318 million during the year.

#### *Woodroffe Equipment*

This business unit manufactures and distributes a range of metal products. Results for the year were poor, however the recent success in securing the supply contract for stainless steel doors for the Electrolux dishwasher and the competitively priced imported stainless steel range should see improved results in the current year.

# Directors' Report

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

Type	Cents per share	Amount \$'000	Date of payment
As proposed in last year's report:			
– final – ordinary	10.5	14,200	29 September 2003
In respect of the current financial year:			
<i>Relating to previous year</i>			
– under provision of final dividend		34	
– final dividend forgone for Share Investment Plan		(3,040)	
<i>Declared and paid during the year</i>			
– interim – ordinary	11.0	15,194	29 March 2004
– interim dividend forgone for Share Investment Plan		(2,862)	
<i>Declared after end of year</i>			
– final – ordinary	11.5	16,100	27 September 2004
		39,626	
<b>Note</b>			
Dealt with in the financial report as:			
– dividends	15	23,526	
– noted as a subsequent event	15	16,100	
		39,626	

All dividends paid or declared by the Company since the end of the previous financial year are fully franked at 30%.

The Company's dividend policy is to pay 100% of its after tax profits to shareholders as dividends as long as the following conditions are met:

- the debt to equity ratio remains around or below 45% taking into account the funding needed to finance growth;
- no changes in the law in connection with the distribution of accumulated franking credits; and
- continued profitability at an acceptable level.

# Directors' Report

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## State of Affairs

Significant changes in the state of affairs of the consolidated entity during the year were as follows:

During August and September 2003, the consolidated entity obtained independent valuations of all freehold land and buildings. The net surplus on revaluation of the freehold land (increase of \$8.349 million) and buildings (decrease of \$0.784 million) is recognised in the value of property, plant and equipment and in the asset revaluation reserve to the extent that it is attributable to the members of the Company (\$7.064 million) and is recognised in outside equity interests to the extent that the revaluation is attributable to those interests (\$0.501 million). Refer Note 7 of the financial statements for further information.

The Company and its 100% owned Australian controlled entities entered into the tax consolidation regime on 4 March 2004, effective 1 July 2002. Refer Note 2(e) of the financial statements for further information.

During May 2004, Korvest Ltd, a controlled entity, disposed of its Elite Built operations. Sales proceeds of \$6.518 million were received in respect of assets and liabilities with a carrying value of \$5.200 million. The profit on sale of \$1.318 million has been recognised as individually significant. Refer Note 18(d) of the financial statements for further information.

In June 2004, the Company commenced a review of its Hills UK operations to ensure that results that were well below expectations do not continue. As a result of this review, it was determined that certain assets of Hills UK should be written down to better reflect their economic value. Write downs of \$1.000 million to plant and equipment have been recognised as individually significant.

## Environmental Regulation

The consolidated entity's manufacturing operations are subject to significant environmental regulation under both Commonwealth and State legislation.

The consolidated entity is committed to achieving a high standard of environmental performance. It has established processes whereby compliance with existing environmental regulations and new regulations is monitored continually.

These processes include procedures to be followed should an incident occur which adversely impacts the environment.

The directors are not aware of any significant breaches during the period covered by this report. As reported in prior years, a subsidiary of the Company has, in accordance with its compliance policy, been investigating whether the quality of soil and ground water was affected by the operations of the site's previous owners.

The directors are satisfied that these investigations and actions to date will ensure continued compliance with environmental legislation.

## Events Subsequent to Reporting Date

The Government has announced that it plans to amend the tax consolidation legislation. Details of the proposed changes are not yet available. The effects of any change will be brought to account when the legislation is substantively enacted and the Company can assess the impact.

For reporting periods starting on or after 1 July 2005, the consolidated entity must comply with International Financial Reporting Standards ("IFRS") as issued by the Australian Accounting Standards Board. The Company has established a formal project to achieve transition to IFRS reporting. The Company has also identified the key potential impacts of the conversion to IFRS on the consolidated entity. Refer Note 29(c) of the financial statements for further information.

Other than the 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 future financial years.

## Likely Developments

Australia has enjoyed several years of strong economic growth. Economic forecasters are predicting some slow down in domestic building activity but a continuation of high levels of activity in the commercial building market. Whilst exchange rates are significantly above the lows seen over the last few years, they are also well below recent highs creating a reasonable environment for Australian manufacturers. The directors anticipate an acceptable profit result for the year ended June 2005.

The Group remains focussed on profitable growth within the targeted maximum gearing level of 45% debt to equity. Further information has not been included in this report because, in the opinion of the directors, it would prejudice the interests of the consolidated entity.

# Directors' Report

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## Directors' and Senior Executives' Emoluments

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executive directors and senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity (including operational results). Shares issued to executive directors and senior executives are a result of the Employee Share Bonus Plan under which shares are issued to all employees with more than one year of service. Options issued to executive directors and senior executives are a result of the Executive Share Plan.

Non-executive directors do not receive any performance related remuneration.

Details of the nature and amount of each major element of the emoluments of each director of the Company and each of the five named officers of the Company and the consolidated entity receiving the highest emoluments are:

	Base Emolument \$	Incentive \$	Options \$	Other Benefits \$	Total \$
<b>Director</b>					
RD Hill-Ling	81,250	—	—	7,200	88,450
JH Hill-Ling	56,050	—	—	4,500	60,550
DJ Simmons	248,537	110,750	16,688	51,827	427,802
I Elliot	50,000	—	—	4,500	54,500
RB Flynn	59,950	—	—	—	59,950
GG Hill	50,000	—	—	4,500	54,500
PW Stancliffe	50,000	—	—	4,500	54,500
GL Twartz	250,555	14,400	12,516	62,921	340,392
<b>Officer</b>					
<b>The Company *</b>					
MI Canny	158,686	146,200	12,516	30,320	347,722
AR Oliver	174,462	118,234	9,387	44,678	346,761
PJ Mellino	131,902	129,662	4,172	15,123	280,859
R Meachem	137,863	80,620	2,086	10,287	230,856
A Colicchia	135,000	73,091	2,086	19,703	229,880
<b>Consolidated #</b>					
MI Canny	158,686	146,200	12,516	30,320	347,722
AR Oliver	174,462	118,234	9,387	44,678	346,761
PJ Mellino	131,902	129,662	4,172	15,123	280,859
SP Pradella	193,318	41,380	—	40,302	275,000
JA Easling	213,664	—	3,129	42,161	258,954

\* Hills Industries Limited

# Hills Industries Limited and its controlled entities

The options granted during the year expire on 31 January 2006 and each option entitles the holder to purchase one ordinary share in the Company. The ability to exercise the options is conditional on the consolidated entity achieving certain performance hurdles. Once exercised, the holder is restricted from selling the shares for a period of three years.

The value of options granted to executive directors and senior executives included above is calculated at the grant date using the valuation methodology set out in Division 13A of the Income Tax Assessment Act, 1936. This method has been adopted as the Black-Scholes method does not reflect the number of conditions that must be met under the plan, including those applying after the shares have been allocated. Further details of options granted during the year are set out under "Options" below.



# Directors' Report

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## Options

During or since the end of the financial year, the Company granted a total of 370,000 options over unissued ordinary shares to the following directors and to the following of the five most highly remunerated officers of the Company as part of their remuneration:

Director	Number of Options Granted		
	Issued during Current Period	Outstanding from Prior Period	Total on Issue
DJ Simmons	80,000	80,000	160,000
GL Twartz	60,000	40,000	100,000
<b>Officer</b>			
MI Canny	60,000	40,000	100,000
AR Oliver	45,000	40,000	85,000
PJ Mellino	20,000	20,000	40,000
R Meachem	10,000	–	10,000
A Colicchia	10,000	–	10,000
Other officers	85,000	60,000	145,000
Total number of options	370,000	280,000	650,000
Exercise price	\$3.66	\$3.23	
Exercise date	31/12/2005	31/12/2004	
Expiry date	31/01/2006	31/01/2005	

No options have been granted since the end of the financial year.

All options expire on the earlier of their expiry date or termination of the employee's employment. In addition, the ability to exercise the options is conditional on the consolidated entity achieving certain performance hurdles.

These options represent the total unissued ordinary shares of the Company under option at the date of this report. The options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

## Shares Issued on Exercise of Options

During or since the end of the financial year, the Company issued 195,000 ordinary shares as a result of the exercise of options. The amount paid on each share was \$2.90. There are no unpaid amounts on the shares issued.

## Directors' Interests

The relevant interest of each director in the share capital of the companies within the consolidated entity and any other related body corporates, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

## Hills Industries Limited Korvest Ltd

Director	Ordinary Shares	Options over Ordinary Shares	Ordinary Shares
RD Hill-Ling #	16,066,928	–	73,329
JH Hill-Ling *#	11,158,375	–	–
DJ Simmons	167,469	160,000	500
I Elliot	1,000	–	–
RB Flynn	18,926	–	–
GG Hill	4,019	–	–
PW Stancliffe	6,184	–	–
GL Twartz	70,698	100,000	10,000

\* includes 10,652,508 shares owned by Hills Associates Limited

# includes 470,724 shares owned by Hills Associates Limited and Poplar Pty Limited

## Insurance of Directors and Officers

Since the end of the previous financial year, the Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts for current and former directors and officers, including executive officers of the Company and directors, executive officers and secretaries of its controlled entities, with the exception of Korvest Ltd where only common directors are covered. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The premiums were paid in respect of all of the directors and officers of the Company and its controlled entities except as noted above.

The directors have not included details of the nature of the liabilities covered or the amount of the premiums paid in respect of the directors' and officers' liability and legal expenses insurance contracts as such disclosure is prohibited under the terms of the contracts.

## Rounding Off

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, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Edwardstown this 14th day of September 2004.

Signed in accordance with a resolution of the directors:

**RD Hill-Ling**  
Director

**DJ Simmons**  
Director

# Corporate Governance Statement

Hills Industries Limited and its Controlled Entities

## Introduction

This statement sets out Hills' commitment to business practices and corporate governance. It also describes the Hills approach to corporate governance and summarises the main policies and procedures that Hills has in place.

## ASX Principles of Good Corporate Governance

In March 2003 the Australian Stock Exchange ("ASX") published corporate governance guidelines. Hills has always had policies to ensure good business practices. The ASX recommendations first applied to Hills for the financial year ended 30 June 2004 and the extent of compliance is required to be reported on in this annual report.

The board has undertaken a detailed review of the ASX recommendations and determined that Hills already complied with the majority of them. Those recommendations deemed appropriate by Hills were implemented during the 2004 financial year.

Where Hills considers that a recommendation is not appropriate to its particular circumstances, it has the flexibility not to adopt it, as long as it explains why it has chosen not to adopt it.

The board has been monitoring the CLERP 9 legislation, particularly those provisions relating to financial reporting, corporate governance and Hills' relationship with its external auditors.

## Hills' Commitment to Ethical Business Practices

While the Hills board has adopted the ASX principles of good corporate governance and implemented most of the ASX recommendations, it believes that these types of rules and regulations are of limited value unless supported by a foundation of honesty and integrity which has been a foundation of Hills' business practice.

The board has adopted a formal (written) Code of Conduct for Hills, effectively a corporate creed that is best applied by asking "What is the right thing to do?" The code applies to all employees within Hills from the board, through management to all other staff. The code encourages all staff and other stakeholders to report any breaches of the code to the Chairman of the Board, who is required to investigate and report on all such matters.

The Code of Conduct is supported by more detailed policies setting out the philosophy of Hills in relation to its various stakeholders. A copy of the code is available on the Hills website at [www.hills.com.au](http://www.hills.com.au).

## Hills' Commitment to Good Corporate Governance

The Hills board's primary role is the protection and enhancement of long-term shareholder value. The board believes that good corporate governance is essential to fulfilling its role and that it positively contributes to long-term shareholder value.

The board delegates responsibility for the day-to-day management of Hills to the Group Managing Director and senior executives, but remains responsible for overseeing the performance of the management team. To ensure that this responsibility is clearly defined, the board has delegated a range of authorities to management through formal delegations. These include limited expenditure authority, the authority to enter into certain contracts and to engage staff.

## Board Composition

The Hills constitution allows for a maximum of ten directors. The Hills board currently comprises eight directors, six being non-executive directors plus the Group Managing Director and Finance Director. The directors come from a variety of business and professional backgrounds and bring to the board a range of skills and experience relevant to Hills. Details of the directors' experience, expertise and terms in office are set out in this annual report.

## Board Independence

Of the six non-executive directors, four are independent and two are non-independent. Mr RD Hill-Ling and Ms JH Hill-Ling, are considered non-independent primarily due to their ownership interest in Hills. Ms Hill-Ling is also considered non-independent due to the legal advisory services that she has provided to the Group. In assessing independence, the board has adopted a definition consistent with the guidance provided in the ASX best practice recommendations.

Two of the independent directors, Mr I Elliot and Mr PW Stancliffe, were invited to join the board in August 2003 after an internal review of the operations of the board identified a need to broaden its skill base and balance the number of independent directors with those considered non-independent.

Currently, the board has an equal number of independent and non-independent directors. In the event of a tied vote, the Chairman, a non-independent non-executive director, has the casting vote. This is not in accordance with ASX recommendation 2.1 but is considered appropriate for Hills.

The board believes that the first priority in the selection of directors is their ability to add value to the board and enhance Hills' performance whilst safeguarding shareholders' interests. Accordingly, relevant expertise and competence is considered as important as technical independence.

# Corporate Governance Statement

Hills Industries Limited and its Controlled Entities

## The Role of Chairman

The Chairman, Mr RD Hill-Ling, whilst non-executive, is a non-independent director. This is not in accordance with ASX recommendation 2.2 but is considered appropriate given:

1. the Hill-Ling family's interest in Hills;
2. Mr Hill-Ling's considerable experience within Hills and in the various industries within which Hills operates; and
3. the various positions and activities engaged in outside Hills, which are considered invaluable in his role as chairman.

The board believes that the role of chairman should be filled by the person most suited to the role, with the most relevant skills and experience and who adds the greatest value to the board and to Hills.

## Nomination Committee

The board has established a Nomination Committee to ensure that the board retains a sufficiently wide mix of expertise to fulfil its responsibilities. The Nomination Committee is responsible for devising criteria for board membership for approval by the full board, for identifying individuals for nomination and making recommendations to the board for new directors and membership of committees.

A director appointed to fill a casual vacancy must stand for election at the next annual general meeting. One third of the non-executive directors must retire at each annual general meeting, being those longest in office since their last election. Those directors are eligible for re-election at that meeting.

## Board Operations

During 2004 the board met 13 times and the directors' attendance at those meetings is set out in this annual report. The directors receive a comprehensive board pack before each meeting. The Chairman and the Group Managing Director meet regularly between board meetings. Senior executives regularly attend and present to board and committee meetings on particular issues.

All directors have unrestricted access to company records, information and personnel and the board has a policy of allowing the board or individual directors to seek independent professional advice at the Company's expense, subject to the approval of cost by the Chairman. Such approval shall not be unreasonably withheld.

## Board Committees

The board reviews its governance structures, including board committees, regularly to assess their effectiveness and efficiency. The board has formalised the Nomination Committee to make recommendations to the full board. It has also expanded the role of the Audit Committee, now the Audit and Compliance Committee. The Remuneration Committee continues to operate as before.

Each committee operates in accordance with a board approved charter. Details of committee membership and details of meetings and attendance at those meetings are set out in this annual report.

## Board Performance

The Hills board informally reviews the operations of the board and its committees and the performance of its individual directors. The review is conducted annually, focussing on a few key issues each year with a view to assessing overall performance over a three year period.

The board has also formalised a process for the induction of new directors to ensure they are provided with the information required to properly perform their role.

## Directors' Remuneration

The remuneration of non-executive directors is different to that of executives. Executive directors receive a salary and may receive bonuses and options in accordance with plans approved by shareholders. Further details in respect of executive remuneration are set out later in this report.

Non-executive directors receive a set fee per annum and are fully reimbursed for any out of pocket expenses necessarily incurred in carrying out their duties. They do not receive any performance related remuneration, nor shares or options as part of their remuneration.

When reviewing directors' fees, the board takes into account any changes in the size and scope of Hills' activities, the potential liability of directors and the demands placed on them in discharging their responsibilities. The board also considers the advice of independent remuneration consultants.

## Retirement Benefits

Directors receive their statutory superannuation entitlements. In addition, certain non-executive directors are entitled to receive benefits on retirement under a scheme which has now been discontinued.

Under the scheme, directors are entitled to a maximum retirement benefit of twice their annual directors' fees (calculated as an average of their fees over the last three years) accumulated over a period of eight years of service.

Since the scheme was discontinued, no new directors have become entitled to any benefit and the benefit multiple for existing directors (up to a maximum of two times fees) remains fixed.

The value of the directors' retirement benefits at 30 June 2004 are set out below:

– RD Hill-Ling	\$160,000
– JH Hill-Ling	\$100,000
– GG Hill	\$64,000

These benefits have been fully provided for in the financial statements.

# Corporate Governance Statement

Hills Industries Limited and its Controlled Entities

## Contracts with Directors

Details of transactions between directors and members of the Hills Group are set out in this annual report.

Ms JH Hill-Ling is a consultant to Blessington Judd, a law firm located in Sydney, which is one of a number of law firms that provide legal advisory services to the Group. As already noted, Ms Hill-Ling is classified as a non-independent director due to her ownership interest in Hills and the legal advisory services that she provides.

## Indemnity and Insurance of Directors

In accordance with Hills' constitution and to the extent permitted by law, Hills indemnifies every person who is, or has been, a director or secretary and may agree to indemnify a person who is or has been an officer of a group company against a liability incurred by that person in his or her capacity as such a director, secretary or officer, to another person (other than the company or a related body corporate of the company) provided that the liability does not arise out of conduct involving a lack of good faith. In addition, Hills has directors and officers insurance against claims and expenses that Hills may be liable to pay under these indemnities.

## Hills' Commitment to Financial Integrity

The board has policies designed to ensure that Hills' financial reports meet high standards of disclosure and provide the information necessary to understand Hills' financial performance and position. The policies require that the Group Managing Director and Finance Director provide to the board prior to the board approving the annual and half-year accounts, a written statement that the accounts present a true and fair view, in all material respects, of Hills' financial performance and position and are in accordance with relevant accounting standards, laws and regulations.

## Audit and Compliance Committee

The board has an Audit and Compliance Committee. The committee has a board approved charter setting out its role, responsibilities, structure and membership requirements. A copy of its charter can be found on the Hills website.

The committee consists of three directors, all of whom are non-executive and the majority of whom are independent. The Chairman of the committee is an independent director who is not the Chairman of the Board. The Group Managing Director, Finance Director and external and internal auditors are invited to attend the committee meetings. Details of membership and attendance at committee meetings are set out in this annual report.

The Audit and Compliance Committee is responsible for reviewing the financial accounts and other financial information distributed externally, monitoring the adequacy of risk management and internal control systems and monitoring procedures in place to ensure compliance with statutory responsibilities.

## Audit Process

Hills' financial accounts are subject to an annual audit by an independent, professional auditor, who also reviews the half-year accounts. The Board requests the external auditor to attend the annual general meeting each year and to be available to answer shareholder questions regarding the conduct of the audit and the preparation and content of the auditor's report.

## Auditor Independence

The board has in place policies for ensuring the quality and independence of Hills' external auditors. The majority of fees paid to Hills' external audit firms for work other than the audit of the accounts were for taxation services. Details of the amounts paid for both audit and non-audit services are set out in this annual report.

The board requires that adequate hand-over occurs in the year prior to rotation of an audit partner to ensure an efficient and effective audit under the new partner.

## Risk Management and Oversight

The Group Managing Director is charged with implementing appropriate risk systems within Hills. He includes in his report to the board a risk report that notifies directors of any issues or concerns.

The board reviews all major strategies and purchases for their impact on the risks facing Hills and takes appropriate action. Similarly, Hills reviews all aspects of its operations for changes to the risk profile on an annual basis.

Hills' internal audit department is responsible for reviewing compliance with the internal control systems and operates under a board approved charter. The Internal Audit Manager reports to the Group Managing Director and has access to both the Chairman of the Audit and Compliance Committee and Chairman of the Board as and if required. The Audit and Compliance Committee oversees the operation of the internal audit department, approves its plans and reviews its work program and activities.

# Corporate Governance Statement

Hills Industries Limited and its Controlled Entities

## Hills' Commitment to Responsible Executive Remuneration

The Hills board believes that it has a responsibility to ensure that executive remuneration is fair and reasonable, having regard to the competitive market for executive talent, structured effectively to motivate and retain valued executives and designed to produce value for shareholders. Details in respect of Hills' remuneration policies, their costs and benefits and the link between remuneration and corporate performance are set out in this annual report.

The Remuneration Committee sets policies for directors' and senior officers' remuneration, makes specific recommendations to the board on the remuneration of directors and senior officers and undertakes a detailed review of the performance of the Group Managing Director at least annually. The committee operates in accordance with a board approved charter (a copy of which is available on the Hills website) and consists of three directors with a majority being independent. Details of membership and attendance at committee meetings are set out in this annual report.

## Hills' Commitment to its Shareholders

### *Market disclosure*

The board is committed to ensuring that shareholders are informed of all non-confidential material matters. It accomplishes this through:

- the annual report distributed at the end of September each year;
- the Chairman's address to the annual general meeting which is mailed to all shareholders;
- the letter from the Chairman mailed to all shareholders on the release of the half-year financial results; and
- making appropriate disclosure to the market where necessary.

The board has established continuous disclosure controls throughout Hills that include senior executives providing regular sign-off concerning matters that require disclosure to the ASX.

### *Share Dealings by Directors and Officers*

In accordance with Hills' constitution, all directors are required to be shareholders and hold a minimum of 500 shares. Hills has for many years encouraged the holding of its shares by directors and employees.

The board has adopted a share dealing policy that specifically precludes directors and officers from buying or selling shares within 45 days prior to the announcement of the annual or half-year results, the day of and the day after the announcements and if in possession of price sensitive information not generally available to the public. Details of directors' individual shareholdings are set out in this annual report.

## Hills' Commitment to its Other Stakeholders

Hills recognises its obligations to its various stakeholders and that it is always responsible and accountable for its actions and their consequences.

### *Hills' Commitment to its Staff*

Hills aspires to be an "employer of choice", a well regarded and progressive employer that provides safe and rewarding workplaces for all of its staff so that they can fully contribute their talents to the achievement of corporate goals.

Hills encourages its staff to become shareholders and share in the success of the Group. The employee share plan offers all permanent staff with more than one year of continuous service ordinary shares in Hills.

Hills is committed to protecting the health, safety and wellbeing of its staff, contractors and visitors to its premises.

### *Hills' Commitment to the Environment*

Hills cares about the environment and recognises that protection of it is an integral and fundamental part of its business. Hills has an environmental management system in place and management assists staff to understand and implement the relevant aspects of this system in their day-to-day work.

Environmental compliance is monitored with relevant issues being reported through management to the board.

### *Hills' Commitment to the Community*

The board believes that Hills has a responsibility to the Australian community, along with the communities of the other regions around the world in which the Group operates. Hills aspires to be a good corporate citizen through the effective provision of quality products, through the taxes it pays, the employment and training it provides its staff, the involvement of its staff in professional, educational and community organisations and through the donations it makes to various charities.

Hills is justifiably proud of its reputation as a dependable Australian company.



# Statements of Financial Performance

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

	Note	Consolidated		The Company	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenues from ordinary activities	2	725,184	673,662	271,795	268,262
Expenses from ordinary activities, excluding borrowing costs	2	665,943	618,911	240,253	242,549
Borrowing costs		5,282	4,930	2,043	1,202
<b>Profit from ordinary activities before related income tax expense</b>		<b>53,959</b>	49,821	<b>29,499</b>	24,511
Income tax expense relating to ordinary activities	3	15,970	15,895	6,820	7,494
<b>Profit from ordinary activities after related income tax expense</b>		<b>37,989</b>	33,926	<b>22,679</b>	17,017
Net profit attributable to outside equity interests		6,875	6,678	–	–
<b>Net profit attributable to members of the Company</b>		<b>31,114</b>	27,248	<b>22,679</b>	17,017
Non-owner transaction changes in equity:					
• Increase in asset revaluation reserve	13	7,064	888	3,018	–
• Net exchange differences relating to self-sustaining foreign operations	13	804	(557)	–	–
Total revenues, expenses and valuation adjustments attributable to members of the Company recognised directly in equity		7,868	331	3,018	–
<b>Total changes in equity from non-owner related transactions attributable to members of the Company</b>		<b>38,982</b>	27,579	<b>25,697</b>	17,017
Basic earnings per share	24	22.5¢	20.7¢		
Diluted earnings per share	24	22.5¢	20.7¢		
Basic earnings per share excluding individually significant items	24	22.6¢	20.8¢		
Diluted earnings per share excluding individually significant items	24	22.6¢	20.8¢		
Dividends per share in respect of the current reporting period		22.5¢	21.0¢		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 30 to 59.

# Statements of Financial Position

As at 30 June 2004. Hills Industries Limited and its Controlled Entities

		Consolidated		The Company	
	Note	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Current Assets</b>					
Cash assets		21,835	6,297	6,969	6,228
Receivables	4	118,884	109,020	80,762	53,998
Inventories	5	89,610	83,613	25,154	25,381
Total current assets		230,329	198,930	112,885	85,607
<b>Non-Current Assets</b>					
Receivables	4	6,399	1,918	6,399	1,918
Investments	6	104	14	52,964	52,870
Property, plant and equipment	7	155,821	147,279	52,341	47,208
Intangible assets	8	15,388	17,539	3,306	3,886
Deferred tax assets		20,042	16,208	14,617	10,429
Total non-current assets		197,754	182,958	129,627	116,311
<b>Total assets</b>		<b>428,083</b>	<b>381,888</b>	<b>242,512</b>	<b>201,918</b>
<b>Current Liabilities</b>					
Payables	9	69,369	71,865	50,517	51,072
Interest-bearing liabilities	10	10,501	7,959	17,171	954
Current tax liabilities		9,286	8,048	6,917	2,960
Provisions	11	24,866	21,600	12,467	13,155
Total current liabilities		114,022	109,472	87,072	68,141
<b>Non-Current Liabilities</b>					
Interest-bearing liabilities	10	74,336	55,742	26,498	10,606
Deferred tax liabilities		1,002	1,464	–	–
Provisions	11	4,390	9,097	3,700	8,291
Total non-current liabilities		79,728	66,303	30,198	18,897
<b>Total liabilities</b>		<b>193,750</b>	<b>175,775</b>	<b>117,270</b>	<b>87,038</b>
<b>Net assets</b>		<b>234,333</b>	<b>206,113</b>	<b>125,242</b>	<b>114,880</b>
<b>Equity</b>					
Contributed equity	12	68,300	60,109	68,300	60,109
Reserves	13	33,876	26,008	14,344	11,326
Retained profits	14	97,340	89,752	42,598	43,445
Total Company interest		199,516	175,869	125,242	114,880
Outside equity interests	16	34,817	30,244	–	–
<b>Total equity</b>	17	<b>234,333</b>	<b>206,113</b>	<b>125,242</b>	<b>114,880</b>

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 30 to 59.

# Statements of Cash Flows

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

		Consolidated		The Company	
	Note	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Cash Flows from Operating Activities</b>					
Cash receipts in the course of operations		791,616	731,719	282,238	282,597
Cash payments in the course of operations		(731,275)	(664,807)	(257,105)	(250,181)
Interest received		791	587	2,243	1,184
Dividends received		–	–	2,525	3,683
Borrowing costs paid		(5,211)	(4,852)	(2,076)	(1,138)
Income taxes paid		(19,118)	(14,991)	(7,051)	(5,995)
<b>Net cash provided by operating activities</b>	18(b)	<b>36,803</b>	47,656	<b>20,774</b>	30,150
<b>Cash Flows from Investing Activities</b>					
Proceeds on disposal of property, plant and equipment		917	2,123	332	647
Payments for property, plant and equipment		(23,432)	(30,469)	(9,948)	(7,439)
Proceeds on disposal of investments		–	4,283	–	4,282
Payments for investments		(94)	(2)	(94)	(18,140)
Payments for intangible assets		(370)	(109)	(370)	(109)
Proceeds on disposal of controlled entities (net of cash disposed)	18(c)	–	6,198	–	–
Proceeds on disposal of business operations (net of cash disposed)	18(d)	6,518	831	–	370
Payments for controlled entities (net of cash acquired)	18(c)	(3,091)	(15,592)	(3,091)	–
Payments for business operations (net of cash acquired)	18(d)	–	(1,144)	–	–
Loans repaid by other entities		492	594	–	9,660
Loans provided to other entities		(5,142)	(1,476)	(28,166)	(13,873)
Rent received		878	815	1,586	1,496
<b>Net cash used in investing activities</b>		<b>(23,324)</b>	(33,948)	<b>(39,751)</b>	(23,106)
<b>Cash Flows from Financing Activities</b>					
Proceeds from borrowings		61,539	22,953	30,194	12,513
Repayment of borrowings		(42,771)	(25,999)	(10,121)	(9,282)
Finance lease payments		(658)	(699)	–	–
Proceeds from issue of shares by the Company		8,191	20,381	8,191	20,381
Proceeds from equity contributed by outside equity interests		77	68	–	–
Dividends paid by the Company		(23,526)	(20,792)	(23,526)	(20,792)
Dividends paid to outside equity interests		(3,263)	(2,070)	–	–
<b>Net cash provided by / (used in) financing activities</b>		<b>(411)</b>	(6,158)	<b>4,738</b>	2,820
<b>Net increase / (decrease) in cash held</b>		<b>13,068</b>	7,550	<b>(14,239)</b>	9,864
<b>Cash at the beginning of the year</b>		<b>6,297</b>	(1,279)	<b>6,228</b>	(3,636)
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(83)	26	–	–
<b>Cash at the end of the year</b>	18(a)	<b>19,282</b>	6,297	<b>(8,011)</b>	6,228

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 30 to 59.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 1 Statement of Significant Accounting Policies

The significant accounting policies which have been adopted in the preparation of this financial report are:

### (a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year.

### (b) Principles of Consolidation

The consolidated financial statements of the economic entity comprise the financial statements of the Company, being the parent entity and its controlled entities ("the consolidated entity"). Inter-entity balances and transactions have been eliminated.

Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

### (c) Goodwill – Note 8

Goodwill, representing the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired, is amortised on a straight line basis. The period of amortisation is the period of time over which benefits are expected to arise and does not exceed 20 years.

The unamortised balance of goodwill is reviewed at least annually. Where the balance exceeds the value of expected future benefits, the difference is charged to the statement of financial performance.

### (d) Foreign Currency – Note 28(b)

#### Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date. Exchange differences relating to such amounts are brought to account in the statement of financial performance in the financial year in which the exchange rates change.

#### Translation of Controlled Foreign Entities

The assets and liabilities of foreign operations that are self-sustaining are translated at the rates of exchange ruling at reporting date. Equity items are translated at historical rates. The statement of financial performance is translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal, or partial disposal, of the operations.

### (e) Taxation – Note 3

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt or, if relating to tax losses, when realisation is virtually certain.

Capital gains tax, if applicable, is provided for in establishing period income tax expense when an asset is sold.

#### Tax Consolidation

The Company is the head entity in the tax-consolidated group comprising the Australian wholly-owned subsidiaries set out in Note 26. The implementation date for the tax-consolidated group is 1 July 2002. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group.

### (f) Investments – Note 6

#### Controlled Entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

#### Other Entities

Investments in other listed and unlisted companies are carried at the lower of cost and recoverable amount. Dividends are brought to account as they are received.

### (g) Inventories – Note 5

Inventories are carried at the lower of cost and net realisable value.

Cost includes direct materials, direct labour, other direct variable costs and allocated fixed and variable production overheads necessary to bring inventories to their present location and condition, based on normal operating capacity of the production facilities.

#### Manufacturing Activities

The cost of manufacturing inventories and work-in-progress are assigned on a "first-in, first-out" basis. Costs arising from exceptional wastage are expensed as incurred.

#### Net Realisable Value

Net realisable value is determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and deducted to establish net realisable value.

### (h) Property, Plant and Equipment – Note 7

#### Acquisition

Property, plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the consolidated entity if a similar borrowing were obtained from an independent financier under comparable terms and conditions. The unwinding of the discount is treated as interest expense.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 1 Statement of Significant Accounting Policies (continued)

### (h) Property, Plant and Equipment – Note 7 (continued)

#### Revaluation

Land and buildings are measured at fair value and revalued with sufficient regularity to ensure the carrying amount of each asset does not differ materially from fair value at reporting date. Independent valuations are obtained at least every four years.

Revaluation increments, on a class of assets basis, are recognised in the asset revaluation reserve except for amounts reversing a decrement previously recognised as an expense, which are recognised as revenues. Revaluation decrements are only offset against revaluation increments relating to the same class of asset and any excess is recognised as an expense. Potential capital gains tax is only taken into account if the asset is held for sale.

Other items of property, plant and equipment are carried at the lower of cost less accumulated depreciation and recoverable amount.

#### Depreciation and Amortisation

Property, plant and equipment, excluding land, are depreciated over their estimated useful lives taking into account estimated residual values. The reducing balance, straight line or units of production method is used as considered appropriate.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. The depreciation rates used for each class of asset remain unchanged from the previous year and are as follows:

Buildings	0.75%
Leasehold improvements	20.00% to 33.3%
Plant and equipment	5.00% to 33.3%

The rates specified for plant and equipment include the Orrcon Pipe and Large Tube Mill, depreciated using the units of production method, based on anticipated normal production over a 20 year period and consistent with an annualised depreciation rate of 5%.

Depreciation and amortisation rates are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset (generally inventory) as an allocation of production overheads.

### (i) Recoverable Amount of Non-Current Assets

The carrying amount of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

### (j) Leased Assets – Note 19

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

#### Finance Leases

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Lease liabilities are reduced by repayments of principle. The interest components of the lease payments are expensed.

#### Operating Leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

### (k) Patents and Trademarks – Note 8

The costs of patents and trademarks are amortised on a straight line basis over the period in which the related benefits are expected to be realised, being 15 to 20 years.

The carrying amounts of patents and trademarks are reviewed at the end of each year to ensure the carrying amount is not in excess of the recoverable amount.

### (l) Provisions – Note 11

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, being risk free rates on government bonds most closely matching the expected future payments. The unwinding of the discount is treated as part of the expense related to the particular provision.

#### Provision for Outstanding Claims

Provision is made for the estimated cost of all workers' compensation and product warranty claims notified but not settled at year end less reinsurance recoveries, using the information available at that time.

#### 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.

#### Provision for Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

### (m) Employee Benefits

#### Wages, Salaries and Annual Leave

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity 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 interest free loans, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 1 Statement of Significant Accounting Policies (continued)

### (m) Employee Benefits (continued)

#### Long Service Leave

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

#### Employee Share and Option Plans

Shares issued to employees as part of the Employee Share Bonus Plan and options issued to employees as part of the Executive Share Plan are recorded in contributed equity at the fair value of the consideration received, if any.

#### Superannuation Plans

The Company and other controlled entities contribute to several defined contribution superannuation plans. Contributions are recognised as an expense as they are made.

### (n) Derivatives – Note 28

The consolidated entity is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The consolidated entity uses the following derivative financial instruments to hedge these risks: interest rate swaps and forward foreign exchange contracts. Derivative financial instruments are not held for speculative purposes.

#### Interest Rate Swaps

Interest payments and receipts under interest rate swap contracts are recognised on an accruals basis in the statement of financial performance as an adjustment to interest expense during the period.

#### Forward Foreign Exchange Contracts

Forward foreign exchange contracts are used to hedge anticipated but unspecified purchase and sale commitments specified in foreign currencies. Gains or losses on forward foreign exchange contracts are recognised in the statement of financial performance as the contracts are utilised to settle the foreign exchange commitments.

### (o) Borrowing Costs

Borrowing costs include interest, lease finance charges and the expiration of discount on certain deferred liabilities recorded at their present value. Where interest rates are hedged or swapped, the borrowing costs are recognised net of any effect of the hedge or swap.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets.

### (p) Receivables – Note 4

Trade debtors to be settled within normal trading terms are carried at amounts due. The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts.

### (q) Payables – Note 9

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or consolidated entity. Trade accounts payable are normally settled within 60 days.

### (r) Bank Loans – Note 10

Bank loans are carried on the statement of financial position at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and the accrued amount included in "Other creditors and accruals".

### (s) Revenue Recognition – Note 2

#### Sales Revenue

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of goods to entities outside the consolidated entity. Sales revenue is recognised when the goods are provided.

#### Interest Income

Interest income is recognised as it accrues.

#### Dividend Income

Dividends are recognised as income as they are received, net of any franking credits.

#### Sale of Non-Current Assets

The gross proceeds of non-current asset sales are recognised as revenue at the date the asset is sold. The gain or loss on sale is calculated as the difference between the carrying amount of the asset at the time of sale and the net proceeds on sale (including incidental costs).

### (t) Goods and Services Tax

Revenues, expenses and assets (other than receivables) are recognised net of the amount of goods and services tax ("GST") except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). 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 statement of financial position.

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.

### (u) Earnings per Share – Note 24

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the Company for the reporting period by the weighted average number of ordinary shares of the Company.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 1 Statement of Significant Accounting Policies (continued)

### (v) Use and Revision of Accounting Estimates – Note 2(e)

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

	Consolidated		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000

## 2 Revenues, Expenses and Profit from Ordinary Activities

### (a) Revenues from Ordinary Activities

#### Revenues from operating activities

Sales of goods	713,643	660,600	259,153	251,780
Interest received or receivable from:				
– other entities	743	582	583	156
– controlled entities	–	–	1,659	1,028
Dividends received or receivable from:				
– other entities	–	–	–	–
– controlled entities	–	–	2,525	3,683
Property rentals	868	815	1,586	1,496
Other income	2,495	4,427	5,957	4,820
	717,749	666,424	271,463	262,96

#### Revenues from outside operating activities

Proceeds on disposal of non-current assets	7,435	7,238	332	5,299
Total revenues from ordinary activities	725,184	673,662	271,795	268,262

### (b) Expenses from Ordinary Activities

Costs of goods sold	465,371	435,074	154,829	153,680
Sales and marketing expenses	92,258	88,236	52,806	49,655
Distribution expenses	49,480	44,834	16,019	15,036
Administration expenses	38,169	36,335	13,845	14,770
Occupancy expenses	12,844	10,759	2,439	3,403
Other expenses	7,821	3,673	315	6,005
Expenses from ordinary activities, excluding borrowing costs	665,943	618,911	240,253	242,549
Borrowing costs	5,282	4,930	2,043	1,202
Total expenses from ordinary activities	671,225	623,841	242,296	243,751

	Consolidated		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000

### (c) Individually Significant Items

Individually significant expenses / (revenues) included in profit from ordinary activities before income tax expense:

Proceeds on sale of business	(6,518)	–	–	–
Carrying amount of assets and liabilities sold	5,200	–	–	–
Net gain on sale of business	(1,318)	–	–	–
Resulting from the sale of the Elite Built business by Korvest Ltd.				
Recoverable amount write down	1,000	–	–	–
Resulting from the write down in the value of plant and equipment due to continuing losses in Hills Industries Limited (UK).				
Proceeds on sale of investment	–	(4,252)	–	(4,252)
Carrying amount of investment sold	–	1,119	–	1,119
Net gain on sale of investment	–	(3,133)	–	(3,133)
Resulting from the sale of Hills' interest in Radio Frequency Systems Pty Ltd.				
Write off of loans owed to the Company by a controlled entity that are no longer recoverable	–	–	–	925
Provision for repayment of the borrowings of a controlled entity guaranteed by the Company	–	–	–	3,135
	–	–	–	4,060

Resulting from the recognition by the Company of the accumulated losses of ePic Australia Pty Ltd, a controlled entity. The business of ePic Australia Pty Ltd has been suspended and the write off and provision are non-recurring.

Additional individually significant items are included as part of income tax expense (refer Note 3) and net profit attributable to outside equity interests (refer Note 16).

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

	Consolidated		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000

## 2 Revenues, Expenses and Profit from Ordinary Activities (continued)

### (d) Profit from Ordinary Activities

Profit from ordinary activities before income tax expense has been arrived at after charging / (crediting) the following items:

Depreciation of buildings	684	446	259	165
Depreciation of plant and equipment	16,743	15,394	7,334	5,450
Total depreciation of property, plant and equipment	17,427	15,840	7,593	5,615
Amortisation of goodwill	672	521	320	189
Amortisation of patents and trademarks	1,624	1,681	630	721
Total amortisation of intangibles	2,296	2,202	950	910
Total depreciation and amortisation	19,723	18,042	8,543	6,525
Write down in value of plant and equipment to recoverable amount	1,000	613	–	–
Write down in value of intangibles to recoverable amount	225	1,492	–	821
Interest paid or payable				
– other entities	5,219	4,831	1,563	1,084
– controlled entities	–	–	480	118
Finance charges on capitalised leases	63	99	–	–
Total borrowing costs	5,282	4,930	2,043	1,202
Interest received or receivable				
– other entities	(743)	(582)	(583)	(156)
– controlled entities	–	–	(1,659)	(1,028)
Net borrowing costs	4,539	4,348	(199)	18
Write-down in value of inventories	854	1,692	200	–
Reversal of write-down in inventories	(88)	(532)	–	(500)

The reversal in the write-down of inventories was predominately due to minor improvements (reductions) in the level of slow moving and obsolete stock across a number of controlled entities. The prior year's reversal was due to an improvement (reduction) in the level of slow moving and obsolete stock held by the Company. This was the result of a stock rationalisation program undertaken by the Company.

	Consolidated		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000

Net bad and doubtful debts expense including movements in provision for doubtful debts	4,015	3,394	2,258	2,242
Net bad and doubtful loans expense including movements in provision for doubtful loans	–	2,250	–	3,175
(Profit) / loss on disposal of non-current assets:				
– property, plant and equipment	(260)	(425)	(92)	(159)
– investments	–	(3,133)	–	(3,133)
– business operations	(1,318)	(96)	–	(100)
	(1,578)	(3,654)	(92)	(3,392)
Lease rental expense – operating leases	9,062	7,349	870	1,944
Auditors' remuneration:				
Audit services				
– KPMG Australia	186	198	126	112
– overseas KPMG firms	92	79	–	–
– other auditors	53	–	–	–
	331	277	126	112
Other services				
– KPMG Australia *	263	182	259	65
– overseas KPMG firms *	62	119	–	–
	325	301	259	65

\* Primarily taxation and other assurance services

### (e) Revision of accounting estimate – deferred tax balances

As a consequence of the enactment of the tax consolidation legislation and the Company, as the head entity in a tax-consolidated group, implementing tax consolidation on 4 March 2004 effective from 1 July 2002, the Company has applied UIG 52 "Income Tax Accounting under the Tax Consolidation System".

Where assets have had their tax value reset under tax consolidation, the subsidiary-related deferred tax balances recognised in the Company and consolidated entity have been determined based on the tax-consolidated group carrying amount for the subsidiaries' assets less the reset tax bases. For other assets and liabilities, the subsidiary-related deferred tax balances recognised in the Company and consolidated entity have been determined based on the previous timing differences at the level of the tax-consolidated group. The consolidated entity has reflected all adjustments in income tax expense as it has elected not to open past acquisition accounting. Future acquisition accounting will take deferred tax balances into account.

In the Company, the effect of implementing tax consolidation and of applying UIG 52 was:

- an increase in deferred tax assets of \$1,398,000;
- an increase in current tax liabilities of \$906,000; and
- a corresponding decrease in income tax expense of \$492,000.

There was no effect on the consolidated entity.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

	Consolidated		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
<b>3 Taxation</b>				
<b>(a) Income Tax Expense</b>				
Prima facie income tax expense calculated at 30% (2003: 30%) on the profit from ordinary activities	16,188	14,946	8,850	7,353
Tax losses of controlled entities not carried forward as future income tax benefits	496	1,195	—	—
Capital gains tax adjustment on sale of land and buildings	165	—	—	—
Imputation gross-up on dividends received	—	—	324	—
Franking credits on dividends received	—	—	(1,082)	—
Employee share plan	(569)	(545)	(510)	(496)
Income tax expense related to current and deferred tax transactions of the wholly-owned subsidiaries in the tax-consolidated group	—	—	(492)	—
Income tax over-provided in prior year	(141)	(465)	—	(88)
Other items	(169)	764	(270)	725
Income tax expense relating to ordinary activities	15,970	15,895	6,820	7,494

**(b) Individually significant items included in income tax expense relating to ordinary activities**

Income tax expense relating to sale of business	561	—	—	—
Resulting from the sale of the Elite Built business by Korvest Ltd.				
Write off of future income tax benefits previously recognised on tax losses where recovery is no longer virtually certain	—	1,195	—	—
Resulting from losses incurred by ePic Australia Pty Ltd in prior years.				

**(c) Future Income Tax Benefits Not Taken to Account**

The potential future income tax benefits in controlled entities arising from tax losses that have not been recognised as an asset because recovery is not virtually certain

1,691	1,195	—	—
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The potential future income tax benefits will only be obtained if:

- (i) the relevant companies derive future assessable income of a nature and amount sufficient to enable the benefits to be realised, or the benefits can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- (ii) the relevant companies and / or the consolidated entity continue to comply with the conditions for deductibility imposed by law; and
- (iii) no changes in tax legislation adversely affect the relevant companies and / or the consolidated entity in realising the benefits.

**4 Receivables**

**Current**

Trade debtors	125,081	113,021	48,049	39,786
Less provision for doubtful debts	9,277	7,260	6,300	4,240
	115,804	105,761	41,749	35,546
Other debtors	1,566	1,913	12	—
Loans – other entities	3,764	3,596	3,762	3,102
Loans – controlled entities	—	—	41,549	18,525
Less provision for doubtful loans				
– other entities	2,250	2,250	2,250	2,250
– controlled entities	—	—	4,060	925
	1,514	1,346	39,001	18,452
	118,884	109,020	80,762	53,998

**Non-current**

Loans – other entities	6,399	1,918	6,399	1,918
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Loans paid to controlled entities during the year	—	—	23,024	13,242
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**5 Inventories**

**Current**

Raw materials at cost	26,263	26,594	5,137	5,508
Work in progress at cost	3,870	3,565	46	56
Finished goods at cost	64,960	58,980	22,671	22,317
Less provision for stock obsolescence	5,483	5,526	2,700	2,500
	59,477	53,454	19,971	19,817
	89,610	83,613	25,154	25,381



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

	Consolidated		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
<b>6 Investments</b>				
<b>Non-current</b>				
Shares in controlled entities				
– unlisted companies at cost – refer Note 26	–	–	52,862	52,862
Shares in other entities				
– listed companies at cost	104	14	102	8
	104	14	52,964	52,870

## 7 Property, Plant and Equipment

### Freehold Land

At fair value *	29,067	21,599	14,560	10,754
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### Freehold Buildings

At fair value *	46,342	44,669	22,499	21,536
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### Plant and Equipment

At cost	174,020	165,988	69,300	63,958
Less accumulated depreciation	93,608	84,977	54,018	49,040
	80,412	81,011	15,282	14,918

Total property, plant and equipment at net book value	155,821	147,279	52,341	47,208
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### Reconciliations

Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:

### Freehold Land

Carrying amount at the beginning of the year	21,599	21,046	10,754	10,145
Additions	248	609	–	609
Revaluations	8,349	–	3,806	–
Disposals through sale of business operations	(1,300)	–	–	–
Differences on translation of foreign operations	171	(56)	–	–
Carrying amount at the end of the year	29,067	21,599	14,560	10,754

### Freehold Buildings

Carrying amount at the beginning of the year	44,669	44,362	21,536	21,353
Additions	4,705	613	2,010	348
Revaluations	(784)	888	(788)	–
Disposals	–	(391)	–	–
Disposals through sale of business operations	(1,880)	–	–	–
Depreciation	(684)	(446)	(259)	(165)
Differences on translation of foreign operations	316	(357)	–	–
Carrying amount at the end of the year	46,342	44,669	22,499	21,536

	Consolidated		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
<b>Plant and Equipment</b>				
Carrying amount at the beginning of the year	81,011	64,915	14,918	14,374
Additions	18,479	29,288	7,938	6,482
Additions through acquisition of businesses	–	4,914	–	–
Disposals	(657)	(1,306)	(240)	(488)
Disposals through sale of business operations	(1,067)	(102)	–	–
Depreciation	(16,743)	(15,394)	(7,334)	(5,450)
Write down to recoverable amount	(1,000)	(613)	–	–
Differences on translation of foreign operations	389	(691)	–	–
Carrying amount at the end of the year	80,412	81,011	15,282	14,918

\* Fair value at 30 June 2004 is a directors' valuation as at that date based on an independent valuation of all freehold land and buildings carried out during August and September 2003 and dated 15 September 2003. The valuation process was managed by AON Risk Services Australia Limited with the individual valuations being performed by various certified valuers. The valuations were determined having regard to the highest and best use of the assets for which market participants would be prepared to pay.

The surplus on revaluation of the consolidated entity's freehold land (increase of \$8,349,000) and buildings (decrease of \$784,000) is recognised in the value of property, plant and equipment in accordance with AASB 1041 "Revaluation of Non-Current Assets". The net surplus on revaluation is recognised in the asset revaluation reserve to the extent that it is attributable to the members of the Company (\$7,064,000) and recognised in outside equity interests to the extent that the revaluation is attributable to those interests (\$501,000).

Fair value at 30 June 2003 is a directors' valuation as at that date based on an independent valuation carried out as at May 2000 by Mr N Satchell, AAPI, BAppSc(Val) on the basis of market value for existing use. In addition, the freehold buildings of Hills Industries Limited (UK), a controlled entity incorporated in the United Kingdom, were revalued by directors to fair value prior to the sale of part of the consolidated entity's interest in Hills Industries Limited (UK). The total revaluation increment was \$888,000.

The costs of additions since the valuations are deemed to be the fair value of those assets. The directors are of the opinion that these bases provide a reasonable estimate of fair value.

Plant and equipment includes an immaterial amount of plant and equipment acquired using lease finance. Leased plant and equipment is capitalised at a value equal to the present value of the minimum lease payments recorded at the inception of the lease. Leased plant and equipment is depreciated on the same basis as plant and equipment which is owned.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

	Consolidated		The Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>8 Intangibles</b>				
<b>Goodwill</b>				
Goodwill on consolidation	10,081	10,081	–	–
Less accumulated amortisation	4,314	3,995	–	–
	5,767	6,086	–	–
Goodwill purchased	3,873	3,703	3,149	2,979
Less accumulated amortisation	3,605	3,403	3,149	2,979
	268	300	–	–
<b>Patents and Trademarks</b>				
Patents and trademarks – at cost	14,604	15,930	6,265	7,365
Less accumulated amortisation	5,251	4,777	2,959	3,479
	9,353	11,153	3,306	3,886
	15,388	17,539	3,306	3,886

<b>9 Payables</b>				
<b>Current</b>				
Trade creditors	45,779	50,480	15,421	21,402
Sundry creditors and accruals	23,430	21,170	9,941	7,458
Other loans – unsecured	160	215	–	–
Loans – controlled entities	–	–	25,155	22,212
	69,369	71,865	50,517	51,072
Loans received from controlled entities during the year	–	–	2,943	22,174

	Consolidated		The Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>10 Interest-Bearing Liabilities</b>				
<b>Current</b>				
Bank overdrafts – secured	2,553	–	14,980	–
Bank loans – secured	6,495	6,505	–	–
Other loans – unsecured	940	954	940	954
Loans – controlled entities	–	–	1,251	–
Lease liabilities	513	500	–	–
	10,501	7,959	17,171	954
Loans received from controlled entities during the year	–	–	1,251	–
<b>Non-current</b>				
Bank loans – secured	73,710	54,400	–	10,000
Other loans – unsecured	538	646	498	606
Loans – controlled entities	–	–	26,000	–
Lease liabilities	88	696	–	–
	74,336	55,742	26,498	10,606
Loans received from controlled entities during the year	–	–	26,000	–
The consolidated entity has access to the following lines of credit:				
Total facilities available:				
– bank overdrafts	5,455	8,011	1,000	1,000
– bank loans	102,840	118,402	40,000	35,000
– short term money market	12,000	11,000	11,000	10,000
	120,295	137,413	52,000	46,000
Facilities utilised at reporting date:				
– bank overdrafts	2,553	–	14,980	–
– bank loans	80,205	60,905	–	10,000
– short term money market	–	–	–	–
	82,758	60,905	14,980	10,000
Facilities not utilised at reporting date:				
– bank overdrafts	2,902	8,011	(13,980)	1,000
– bank loans	22,635	57,497	40,000	25,000
– short term money market	12,000	11,000	11,000	10,000
	37,537	76,508	37,020	36,000

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 10 Interest-Bearing Liabilities (continued)

### Bank Facilities

The bank facilities are subject to an annual review and are supported by certain covenants given by the Company to its bankers and are secured by cross guarantees from certain controlled entities.

### Bank Overdrafts

Bank overdrafts are denominated in \$A, \$NZ and £UK. Interest on bank overdrafts is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 30 June 2004 is 4.75% (2003: nil as there were no overdrafts utilised at that date).

The Company and a number of its wholly owned Australian controlled entities have a net bank overdraft facility of \$1.000 million (disclosed above). Within this net facility, the Company has a gross overdraft facility of \$20.000 million which it can utilise as long as cash balances held by the other entities that are party to the set off arrangement reduce the net overdraft to less than \$1.000 million.

At 30 June 2004, the Company's overdraft exceeded the net facility but this was offset by cash balances held by the other entities. The Company's overdraft was within its gross limit and the net of the overdraft and other cash balances held was within the net limit.

### Bank Loans

Bank loans are denominated in \$A, \$NZ and £UK. Interest on bank loans is charged at prevailing market rates. The weighted average interest rate for all bank loans as at 30 June 2004 is 5.84% (2003: 5.20%).

### Short Term Money Market

Borrowings on the short term money market are denominated in \$A. Interest on the borrowings is charged at the prevailing market rates. The weighted average interest rate for all borrowings on the short term money market as at 30 June 2004 is nil as there were no borrowings at that date (2003: nil).

Consolidated		The Company	
2004	2003	2004	2003
\$'000	\$'000	\$'000	\$'000

## 11 Provisions

### Current

Dividends	–	–	–	–
Employee benefits	17,569	15,922	7,791	7,320
Outstanding claims	5,597	5,678	2,976	2,700
Guaranteed borrowings				
– controlled entities	–	–	–	3,135
Deferred consideration	1,700	–	1,700	–
	24,866	21,600	12,467	13,155

### Non-current

Employee benefits	4,390	4,306	3,700	3,500
Deferred consideration	–	5,100	–	5,100
Deferred consideration				
– unexpired interest	–	(309)	–	(309)
	–	4,791	–	4,791
	4,390	9,097	3,700	8,291

### Aggregate liability for employee benefits, including on-costs

Employee benefits provision				
– current	17,569	15,922	7,791	7,320
– non-current	4,390	4,306	3,700	3,500
	21,959	20,228	11,491	10,820

### Reconciliations

Reconciliations of the carrying amounts of each class of provision, except for employee benefits which are not required, are set out below:

### Dividends

Carrying amount at the beginning of the year	–	12,600	–	12,600
Adjustment on adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	–	(12,600)	–	(12,600)
Provisions made during the year:				
– final dividend	14,234	12,586	14,234	12,586
– interim dividend	15,194	13,949	15,194	13,949
Payments made during the year	(23,526)	(20,792)	(23,526)	(20,792)
Dividends forgone during the year	(5,902)	(5,743)	(5,902)	(5,743)
Carrying amount at the end of the year	–	–	–	–

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

	Consolidated		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000

## 11 Provisions (continued)

### Outstanding Claims

Carrying amount at the beginning of the year	5,678	6,438	2,700	2,000
Provisions made during the year	(70)	987	276	700
Re-measurement adjustments	—	(1,705)	—	—
Payments made during the year	(9)	(17)	—	—
Differences on translation of foreign operations	(2)	(25)	—	—
Carrying amount at the end of the year	5,597	5,678	2,976	2,700

### Guaranteed Borrowings

Carrying amount at the beginning of the year	—	—	3,135	—
Provisions made during the year	—	—	—	3,135
Transfer to provision for doubtful loans (in current receivables)	—	—	(3,135)	—
Carrying amount at the end of the year	—	—	—	3,135

Provision for guaranteed borrowings was in respect of the borrowings of a controlled entity. During the year the Company advanced funds to the controlled entity to allow it to repay its external borrowings. The loan to the controlled entity is provided for within the current receivables section of the statement of financial position.

### Deferred Consideration – Current

Carrying amount at the beginning of the year	—	—	—	—
Transfer from provision for deferred consideration – non-current	1,700	—	1,700	—
Carrying amount at the end of the year	1,700	—	1,700	—

### Deferred Consideration – Non-current

Carrying amount at the beginning of the year	4,791	—	4,791	—
Increase on acquisition of controlled entity	—	5,100	—	5,100
– gross consideration	—	5,100	—	5,100
– discount (unexpired interest)	—	(351)	—	(351)
Payments made during the year	(3,400)	—	(3,400)	—
Expiration of unexpired interest	309	42	309	42
Transfer to provision for deferred consideration – current	(1,700)	—	(1,700)	—
Carrying amount at the end of the year	—	4,791	—	4,791

Refer Note 18(c) for details in respect of deferred consideration.

## 12 Contributed Equity

### Issued Capital

140,047,007 ordinary shares fully paid (2003: 135,559,528 ordinary shares fully paid)	68,300	60,109	68,300	60,109
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### Movements in Ordinary Shares

Balance at the beginning of the year	60,109	39,728	60,109	39,728
Shares issued	8,191	20,381	8,191	20,381
Balance at the end of the year	68,300	60,109	68,300	60,109

The Company made two issues of ordinary shares under the Employee Share Bonus Plan during the year. All employees with more than one year of service were eligible to participate in the issues (1,831 eligible employees for the first issue and 1,841 eligible employees for the second issue.) The shares are issued at market value. Details of the issues in the current year are as follows:

Date of Issue	Total No of Shares Issued	Market Value of Shares Issued	Shares Issued per Participating Employee	Number of Participating Executive Directors
29/09/03	287,983	1,091,456	158	2
29/03/04	176,366	669,905	104	2

The Company made one issue of ordinary shares under the Executive Share Plan during the year. These shares were issued at market value on the exercise of options held by senior executives who were members of the Plan. The performance hurdles in respect of the options had been met. Details of the issue are as follows:

Date of Issue	Plan Issued Under	Total No of Shares Issued	Issue Price per Share
04/02/04	Executive Share Plan	195,000	\$2.90

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 7.5% discount on the market price for the issues dated 29 September 2003 and at a 6.0% discount on the market price for the issues dated 29 March 2004.

Date of Issue	Plan Issued Under	Total No of Shares Issued	Issue Price per Share
29/09/03	Dividend Investment	1,225,456	\$3.48
29/09/03	Share Investment	874,153	\$3.48
29/03/04	Dividend Investment	935,063	\$3.61
29/03/04	Share Investment	793,458	\$3.61



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

	Consolidated		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000

## 12 Contributed Equity (continued)

### Movements in Ordinary Shares (continued)

Shares issued 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 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 as the dividends are forgone and substituted for shares issued for no consideration.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

## 13 Reserves

Asset revaluation reserve	27,435	22,024	13,511	10,493
Asset realisation reserve	4,101	2,448	833	833
Foreign currency translation reserve	2,340	1,536	–	–
	<b>33,876</b>	<b>26,008</b>	<b>14,344</b>	<b>11,326</b>

### Movements in Reserves

#### Asset Revaluation Reserve

Balance at the beginning of the year	22,024	21,687	10,493	10,493
Revaluation increment on freehold land *	7,054	–	3,806	–
Revaluation increment on freehold buildings *	10	888	(788)	–
Disposal of revalued land and buildings	(1,653)	(551)	–	–
Balance at the end of the year	<b>27,435</b>	<b>22,024</b>	<b>13,511</b>	<b>10,493</b>

#### Asset Realisation Reserve

Balance at the beginning of the year	2,448	1,897	833	833
Disposal of revalued land and buildings	1,653	551	–	–
Balance at the end of the year	<b>4,101</b>	<b>2,448</b>	<b>833</b>	<b>833</b>

#### Foreign Currency Translation Reserve

Balance at the beginning of the year	1,536	2,092	–	–
Net exchange differences on translation of financial statements of self-sustaining foreign operations	804	(556)	–	–
Balance at the end of the year	<b>2,340</b>	<b>1,536</b>	<b>–</b>	<b>–</b>

\* Excludes amounts attributable to outside equity interests

	Consolidated		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000

## Nature and Purpose of Reserves

### Asset Revaluation Reserve

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets in accordance with AASB 1041. Refer accounting policy Note 1(h).

### Asset Realisation Reserve

Where a revalued asset is sold, that portion of the asset revaluation reserve which relates to that asset is transferred to the asset realisation reserve.

### Foreign Currency Translation Reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations. Refer accounting policy Note 1(d).

## 14 Retained Profits

Balance at the beginning of the year	89,752	70,696	43,445	34,620
Net profit attributable to members of the Company	31,114	27,248	22,679	17,017
Net effect on dividends from:				
– initial adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	–	12,600	–	12,600
– dividends recognised during year – refer Note 15	(23,526)	(20,792)	(23,526)	(20,792)
– total dividends	(23,526)	(8,192)	(23,526)	(8,192)
Balance at the end of the year	<b>97,340</b>	<b>89,752</b>	<b>42,598</b>	<b>43,445</b>

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 15 Dividends

Dividends recognised in the current year by the Company are:

	Cents per Share	Amount \$'000	Date of Payment
<b>2004</b>			
Interim – ordinary	11.0	15,194	29 March 2004
Interim dividend forgone for Share Investment Plan		(2,862)	
Final – ordinary	10.5	14,234	29 September 2003
Final dividend forgone for Share Investment Plan		(3,040)	
<b>Total amount</b>		<b>23,526</b>	

### 2003

Interim – ordinary	10.5	13,949	24 March 2003
Interim dividend forgone for Share Investment Plan		(3,043)	
Final – ordinary	10.0	12,586	30 September 2002
Final dividend forgone for Share Investment Plan		(2,700)	
<b>Total amount</b>		<b>20,792</b>	

### Subsequent events

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

– final – ordinary	11.5	16,100	27 September 2004
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The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2004. It will be recognised in the next financial year.

All dividends paid or declared by the Company since the end of the previous financial year are fully franked at 30%.

## The Company

2004 \$'000	2003 \$'000
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### Dividend franking account

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

<b>35,248</b>	14,597
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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.

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

<b>66,145</b>	19,860
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### Tax consolidation legislation

On 4 March 2004 and effective 1 July 2002, the Company and its wholly-owned Australian subsidiaries adopted the tax consolidation legislation which requires a tax-consolidated group to keep a single franking account. The amount of franking credits available to shareholders of the Company (being the head entity in the tax-consolidated group) disclosed at 30 June 2004 has been measured under the new legislation as those available from the tax-consolidated group.

The comparative information has not been restated for this change in measurement. Had it been calculated on the new basis, the franking credits available to shareholders of the Company as at 30 June 2003 would have been \$31,631,000. This would allow for \$59,606,000 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.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

	Consolidated		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
<b>16 Outside equity interests in controlled entities comprise:</b>				
Interest in retained profits at the beginning of the year	15,020	4,290	—	—
Interest in retained profits of controlled entity partly disposed during the year	—	5,908	—	—
Interest in profit from ordinary activities after income tax before individually significant items	6,972	4,673	—	—
Individually significant items:				
— share of net gain on sale of business after income tax expense (a)	403	—	—	—
— share of recoverable amount write down (b)	(500)	—	—	—
— write off of interest in losses previously recognised where recovery is unlikely (c)	—	2,005	—	—
Interest in dividends paid or payable	(3,263)	(1,856)	—	—
Interest in retained profits at the end of the year	18,632	15,020	—	—
Interest in share capital	14,951	14,705	—	—
Interest in reserves	1,234	519	—	—
<b>Total outside equity interests</b>	<b>34,817</b>	<b>30,244</b>	<b>—</b>	<b>—</b>

(a) Resulting from the sale of the Elite Built business by Korvest Ltd.

(b) Resulting from the write down in the value of plant and equipment due to continuing losses in Hills Industries Limited (UK).

(c) Resulting from losses incurred by ePic Australia Pty Ltd in prior years.

## 17 Total Equity Reconciliation

Balance at the beginning of the year	206,113	155,556	114,880	85,674
Total changes in parent entity interest in equity recognised in the statements of financial performance	38,982	27,579	25,697	17,017
Transactions with owners as owners:				
— contributions of equity	12	8,191	20,381	8,191
— dividends paid or payable	15	(23,526)	(8,192)	(23,526)
Total changes in outside equity interests	16	4,573	10,789	—
<b>Balance at the end of the year</b>	<b>234,333</b>	<b>206,113</b>	<b>125,242</b>	<b>114,880</b>

## 18 Notes to the Statements of Cash Flows

### (a) Reconciliation of Cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

Cash	21,835	6,297	6,969	6,228
Bank overdrafts	(2,553)	—	(14,980)	—
	19,282	6,297	(8,011)	6,228

### (b) Reconciliation of Profit from Ordinary Activities after Related Income Tax Expense to Net Cash Provided by Operating Activities

Profit from ordinary activities after related income tax expense	37,989	33,926	22,679	17,017
Add / (less) items classified as investing / financing activities:				
— (profit) / loss on sale of property, plant and equipment	(260)	(425)	(92)	(159)
— (profit) / loss on sale of investments	—	(3,133)	—	(3,133)
— (profit) / loss on sale of business operations	(1,318)	(96)	—	(100)
— rent received	(868)	(815)	(1,586)	(1,496)
— finance charges on capitalised leases	63	99	—	—
Add / (less) non-cash items:				
— depreciation	17,427	15,840	7,593	5,615
— amortisation	2,296	2,202	950	910
— net bad and doubtful debts expense including movement in provision for doubtful debts	4,015	3,394	2,258	2,242
— write down in value of inventories expense including movement in provision for inventories	766	1,160	200	(500)
— write down in value of loans expense including movement in provision for doubtful loans	—	2,250	—	3,175
— write down in value of property, plant and equipment	1,000	613	—	—
— write down in value of intangible assets	225	1,492	—	821
— unrealised exchange rate (gain) / loss	(1)	2	—	—
— dilution of interest in controlled entity	169	101	—	—
Add / (less) amounts set aside to provisions:				
— employee benefits	8,423	6,430	4,347	2,648
— outstanding claims	(70)	(718)	276	700
— other	—	—	—	3,135

Net cash provided by operating activities before changes in assets and liabilities	69,856	62,322	36,625	30,875
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Changes in assets and liabilities adjusted for effects of acquisition and disposal of businesses during the year:

(Increase) / decrease in:				
— trade and other debtors	(13,319)	(4,700)	(8,474)	2,730
— inventories	(7,566)	(8,129)	27	1,950
— deferred tax assets	(3,819)	(1,252)	(4,188)	(774)
(Decrease) / increase in:				
— payables	(2,739)	2,060	(3,497)	(5,133)
— provisions	(6,260)	(4,801)	(3,676)	(1,771)
— income taxes payable	1,108	2,204	3,957	2,273
— deferred taxes payable	(458)	(48)	—	—

Net cash provided by operating activities	36,803	47,656	20,774	30,150
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# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

	Consolidated		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000

## 18 Notes to the Statements of Cash Flows (continued)

### (c) Acquisition / Disposal of Controlled Entities

The following controlled entities were acquired or disposed of during the financial year.

#### Acquisitions of controlled entities

The consolidated entity did not acquire any material controlled entities during the financial year. The consolidated entity paid \$3,091,000 deferred consideration in respect of the K•Care Group acquired during the previous year.

(2003: The Company acquired a 100% interest in the K•Care Group, comprising KDB Engineering Pty Ltd and Kerry Equipment (Aust) Pty Ltd.)

Details of the acquisitions are as follows:

Consideration paid	—	18,137	—	—
Cash acquired	—	(2,545)	—	—
Outflow of cash	—	15,592	—	—
Deferred consideration	—	5,100	—	—
Discount on deferred consideration	—	(351)	—	—
	—	4,749	—	—
Consideration paid and payable	—	20,341	—	—
Fair value of assets acquired:				
— receivables	—	3,681	—	—
— inventories	—	2,069	—	—
— plant and equipment	—	4,262	—	—
— patents and trademarks	—	8,001	—	—
— payables	—	(3,561)	—	—
— tax liabilities	—	(206)	—	—
— provisions	—	(290)	—	—
	—	13,956	—	—
Goodwill on acquisition	—	6,385	—	—
Consideration paid and payable	—	20,341	—	—

(2003: The Company acquired the K•Care Group on 1 October 2002 and its operating results have been included in the results of the consolidated entity from that date. The business is based in Perth, Western Australia and its main activity is the manufacture and distribution of rehabilitation, aged-care, nursing home and hospital equipment.

The acquisition price for the K•Care Group included a component of deferred consideration, payable only if the Group meets certain performance criteria over a three year period. The directors of the Company are of the opinion that it is probable that the K•Care Group will meet these criteria and, as such, the deferred consideration has been recognised as a provision in the financial report. The amount of the deferred consideration has been discounted to its present value as at the acquisition date using the consolidated entity's incremental pre-tax borrowing rate.)

### Disposals of controlled entities

The consolidated entity did not dispose of or otherwise lose control of any controlled entities during the financial year.

(2003: The consolidated entity did not lose control of any controlled entities. It did, however, dispose of an interest in a controlled entity as set out below.

On 1 July 2002, the consolidated entity entered into a joint venture with Freudenberg, a large diversified industrial company based in Germany, to manufacture and market outdoor and indoor clothes dryers. The joint venture was affected by Freudenberg acquiring a 50% interest in Hills Industries Limited, a controlled entity incorporated in the United Kingdom and hereinafter referred to as Hills UK.

The pricing for the sale of 50% of the issued shares in Hills UK was equal to 50% of the net assets of Hills UK as at 1 July 2002. Accordingly there was no material profit impact and the consolidated entity received \$6,198,000 cash consideration. Under the terms of the joint venture agreement, Freudenberg has a put option to sell back to the consolidated entity its interest in Hills UK for 60% of the total amount paid, with economic effect as of 30 June 2005.

The consolidated entity retains control of Hills UK by virtue of effective management of the company and the existence of the put option which results in the consolidated entity being exposed to the majority of the risks and benefits of ownership.)

### (d) Acquisition / Disposal of Business Operations

The following business operations were acquired or disposed of during the financial year.

#### Acquisitions of business operations

The consolidated entity did not acquire any business operations during the financial year. (2003: The consolidated entity acquired a number of small business operations for cash consideration of \$1,144,000. The Company did not acquire any business operations.)

#### Disposals of business operations

During May 2004, Korvest Ltd, a controlled entity, disposed of its Elite Built business operations. Details of the disposal are as follows:

Consideration (cash)	6,518	—	—	—
Carrying amount of disposal	(5,200)	—	—	—
Profit on disposal	1,318	—	—	—
Net assets and liabilities disposed of:				
— inventories	1,300	—	—	—
— property	3,180	—	—	—
— plant and equipment	1,067	—	—	—
— deferred tax assets	124	—	—	—
— employee benefits	(471)	—	—	—
	5,200	—	—	—

Elite Built manufactured and sold filing cabinets and other storage systems. The business was sold due to the lack of synergy with the other operations of Korvest Ltd and continued poor financial performance.

(2003: The consolidated entity disposed of a number of small business operations and received cash consideration of \$831,000. The Company received cash consideration of \$370,000.)



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

	Consolidated		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000

## 18 Notes to the Statements of Cash Flows (continued)

### (e) Non-Cash Financing Activities

During the year, the consolidated entity acquired plant and equipment with a capitalised value of nil (2003: \$41,000) by means of finance leases. These acquisitions are not reflected in the statements of cash flows.

## 19 Commitments

### (a) Capital Expenditure Commitments

Capital expenditure projects contracted but not provided for and payable:

– not later than one year **8,949** 5,876 **4,984** 3,166

### (b) Operating Lease Commitments

Operating leases payable:

– not later than one year **7,532** 8,265 **860** 1,332

– later than one year but

not later than five years **22,016** 15,821 **4,490** 1,412

– later than five years **5,504** 7,296 **12** 420

**35,052** 31,382 **5,362** 3,164

The consolidated entity leases property under operating leases expiring from one to five years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

### (c) Finance Lease Commitments

Finance leases payable:

– not later than one year **537** 657 – –

– later than one year but

not later than five years **90** 676 – –

– later than five years – – – –

**627** 1,333 – –

Less future finance charges **26** 137 – –

**601** 1,196 – –

Lease liabilities provided for in the statements of financial position

– current **513** 500 – –

– non-current **88** 696 – –

**Total lease liabilities** **601** 1,196 – –

The consolidated entity leases plant and equipment under finance leases expiring from one to four years. At the end of the lease term, the consolidated entity has the option to purchase the assets.

## 20 Contingent Liabilities and Contingent Assets

Details of contingent liabilities where the probability of future payments is not considered remote are set out below. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement. There are no contingent assets where the probability of future receipts is not considered remote.

### Guarantees

Letters of credit established

in favour of suppliers **11,431** 10,548 **9,522** 7,783

## 21 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.

### 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 automation systems and fibre optic transmission solutions.
Home and Hardware	Outdoor clothes driers, ladders, ironing boards, laundry trolleys, security doors, playtime equipment, garden sprayers, wheelbarrows, Do-It-Yourself woodworking equipment and rehabilitation and mobility products.
Building and Industrial	Structural, precision and large steel tubing, galvanising, precision metal cabinets, office storage systems, stainless steel products, steel door frames, roll-formed metal building products, carports and shed systems.

The office storage systems business was sold in May 2004.

### 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 in the United Kingdom and sales offices and customers in the United Kingdom and New Zealand.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 21 Segment Reporting (continued)

Primary reporting by business segments		Electronic Security and Entertainment		Home and Hardware		Building and Industrial		Eliminations		Consolidated	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Revenue</b>											
External segment revenue		170,262	163,572	161,774	167,335	385,281	331,902	0	0	717,317	662,809
Inter-segment revenue		0	0	0	0	10,665	10,101	(10,665)	(10,101)	0	0
Total segment revenue		170,262	163,572	161,774	167,335	395,946	342,003	(10,665)	(10,101)	717,317	662,809
Unallocated / corporate revenue										7,867	10,853
<b>Total revenue</b>										<b>725,184</b>	<b>673,662</b>
<b>Result</b>											
Segment result (before interest and tax)		18,618	14,610	13,392	13,562	26,599	21,654	0	0	58,609	49,826
Unallocated / corporate result										(111)	4,343
Net interest										58,498	54,169
										4,539	4,348
Profit from ordinary activities before income tax										53,959	49,821
Income tax expense										15,970	15,895
<b>Net profit</b>										<b>37,989</b>	<b>33,926</b>
Depreciation and amortisation		3,368	3,066	7,997	6,661	6,602	6,659	0	0	17,967	16,386
Unallocated / corporate depreciation and amortisation										1,756	1,656
										19,723	18,042
Other non-cash expenses		1,673	3,297	2,081	2,204	6,117	6,308	0	0	9,871	11,809
Unallocated / corporate other non-cash expenses										4,487	2,812
										14,358	14,621
<b>Assets</b>											
Segment assets		75,052	71,440	106,156	107,003	181,456	170,213	(1,364)	(1,866)	361,300	346,790
Unallocated / corporate assets										66,783	35,098
<b>Consolidated total assets</b>										<b>428,083</b>	<b>381,888</b>
<b>Liabilities</b>											
Segment liabilities		14,503	15,811	14,657	17,778	43,901	42,628	(1,364)	(1,866)	71,697	74,351
Unallocated / corporate liabilities										122,053	101,424
<b>Consolidated total liabilities</b>										<b>193,750</b>	<b>175,775</b>
Acquisitions of non-current assets		4,677	3,326	10,855	20,885	9,804	22,426	0	0	25,336	46,637
Unallocated / corporate assets										1,557	718
										26,893	47,355
<b>Secondary reporting by geographical segments</b>											
		Australia		Overseas		Eliminations		Consolidated			
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000		
<b>Revenue</b>											
External segment revenue by location of customers		677,747	612,488	49,797	60,726	(10,227)	(10,405)	717,317	662,809		
Unallocated / corporate revenue								7,867	10,853		
<b>Total revenue</b>								<b>725,184</b>	<b>673,662</b>		
<b>Assets</b>											
Segment assets by location of assets		334,043	317,259	29,347	31,046	(2,090)	(1,515)	361,300	346,790		
Unallocated / corporate assets								66,783	35,098		
<b>Consolidated total assets</b>								<b>428,083</b>	<b>381,888</b>		
Acquisitions of non-current assets		23,354	45,542	1,982	1,095	0	0	25,336	46,637		
Unallocated / corporate assets								1,557	718		
								26,893	47,355		

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 22 Director and Executive Disclosures

### Remuneration of specified directors and specified executives by the consolidated entity

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages include a mix of fixed remuneration, performance-based remuneration and equity-based remuneration, except for non-executive directors who only received fixed remuneration.

The remuneration structures take into account:

- the overall level of remuneration for each director and executive;
- the executive's ability to control performance; and
- the amount of incentives within each executive's remuneration.

The executive directors and specified executives receive performance based remuneration, other than JA Easling who receives a fixed total remuneration package. MI Canny, AR Oliver and PJ Mellino all receive profit share based on a percentage of divisional EBIT. SP Pradella receives a bonus based on achieving certain performance objectives, including both financial and operational targets. The bonuses received by DJ Simmons and GL Twarz are discretionary, decided by the Remuneration Committee annually and based on a wide range of factors.

The executive directors and specified executives are not subject to specific employment contracts. Accordingly, they are not currently entitled to contractual termination payments other than those generally applicable to all staff.

Options are issued under the Executive Share Plan made in accordance with thresholds approved by shareholders at AGM. The plan provides for executives (14 executives in 2004) to receive options over ordinary shares for no consideration. The ability to exercise the options is conditional on the Company achieving certain performance hurdles. Non-executive directors do not receive any options.

Executive directors and specified executives who acquire shares through the exercise of options are provided with interest free loans by the Company. The amount of arm's length interest that would be payable on the loans is included in remuneration.

A small number of shares are issued to executive directors and specified executives as a result of the Employee Share Bonus Plan under which shares are issued to all employees with more than one year of service.

The board considers that the above performance-linked remuneration structure is generating the desired outcome. The evidence for this is twelve successive years of record profits.

Total remuneration for all non-executive directors, last voted on by shareholders at the 2003 AGM, is not to exceed \$500,000 per annum. Non-executive directors do not receive any bonuses nor are they issued any options on securities.

Directors receive their statutory superannuation entitlements. In addition, certain non-executive directors are entitled to receive benefits on retirement under a scheme which has now been discontinued. Under the scheme, the directors are entitled to a maximum retirement benefit of twice their annual directors' fees (calculated as an average of their fees over the last three years) accumulated over a period of eight years of service.

The following table provides the details of all directors of the Company ("specified directors") and the five executives of the consolidated entity with the greatest authority ("specified executives") and the nature and amount of the elements of their remuneration for the year ended 30 June 2004.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 22 Director and Executive Disclosures (continued)

### Remuneration of specified directors and specified executives by the consolidated entity (continued)

		Primary		PEB*	Equity compensation†			
		Salary and fees	Bonus	Non-monetary	Super-annuation	Value of shares (a)	Value of options (b)	Total
		\$	\$	\$	\$	\$	\$	\$
Specified directors								
Non-executive								
RD Hill-Ling	2004	81,250	—	—	7,200	—	—	88,450
Chairman	2003	77,250	—	—	6,840	—	—	84,090
JH Hill-Ling	2004	56,050	—	—	4,500	—	—	60,550
Deputy Chairman	2003	48,250	—	—	4,050	—	—	52,300
I Elliot	2004	50,000	—	—	4,500	—	—	54,500
Appointed in August 2003	2003	—	—	—	—	—	—	—
RB Flynn	2004	59,950	—	—	—	—	—	59,950
	2003	49,050	—	—	—	—	—	49,050
GG Hill	2004	50,000	—	—	4,500	—	—	54,500
	2003	45,000	—	—	4,050	—	—	49,050
PW Stancliffe	2004	50,000	—	—	4,500	—	—	54,500
Appointed in August 2003	2003	—	—	—	—	—	—	—
Executive								
DJ Simmons	2004	248,537	110,750	30,961	19,866	1,000	16,688	427,802
Group Managing Director	2003	219,913	104,150	40,145	19,792	1,000	14,728	399,728
GL Twartz	2004	250,555	14,400	39,371	22,550	1,000	12,516	340,392
Finance Director	2003	237,023	10,000	32,895	21,332	1,000	7,364	309,614
Total, all specified directors	2004	846,342	125,150	70,332	67,616	2,000	29,204	1,140,644
	2003	676,486	114,150	73,040	56,064	2,000	22,092	943,832
Specified executives								
MI Canny	2004	158,686	146,200	17,276	12,044	1,000	12,516	347,722
Group General Manager, Home and Hardware	2003	132,450	143,925	34,351	11,920	1,000	7,364	331,010
AR Oliver	2004	174,462	118,234	27,976	15,702	1,000	9,387	346,761
Group General Manager, Antenna and TV Systems	2003	155,387	105,372	23,550	13,985	1,000	7,364	306,658
PJ Mellino	2004	131,902	129,662	2,252	11,871	1,000	4,172	280,859
Group General Manager, Electronic Security	2003	95,908	147,035	—	8,632	1,000	3,682	256,257
SP Pradella	2004	193,318	41,380	22,903	17,399	—	—	275,000
Managing Director, Orrcon Limited	2003	196,929	21,229	22,688	21,676	—	—	262,522
JA Easling	2004	213,664	—	22,260	18,901	1,000	3,129	258,954
Managing Director, Fielders Australia Pty Ltd	2003	198,676	—	24,942	17,881	1,000	1,841	244,340
Total, all specified executives	2004	872,032	435,476	92,667	75,917	4,000	29,204	1,509,296
	2003	779,350	417,561	105,531	74,094	4,000	20,251	1,400,787

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 22 Director and Executive Disclosures (continued)

### Remuneration of specified directors and specified executives by the consolidated entity (continued)

- (a) The fair value of the shares issued at their issue date is the weighted average market price of the shares of the Company on the Australian Stock Exchange over the five business days preceding their issue.
- (b) The fair value of the options granted at their grant date is calculated using the valuation methodology set out in Division 13A of the Income Tax Assessment Act, 1936. This method has been adopted as the Black-Scholes method does not reflect the number of conditions that must be met under the plan, including those applying after the shares have been allocated.

\* PEB = Post-employment benefits

### Equity instruments

All options refer to options over ordinary shares of Hills Industries Limited, which are exercisable on a one-for-one basis under the Executive Share Plan.

#### Options and rights over equity instruments granted as remuneration

During the reporting period, the following options over ordinary shares were granted and vested during the current year under the Executive Share Plan:

	Number of options granted during the year	Number of options vested during the year
<b>Specified directors</b>		
DJ Simmons	80,000	Nil
GL Twartz	60,000	Nil
<b>Specified executives</b>		
MI Canny	60,000	Nil
AR Oliver	45,000	Nil
PJ Mellino	20,000	Nil
JA Easling	15,000	Nil

All options granted in the current year were granted on 23 February 2004, have an expiration date of 31 January 2006, an exercise price of \$3.66 per option and a fair value of \$0.21 per option at grant date. The options were provided at no cost to the recipients. No options have been granted since the end of the financial year.

All options expire on the earlier of their expiry date or termination of the individual's employment. The options are exercisable approximately two years from grant date. In addition to a continuing employment service condition, the ability to exercise options is conditional on there being growth in the total of the Company's share price and the dividends received by shareholders of not less than 10% plus CPI for each year of the option period. For options granted in the current year, the earliest exercise date is 31 December 2005.

Further details, including grant dates and exercise dates regarding options granted to executives under the Executive Share Plan are set out in Note 25.

#### Exercise of options granted as remuneration

During the reporting period, the following shares were issued on the exercise of options previously granted as remuneration:

	Number of shares	Amount paid per share
<b>Specified directors</b>		
DJ Simmons	60,000	\$2.90
GL Twartz	35,000	\$2.90
<b>Specified executives</b>		
MI Canny	35,000	\$2.90
AR Oliver	35,000	\$2.90
PJ Mellino	10,000	\$2.90

There are no amounts unpaid on the shares issued as a result of the exercise of the options.

Executive directors and specified executives who receive shares through the Executive Share Plan are provided with interest free loans by the Company to acquire the shares. Further details in respect of these loans are set out below.



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 22 Director and Executive Disclosures (continued)

### Equity instruments (continued)

#### Option holdings

The movement during the reporting period in the number of options over ordinary shares in Hills Industries Limited held directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities, is as follows:

	Held at 1 July 2003	Granted as remuneration	Exercised	Held at 30 June 2004	Vested and exercisable at 30 June 2004
<b>Specified directors</b>					
DJ Simmons	140,000	80,000	(60,000)	160,000	—
GL Twartz	75,000	60,000	(35,000)	100,000	—
<b>Specified executives</b>					
MI Canny	75,000	60,000	(35,000)	100,000	—
AR Oliver	75,000	45,000	(35,000)	85,000	—
PJ Mellino	30,000	20,000	(10,000)	40,000	—
JA Easling	10,000	15,000	—	25,000	—

No options held by specified directors or specified executives are vested but not exercisable.

#### Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of Hills Industries Limited held directly, indirectly or beneficially by each specified director and specified executive, including their personally-related entities is as follows:

	Held at 1 July 2003	Purchases (including dividend re- investment)	Received on exercise of options	Received as remuneration	Sales	Held at 30 June 2004
<b>Specified directors</b>						
RD Hill-Ling	34,373,013	1,212,035	—	—	(80,000)	35,505,048
JH Hill-Ling	26,441,944	1,180,768	—	—	(80,000)	27,542,712
DJ Simmons	105,703	1,504	60,000	262	—	167,469
I Elliot	1,000	—	—	—	—	1,000
RB Flynn	17,826	1,100	—	—	—	18,926
GG Hill	3,785	234	—	—	—	4,019
PW Stancliffe	5,000	1,184	—	—	—	6,184
GL Twartz	34,825	611	35,000	262	—	70,698
<b>Specified executives</b>						
MI Canny	52,804	455	35,000	262	—	88,521
AR Oliver	56,977	1,165	35,000	262	—	93,404
PJ Mellino	14,134	455	10,000	262	—	24,851
JA Easling	2,317	148	—	262	—	2,727

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 22 Director and Executive Disclosures (continued)

### Loans and other transactions with specified directors and specified executives

#### Loans

Details regarding loans outstanding at the reporting date to specified directors and specified executives, where the individual's aggregate balance exceeded \$100,000 at any time in the reporting period, are as follows:

	Balance at 1 July 2003 \$	Balance at 30 June 2004 \$	Interest paid and payable during year \$	Difference between arm's length interest \$	Highest balance during year \$
<b>Specified directors</b>					
DJ Simmons					
– options loan	145,365	305,109	–	13,514	314,820
GL Twartz					
– options loan	60,569	155,282	–	6,476	160,138
<b>Specified executives</b>					
MI Canny					
– options loan	60,569	155,282	–	6,476	160,138
AR Oliver					
– options loan	60,569	155,282	–	6,476	160,138
SP Pradella					
– loan	–	5,000,000	392,600	–	5,000,000
JA Easling					
– loan (current)	215,347	215,347	12,921	–	215,347
– loan (non-current)	1,917,682	1,399,135	109,453	–	1,917,682

#### Terms and conditions of loans

##### Options loans

The terms and conditions of the options loans were approved at AGM. The loans are interest free and payable over 20 years. The loans are repaid by applying the dividends received from the shares funded by the loans. If the recipient ceases to be employed by the consolidated entity or ceases to be a member of the Executive Share Plan, then the loans are repayable immediately. The loans are not secured, although certain restrictions are placed on dealing with the shares funded by the loans.

The arm's length market interest rate for the options loans is considered to be 6.0% per annum. The amount of arm's length interest has been included in the remuneration of executive directors and specified executives as non-monetary benefits.

##### SP Pradella loan

The loan is interest only and due to be repaid by August 2008. The loan is secured by registered mortgage and personal guarantees and accrues interest at the rate of 1.4% per annum above the 180 day bank bill swap reference rate calculated daily and paid six monthly in arrears.

##### JA Easling loans

The current loan is unsecured, payable at call and incurs interest at the rate of 6% per annum. The non-current loan is secured by personal guarantees, is payable monthly, due to be repaid by June 2005 and incurs interest at the rate of 1% above the National Australia Bank 90 day commercial bank bill rate.

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the economic entity to each group of specified directors and specified executives, and the number of individuals in each group, are as follows:

	Opening balance \$	Closing balance \$	Interest paid and payable during year \$	Difference between arm's length interest \$	Number in group at 30 June
<b>Specified directors</b>					
– 2004	205,934	460,391	–	19,990	2
– 2003	–	205,934	–	6,178	2
<b>Specified executives</b>					
– 2004	2,278,395	6,975,883	514,974	15,204	5
– 2003	2,215,347	2,278,395	77,682	4,361	4

The terms and conditions of the loans are set out above. No amounts have been written down or recorded as allowances, as the balances are considered fully collectible.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 22 Director and Executive Disclosures (continued)

### Loans and other transactions with specified directors and specified executives (continued)

#### Other transactions with the Company or its controlled entities

A number of specified directors and specified executives, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

Details of the transactions are as follows:

	Transaction	Note	2004 \$
<b>Specified directors</b>			
– RD Hill-Ling	Interest expense	(i)	56,928
– JH Hill-Ling	Legal fees	(ii)	93,674
	Interest expense	(i)	56,928
<b>Specified executives</b>			
– SP Pradella	Inventory purchases	(iii)	1,314,086
– JA Easling	Inventory purchases	(iv)	606,017
	Property rentals	(v)	1,581,744
	Sundry purchases	(vi)	98,693
	Sundry sales	(vi)	27,524

- (i) Two directors and a number of their personally-related entities hold cash on deposit with the Company. The Company pays interest on the deposits at rates no more favourable than market rates.
- (ii) JH Hill-Ling is a consultant to Blessington Judd, a firm of solicitors that rendered legal services to the consolidated entity in the ordinary course of business. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.
- (iii) Fielders Australia Pty Ltd purchased steel supplies from Australian Colour Coaters Pty Ltd, a company related to SP Pradella. Amounts were billed based on normal market rates for such supplies and were due and payable under normal payment terms.
- (iv) Fielders Australia Pty Ltd purchased plastic supplies from Burnside Plastics Australia Pty Ltd, a company related to JA Easling. Amounts were billed based on normal market rates for such supplies and were due and payable under normal payment terms.
- (v) Fielders Australia Pty Ltd rented property, plant and equipment from FSR Investments Pty Ltd, a company related to JA Easling. The rent is calculated on a commercial basis, paid monthly in arrears and reviewed annually.
- (vi) Fielders Australia Pty Ltd purchased and sold sundry items to two additional companies related to JA Easling. The purchases and sales were based on market rates and terms.

The aggregate amounts recognised during the year relating to specified directors, specified executives and their personally-related entities were total expenses of \$3,751,142 (of which \$1,920,103 related to inventory) and total revenues of \$27,524.

The assets and liabilities arising from the above transactions are:

	30 June 2004 \$
Current assets	
– trade debtors	10,491
– inventories	217,852
<b>Total current assets</b>	<b>228,343</b>
Current liabilities	
– trade creditors	92,365
– interest-bearing liabilities	940,965
<b>Total current liabilities</b>	<b>1,033,330</b>

From time to time, specified directors and specified executives of the Company or its controlled entities, or their personally-related entities, may purchase goods from the consolidated entity. These purchases are on terms and conditions no more favourable than those entered into by unrelated customers and are trivial or domestic in nature.

## 23 Non-Director Related Parties

The classes of non-director related parties are:

- wholly owned controlled entities; and
- partly owned controlled entities.

### Transactions

All transactions with partly owned controlled entities are on normal terms and conditions. Transactions with wholly owned controlled entities are determined on a cost basis with loans and borrowings with Australian wholly owned controlled entities being interest free.

The Company and a number of controlled entities purchase steel tube from Orrcon Operations Pty Ltd, a partly owned controlled entity, on normal terms and conditions. There is a small amount of additional trading within the Group and the Company re-charges a variety of corporate expenses to its operating controlled entities on the basis described above.

Transactions and balances with non-director related parties are set out in this report as follows:

– interest and dividends received or receivable from controlled entities	Note 2(a)
– interest paid or payable to controlled entities	Note 2(d)
– amounts receivable from controlled entities	Note 4
– provision for amounts receivable from controlled entities	Note 4
– investments in controlled entities	Note 6
– amounts payable to controlled entities	Note 9
– interest-bearing loans to controlled entities	Note 10
– provisions in respect of controlled entities	Note 11
– purchases from controlled entities	Note 21
– loans paid to controlled entities	Note 4
– loans received from controlled entities	Notes 9 and 10

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

	Consolidated	
	2004 \$'000	2003 \$'000
<b>24 Earnings per Share</b>		
<b>Classification of securities as ordinary shares</b>		
The following securities have been classified as ordinary shares and included in basic earnings per share:		
– ordinary shares		
<b>Classification of securities as potential ordinary shares</b>		
The following securities have been classified as potential ordinary shares and included in diluted earnings per share only:		
– options outstanding under the Executive Share Plan		
<b>Earnings reconciliation</b>		
Net profit	37,989	33,926
Net profit attributable to outside equity interests	6,875	6,678
Basic earnings / diluted earnings	31,114	27,248
Adjusted for individually significant items (after income tax and outside equity interests)		
– net gain on sale of business	(354)	–
– recoverable amount write down	500	–
– net gain on sale of investment	–	(3,133)
– write off of future income tax benefit	–	1,195
– write off of outside equity interest	–	2,005
	146	67
Basic earnings / diluted earnings excluding individually significant items	31,260	27,315

	Number of Shares	
	2004	2003
<b>Weighted average number of shares used as the denominator</b>		
Ordinary shares	138,203,255	131,335,734
Number for basic earnings per share	138,203,255	131,335,734
Effect of Executive Share Plan options on issue	61,769	45,355
Number for diluted earnings per share	138,265,024	131,381,089

## 25 Equity Based Remuneration

### Executive Share Plan

The Company has an executive share option plan approved at annual general meeting. The plan provides for 14 (2003: 12) executives to receive options over ordinary shares each year for no consideration. Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the Rules of the plan, is based on the weighted average price of the Company's shares traded during the five business days preceding the date of granting the options.

All options expire on the earlier of their expiry date or termination of the employee's employment. Options do not vest until two years after granting and, thereafter, exercise is conditional on the consolidated entity achieving certain performance hurdles. To reach the performance hurdle, there must be growth in the total of the Company's share price and the dividends received by shareholders of not less than 10% plus CPI for each year of the option period. Accordingly, the plan does not represent remuneration for past services.

There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

### Summary of options over unissued ordinary shares

Details of options over unissued ordinary shares as at the beginning and end of the year and movements during the year are set out in the table below.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 25 Equity Based Remuneration (continued)

### Executive Share Plan (continued)

Grant Date	Exercise Date	Expiry Date	Exercise Price	Number of Options at Beginning of Year	Options Granted	Options Lapsed	Options Exercised	Number of Options at End of Year on Issue
<b>Consolidated and Company – 2004</b>								
26/02/02	31/12/03	31/01/04	2.90	195,000	–	–	(195,000)	–
26/02/03	31/12/04	31/01/05	3.23	280,000	–	–	–	280,000
23/02/04	31/12/05	31/01/06	3.66	–	370,000	–	–	370,000
				475,000				650,000

### Consolidated and Company – 2003

26/02/01	31/12/02	31/01/03	2.50	195,000	–	–	(195,000)	–
26/02/02	31/12/03	31/01/04	2.90	245,000	–	(50,000)	–	195,000
26/02/03	31/12/04	31/01/05	3.23	–	300,000	(20,000)	–	280,000
				440,000				475,000

Grant Date	Exercise Date	Number of Options at End of Year Vested	Proceeds Received \$	Date Issued	Number of Shares Issued	Fair Value per Share \$	Fair Value Aggregate \$
<b>Consolidated and Company – 2004</b>							
26/02/02	31/12/03	–	565,500	04/02/04	195,000	3.94	768,300
26/02/03	31/12/04	–	–	–	–	–	–
23/02/04	31/12/05	–	–	–	–	–	–
		–					

### Consolidated and Company – 2003

26/02/01	31/12/02	–	487,500	02/04/03	195,000	3.25	633,750
26/02/02	31/12/03	–	–	–	–	–	–
26/02/03	31/12/04	–	–	–	–	–	–
		–					

The fair value of shares issued as a result of exercising the options during the year at their issue date is the weighted average market price of the shares of the Company on the Australian Stock Exchange over the five business days preceding their issue.



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

	Consolidated		The Company
	2004	2003	2004
	\$'000	\$'000	\$'000

## 25 Equity Based Remuneration (continued)

### Executive Share Plan (continued)

The amounts recognised in the financial statements of the Company and consolidated entity in relation to executive share options exercised during the year were:

Issued ordinary share capital	565,500	487,500	565,500	487,500
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### Employee Share Bonus Plan

The Company has an employee share bonus plan approved at annual general meeting. The plan is available to all eligible employees to acquire ordinary shares in the Company for no consideration as a bonus component of their remuneration. Employees are entitled to up to \$1,000 of free shares in any one year at the discretion of the Board.

To be eligible, employees must be permanent and have been employed by an entity in the consolidated entity continuously for a minimum period of one year. Shares are issued directly to the employee and vest immediately. The plan has no conditions that could result in an employee forfeiting ownership of the shares. The plan restricts the shares from being sold for a period of five years after allotment or one year after ceasing to be an employee (whichever occurs sooner).

The shares are issued as fully paid ordinary shares. Other than the restriction on selling the shares, they are no different to other quoted ordinary shares and fully entitled to all dividends, bonus shares or rights issued on the shares and voting and other shareholder rights.

The plan complies with current Australian tax legislation, enabling permanent employees in Australia to have up to \$1,000 of free shares, in respect of an employee share scheme, excluded from their assessable income.

Details of shares issued to employees under the plan during the year are set out in the table below.

Grant Date	Number of Shares	Fair Value of Consideration Received \$	Fair Value per Share \$	Fair Value Aggregate \$
<b>Consolidated and Company – 2004</b>				
29/09/03	287,983	–	3.79	1,091,456
24/03/04	176,366	–	3.83	675,482
	464,349	–		1,766,938

### Consolidated and Company – 2003

30/09/02	335,586	–	2.99	1,003,402
24/03/03	205,380	–	3.17	651,055
30/06/03	12,996	–	3.52	45,746
	553,962	–		1,700,203

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 26 Particulars in Relation to Controlled Entities

				Percentage Held	
Parent Entity				2004	2003
Hills Industries Limited			(e)		
<b>Controlled Entities</b>					
Hills Finance Pty Ltd			(e)	100 %	100 %
Hills Industries Limited	(1)		(c)	100 %	100 %
Hills Industries Limited	(2)	(b)	(c)	50 %	50 %
Pacific Communications Limited	(2)		(c)	100 %	100 %
Korvest Ltd		(b)		46.7 %	46.0 %
Korvest NZ Limited	(1)	(a)	(b) (c)	46.7 %	—
Hills Hoists Pty Ltd			(e)	100 %	100 %
Bailey Aluminium Products Pty Ltd			(e)	100 %	100 %
Triton Manufacturing & Design Co Pty Ltd			(e)	100 %	100 %
Triton Workshop Systems (UK) Pty Ltd	(3)			100 %	100 %
Woodroffe Industries Pty Ltd			(e)	100 %	100 %
Fielders Australia Pty Ltd				60 %	60 %
Orrcon Limited		(b)	(d)	50 %	50 %
Orrcon Operations Pty Ltd		(b)	(d)	50 %	50 %
Orrcon Tubing Pty Ltd		(b)	(d)	50 %	50 %
Precision Tube Company Pty Ltd		(b)	(d)	50 %	50 %
Tube Specialist Pty Ltd		(b)	(d)	50 %	50 %
KDB Engineering Pty Ltd			(e)	100 %	100 %
Kerry Equipment (Aust) Pty Ltd			(e)	100 %	100 %
CCTV Security Solutions Australia Pty Ltd (formerly ePic Australia Pty Ltd)		(b)		50 %	50 %
Pathfinder Insurance Pte Ltd	(4)		(c)	100 %	100 %
Pacom SE Asia Pte Ltd	(4)		(d)	100 %	100 %
Pacific Communications Services Snd Bhd	(5)		(d)	100 %	100 %
Hills Nominees Pty Ltd				100 %	100 %
DAS Security Wholesalers Pty Ltd				100 %	100 %
Pacific Communications Pty Ltd				100 %	100 %
Pacom Security Pty Ltd			(e)	100 %	100 %
CBS Hardware Pty Ltd (formerly ePic@Home Security Pty Ltd)				100 %	100 %
Step Electronics Pty Ltd				100 %	100 %

All shares are ordinary shares. Names inset indicate shares held by the company immediately above the inset. The percentage interest shown is the interest of Hills Industries Limited.

During the year, Korvest Ltd issued 68,422 (2003: 104,384) ordinary shares pursuant to its Employee Share Bonus Plan for no consideration. Hills Industries Limited does not participate in this plan. Korvest Ltd also issued 234,662 (2003: 299,996) ordinary shares pursuant to its Dividend Investment and Share Investment Plans for an effective consideration of \$629,120 (2003: \$460,176). Hills Industries Limited participated in these plans to the extent of 203,570 (2003: 253,643) shares for an effective consideration of \$552,218 (2003: \$392,746).

As a result of the above transactions, Hills Industries Limited increased its interest in Korvest Ltd while suffering a loss of \$169,224 (2003: \$101,247) due to the dilution of its interest. The outside equity interests received a gain for the same amount.

On 9 October 2003, Korvest Ltd incorporated Korvest NZ Limited, a new controlled entity in New Zealand. Korvest NZ Limited is 100% owned by Korvest Ltd, which is 46.7% owned by Hills Industries Limited.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 26 Particulars in Relation to Controlled Entities (continued)

All companies are incorporated in and conduct business in Australia except:

- (1) Incorporated in New Zealand
- (2) Incorporated in United Kingdom
- (3) Registered branch in United Kingdom
- (4) Incorporated in Singapore
- (5) Incorporated in Malaysia
- (a) These companies have become part of the economic entity during the financial year.
- (b) These companies are controlled by virtue of the parent entity's control of the company's board through the chairman's casting vote, effective management of the company and exposure to the risks and benefits of ownership, or control of voting rights through the dilution of the minority shareholders.
- (c) These companies are audited by overseas KPMG firms.
- (d) These companies are audited by firms other than KPMG.
- (e) These companies are parties to the Deed of Cross Guarantee – refer Note 27.

## 27 Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors' reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of the winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months, any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- Hills Finance Pty Ltd
- Hills Hoists Pty Ltd
- Bailey Aluminium Products Pty Ltd
- Triton Manufacturing & Design Co Pty Ltd
- KDB Engineering Pty Ltd
- Kerry Equipment (Aust) Pty Ltd
- Woodroffe Industries Pty Ltd

All of the subsidiaries except KDB Engineering Pty Ltd became parties to the Deed on 15 April 2004, by virtue of a Deed of Assumption.

Hills Industries Limited is the Holding Company and Pacom Security Pty Ltd is the Trustee under the Deed.

A consolidated statement of financial performance and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed, at 30 June 2004, is set out below.

## Consolidated

2004 2003  
\$'000 \$'000

### Summarised statement of financial performance and retained profits

Profit from ordinary activities before related income tax expense	33,927	25,508
Income tax expense relating to ordinary activities	7,716	7,813
<b>Net profit</b>	<b>26,211</b>	17,695
Retained profits at the beginning of the year	44,123	–
Adjustment to retained profits at the beginning of the year on initial adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	–	12,600
Adjustment to retained profits at the beginning of the year on inclusion of additional companies in the Class Order	30,138	34,620
Dividends recognised during the year	(23,526)	(20,792)
<b>Retained profits at the end of the year</b>	<b>76,946</b>	44,123

### Statement of financial position

Cash assets	20,222	8,450
Receivables	79,447	57,770
Inventories	32,693	26,909
<b>Total current assets</b>	<b>132,362</b>	93,129
Receivables	6,399	1,918
Investments	26,965	32,579
Property, plant and equipment	73,826	49,545
Intangible assets	15,388	15,697
Deferred tax assets	14,617	10,429
<b>Total non-current assets</b>	<b>137,195</b>	110,168
<b>Total assets</b>	<b>269,557</b>	203,297
Payables	30,807	51,451
Interest-bearing liabilities	17,171	954
Current tax liabilities	5,214	2,918
Provisions	14,228	13,519
<b>Total current liabilities</b>	<b>67,420</b>	68,842
Interest-bearing liabilities	26,498	10,606
Provisions	3,783	8,291
<b>Total non-current liabilities</b>	<b>30,281</b>	18,897
<b>Total liabilities</b>	<b>97,701</b>	87,739
<b>Net assets</b>	<b>171,856</b>	115,558
Contributed equity	68,300	60,109
Reserves	26,610	11,326
Retained profits	76,946	44,123
<b>Total equity</b>	<b>171,856</b>	115,558

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 28 Additional Financial Instruments Disclosure

### (a) Interest Rate Risk

The consolidated entity enters into interest rate swaps to lower funding costs or to alter interest rate exposures arising from mismatches in repricing dates between assets and liabilities. Interest rate swaps allow the consolidated entity to raise long term borrowings at floating and / or short term fixed rates and swap them into long term fixed rates. Maturities of swap contracts are for three to five years.

Each contract involves the quarterly payment or receipt of the net amount of interest. At 30 June 2004, the fixed rates varied from 4.79% to 5.69% (2003: 4.60% to 6.67%) and the floating rates were prevailing market rates. The weighted average effective floating interest rate at 30 June 2004 was 4.83% (2003: 5.22%).

The consolidated entity's exposure to interest rate risk and the effective average weighted interest rate for classes of financial assets and liabilities is set out below:

	Floating interest rate \$'000	Fixed interest maturing in:			Non- interest bearing \$'000	Total \$'000
		1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000		
<b>2004</b>						
<b>Financial assets</b>						
Cash assets	7,560	14,029	—	—	246	21,835
Receivables	—	6,864	2,000	—	116,419	125,283
Investments	—	—	—	—	104	104
	7,560	20,893	2,000	—	116,769	147,222
Weighted average interest rate	4.64%	5.83%	8.00%			
<b>Financial liabilities</b>						
Payables	—	—	—	—	69,369	69,369
Bank overdrafts	2,553	—	—	—	—	2,553
Bank and other loans	—	80,205	—	—	1,478	81,683
Lease liabilities	—	—	601	—	—	601
Dividends payable	—	—	—	—	—	—
Employee benefits	21,959	—	—	—	—	21,959
	24,512	80,205	601	—	70,847	176,165
Interest rate swaps *		(42,000)	42,000			
Weighted average interest rate	4.83%	5.69%	5.43%			

\* notional principal amounts

	Floating interest rate \$'000	Fixed interest maturing in:			Non- interest bearing \$'000	Total \$'000
		1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000		
<b>2003</b>						
<b>Financial assets</b>						
Cash assets	6,016	—	—	—	281	6,297
Receivables	2,168	215	2,000	—	106,555	110,938
Investments	—	—	—	—	14	14
	8,184	215	2,000	—	106,850	117,249
Weighted average interest rate	4.66%	6.00%	8.00%			
<b>Financial liabilities</b>						
Payables	—	—	—	—	71,865	71,865
Bank overdrafts	—	—	—	—	—	—
Bank and other loans	—	60,905	—	—	1,600	62,505
Lease liabilities	—	—	1,196	—	—	1,196
Dividends payable	—	—	—	—	—	—
Employee benefits	20,228	—	—	—	—	20,228
	20,228	60,905	1,196	—	73,465	155,794
Interest rate swaps *		(48,000)	48,000			
Weighted average interest rate	5.22%	5.33%	5.34%			

\* notional principal amounts

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 28 Additional Financial Instruments Disclosure (continued)

### (b) Foreign Exchange Risk

The consolidated entity enters into forward foreign exchange contracts to hedge anticipated but unspecified purchase and sale commitments denominated in foreign currencies (principally US dollars). The terms of these derivatives and commitments are rarely more than three months. The consolidated entity's policy is to enter into forward foreign exchange contracts to hedge a portion of foreign currency purchases and sales within the following three months within Board approved limits. The following table sets out the gross value to be received under foreign currency contracts, the weighted average exchange rates and the settlement periods of outstanding contracts for the consolidated entity.

	Consolidated		Consolidated	
	2004 Exchange rate	2003 Exchange rate	2004 \$'000	2003 \$'000
Buy US dollars				
Not longer than one year	0.70	0.65	4,781	5,910
Sell US dollars				
Not longer than one year	0.71	—	4,499	—
Buy Japanese yen				
Not longer than one year	76.73	—	379	—

### (c) Credit Risk Exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

#### Recognised Financial Instruments

The credit risk on financial assets, excluding investments, of the consolidated entity which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts. The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties and by performing extensive due diligence procedures on major new customers. The consolidated entity is not materially exposed to any individual customer.

#### Unrecognised Financial Instruments

Credit risk on derivative contracts (interest rate swaps and forward foreign exchange contracts) which have not been recognised on the statement of financial position is minimised as counterparties are recognised financial intermediaries approved by the Board of Directors and with acceptable credit ratings determined by a recognised credit agency.

### (d) Net Fair Value of Financial Assets and Liabilities

#### Valuation Approach

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following bases:

#### Recognised Financial Instruments

The carrying amounts of bank term deposits, accounts receivable, accounts payable, bank loans, dividends payable and employee benefits approximate net fair value. The net fair value of investments in listed shares in other corporations is the current quoted market bid price.

#### Unrecognised Financial Instruments

The valuation of off-statement of financial position financial instruments detailed in this note reflects the estimated amounts which the consolidated entity expects to pay / (receive) to terminate the contracts (net of transaction costs) or replace the contracts at their current market rates as at the reporting date. This is based on independent market quotations and determined using standard valuation techniques.

	Consolidated	
	2004 \$'000	2003 \$'000
Net fair value of interest rate swaps as at the reporting date	(586)	401



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2004. Hills Industries Limited and its Controlled Entities

## 29 Events Subsequent to Reporting Date

### (a) Dividends

For dividends declared after 30 June 2004 see Note 15.

### (b) Tax consolidation

The Government has announced that it plans to amend the tax consolidation legislation. Details of the proposed changes are not yet available. The effects of any change will be brought to account when the legislation is substantively enacted and the Company can assess the impact.

### (c) International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Financial Reporting Standards ("IFRS") as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements ("Australian GAAP"). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The Board has established a formal project, monitored by the Audit and Compliance Committee, to achieve transition to IFRS reporting, beginning with the half-year ended 31 December 2005. The Company's implementation project consists of three phases as described below.

#### *Assessment and planning phase*

The assessment and planning phase aims to produce a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase includes:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS;
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
- evaluation of the implications for staff, for example training requirements; and
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The Company has commenced the assessment and planning phase and expects to complete it by 31 December 2004.

#### *Design phase*

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS. The design phase will incorporate:

- formulating revised accounting policies and procedures for compliance with IFRS requirements;
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS;
- developing revised IFRS disclosures;
- designing accounting and business processes to support IFRS reporting obligations;
- identifying and planning required changes to financial reporting and business source systems; and
- developing training programs for staff.

The Company will commence the design phase after completing the 2004 annual report (September 2004) and expects it to be completed during the upcoming financial year.

#### *Implementation phase*

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the Company to generate the required disclosures of AASB 1 as it progresses through its transition to IFRS.

The Company expects to commence this phase from 30 June 2005, culminating with the preparation of IFRS compliant half-year accounts at 31 December 2005.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value;
- income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity;
- revaluation increments and decrements relating to revalued property, plant and equipment and intangible assets will be recognised on an individual asset basis, not a class of assets basis;
- goodwill and intangible assets with indefinite useful lives will be tested for impairment annually and will not be amortised;
- impairments of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash-generating operations have been impaired;
- equity-based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services; and
- changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

# Directors' Declaration

Hills Industries Limited

- 1 In the opinion of the directors of Hills Industries Limited ("the Company"):
  - (a) the financial statements and notes, set out on pages 27 to 59, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
    - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the controlled entities identified in Note 27 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

Dated at Edwardstown this 14th day of September 2004.

Signed in accordance with a resolution of the directors:

**RD Hill-Ling**

Director

**DJ Simmons**

Director

# Independent Audit Report to the Members of Hills Industries Limited

## Scope

### *The financial report and directors' responsibility*

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements and the directors' declaration set out on pages 27 to 60 for both Hills Industries Limited (the "Company") and Hills Industries Limited and its Controlled Entities (the "Consolidated Entity") for the year ended 30 June 2004. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### *Audit approach*

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

## Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

## Audit Opinion

In our opinion, the financial report of Hills Industries Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

## KPMG

### Gary Savage

Partner

Dated at Adelaide, 14th September 2004

# ASX Additional Information

Hills Industries Limited



Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below:

## Distribution of Equity Security Holders as at 20th August 2004

Category	Number of equity security holders	
	Ordinary shares	Options
1 – 1,000	3,379	–
1,001 – 5,000	9,315	–
5,001 – 10,000	2,808	4
10,001 – 100,000	1,705	9
100,001 – and over	61	1

The number of shareholders holding less than a marketable parcel of ordinary shares as at 20th August 2004 was 319.

## Twenty Largest Shareholders as at 20th August 2004

	Number of shares held	Percentage
Poplar Pty Limited	15,462,545	11.0
Hills Associates Limited	10,652,508	7.6
Jacaranda Pastoral Pty Ltd	5,664,000	4.0
National Nominees Limited	3,939,508	2.8
Argo Investments Ltd	3,567,220	2.6
Australian Foundation Investment Company Ltd	3,476,250	2.5
Colleen Sims Nominees Pty Ltd	1,691,112	1.2
Donald Cant Pty Ltd	1,654,668	1.2
Milton Corporation Ltd	1,191,672	0.9
JP Morgan Nominees Australia	1,155,126	0.8
Citicorp Nominees Pty Limited	847,035	0.6
Hills Associates Limited & Poplar Pty Limited	841,449	0.6
Bond Street Custodians Limited	820,552	0.6
Choiseul Investments Limited	730,000	0.5
Invia Custodian Pty Limited	630,181	0.5
Gowing Bros Limited	523,810	0.4
Tamarisk Pty Limited	473,363	0.3
Westons Securities Limited	461,889	0.3
Cogent Nominees Pty Limited	408,796	0.3
S Kidman & Co Ltd	298,000	0.2

The twenty largest shareholders held 54,489,684 shares equal to 38.9% of the total issued 140,047,007 shares.

## Substantial Shareholders

The number of shares held by substantial shareholders and their associates as listed in the Company's register of substantial shareholders as at 20th August 2004 were:

	Number of shares held
Argo Investments Ltd	16,042,362
Poplar Pty Limited	14,218,265
Hills Associates Limited	11,493,957

## On-Market Buy-Back

There is no current on-market buy-back.

## Offices and Officers

### Share Registry

Computershare Investor Services Pty Limited  
Level 5, 115 Grenfell Street  
Adelaide SA 5000  
Telephone (within Australia): 1300 556 161  
Telephone (outside Australia): + 61 3 9615 5970  
Facsimile: (08) 8236 2305  
Email: web.queries@computershare.com.au  
Internet address: www.computershare.com

### Registered Office

944-956 South Road  
Edwardstown SA 5039  
Telephone: (08) 8301 3200  
Facsimile: (08) 8297 4468  
Email: info@hills.com.au  
Internet address: www.hills.com.au

### Company Secretary

Mr Graham L Twartz

### Voting Rights

On a show of hands, every person present in one or more of the following capacities, namely, that of a member or the proxy attorney or representative of a member, shall have one vote.

On a poll, every member present in person or by proxy attorney or representative shall have one vote for every ordinary share held.

### Stock Exchange

The Company's ordinary shares are listed on the Australian Stock Exchange. The Home Exchange is Adelaide.

### Direct Payment to Shareholders' Accounts

Dividends may be paid directly to bank, building society or credit union accounts in Australia. Payments are electronically credited on the dividend date and confirmed by mailed payment advice. Shareholders who want their dividends paid this way should advise the Company's share registry in writing.

### Shareholder Enquiries / Change of Address

Shareholders wishing to enquire about their shareholdings, dividends or change their address should contact the Company's share registry.

### Other Information

Hills Industries Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

# Notes:



# Shareholder Information

Hills Industries Limited

## Financial Calendar

### Final Dividend

Books close 13 September 2004  
Dividend paid 27 September 2004  
Annual General Meeting 29 October 2004  
Half Year Result announced February 2005

### Interim Dividend

Books close late March 2005  
Dividend paid April 2005

### Annual General Meeting

The 47th Annual General Meeting of Hills Industries Limited will be held at the Grainger Studio  
91 Hindley Street, Adelaide SA 5000  
on Friday 29 October 2004 at 2.30pm.

The Notice of Meeting and Proxy Form are enclosed with this report.

## Auditors

KPMG

## Bankers

ANZ Banking Group Limited  
National Australia Bank Limited  
Westpac Banking Corporation

## Dividends Paid

	Cents per share	Franked / unfranked	Date of payment
<b>2004</b>			
Final dividend	11.5	franked	27 September 2004
Interim dividend	11.0	franked	29 March 2004
Total dividend	22.5		

### 2003

Final dividend	10.5	franked	29 September 2003
Interim dividend	10.5	franked	24 March 2003
Total dividend	21.0		

All dividends paid or declared by the Company are fully franked at 30%.





**Hills Industries Limited**  
ABN 35 007 573 417