



**Hills Industries Limited
Annual Report 2000**

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Overview

Record Group Profit

The Hills Group achieved an operating profit before taxation of \$35 million, an increase of 24% over the previous year.

Dividends

Our policy is that interim and final dividends will amount to around 75% of the annual profit. In addition the company will pay the balance of its after tax profit as a special dividend subject to the following conditions:

- The debt to equity ratio remaining below 45% taking into account funding needed for growth.
- No changes to the law in connection with the distribution of accumulated franking credits.
- Continuing profitability at an acceptable level.

As a result of this policy, shareholders have received or will receive an interim dividend of 6.6 cents per share, a final dividend of 7.4 cents per share and a special dividend of 5.0 cents per share making a total of 19.0 cents per share in respect to the Year 2000.

Group Strategy

Our strategy is to develop competitive businesses in three main industry segments being Electronics, Home & Hardware and Building & 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.

Where appropriate we will achieve geographic diversification through the establishment of offshore operations.

Overall our key objective is to grow revenue and earnings through a combination of organic growth and acquisitions.



Abnormal Tax Item

The decision by the Federal Government to reduce the company tax rate from 36% to 34% on 1 July 2000 and then to 30% on 1 July 2001, has required us to reduce the future income tax benefits associated with costs previously provided for (such as annual leave and long service leave) by a total of \$2,577,000.

This comprises of:

Abnormal income tax expense	\$
attributable to members of	
Hills Industries Limited	2,477,000
Outside equity interests in	
abnormal income tax expense	100,000
Abnormal income tax expense	2,577,000

This abnormal tax expense arises from regulatory forces external to the company and gives rise to long term benefits – that is we will pay income tax at lower rates for the new financial year and thereafter.

Trading Conditions

Trading conditions in the markets in which we operate were generally good during the year. The Australian domestic and commercial building cycle remained strong and we saw high levels of demand across our business units in New South Wales leading up to the Olympics.

Although the domestic economy in the United Kingdom was quite good, the strength of Sterling did inhibit our export sales activities, particularly into mainland Europe.

Over recent years due to the divestment of a number of underperforming businesses, we have found revenue growth at an acceptable level difficult to achieve. The increase in sales revenue of 15% for the year was most pleasing and demonstrates our commitment to growth both by acquisition and organically.

Likely Developments

The introduction of the Goods & Service Tax in Australia effective 1 July 2000 created some uncertainty in consumers' minds. There was a mixed effect across our businesses with some purchases being brought forward and some being delayed. There is no doubt that housing activity was at very high levels leading up to the end of the year, which has undoubtedly brought some sales forward.

Although housing activity will decline over the next 12 months, we are budgeting for an

increase in both sales and profitability in the coming year. We are looking for a period of stability in the PayTV market in Australia and we will further progress our European expansion.

Hills People

Our commitment to the Hills Employee Share Scheme saw the number of Hills employees who are shareholders in the company increase to approximately 1600 during the year. We have introduced remuneration schemes across the company where employees participate in the growth and profit of the individual business units.



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

We were delighted to welcome Roger Flynn to the Board of Directors during the year. Roger brings a wide range of skills and contacts to the Board.

We wish to thank Peter Donnelly and Phillip Johns for the contributions that they made to the success of Hills over many years. Peter retired as a Director in November 1999 and Phillip retired in August 2000.

Other Matters

The improvement in our results this year supports our view that a sensible level of diversification is a sound strategy. The growth that we have achieved across our operations illustrates the benefits of expanding on a number of fronts at once, rather than concentrating on one part of the business only. We fully expect that our diversification policy will continue to deliver superior results.

Directors

Geoffrey Guild Hill

FCPA FAICD ASIA BEcon(Syd)
MBA(NSW)

Non-Executive Director

Age 54. Appointed Director in February 1999. Principal of Geoffrey Hill & Associates. Chairman of Auspine Ltd. and Pacific Strategic Investments Limited. Director of Gemstone Corporation of Australia Limited, Huntley Investment Company Ltd, Heritage Gold NZ Limited and eStar online trading limited.

David James Simmons

BA(Accountancy) FCPA

Managing Director

Age 46. Joined the Company in 1984. Appointed Finance Director in July 1987. Appointed Managing Director in December 1992. Director of Korvest Ltd. and Radio Frequency Systems Pty. Ltd.

Graham Lloyd Twartz

BA(Adel) Dip Acc(Flinders) ACA

Finance Director

Age 43. Joined the Company in 1993. Appointed Director in July 1993. Director of Korvest Ltd. and Radio Frequency Systems Pty. Ltd.

John Arthur Stacy Brown

BSc(Adel)

Deputy Chairman —

Non-Executive Director

Age 70. Director since March 1981. Deputy Chairman since February 1993. Chairman of Korvest Ltd.

Roger Baden Flynn

BEng(Hons) MBA FIE(Aust)

Non-Executive Director

Age 50. Appointed Director in November 1999. Director of WattyI Limited. Director of Hartec Limited. Formerly Managing Director of Siddons Ramset Limited.

Robert Donald Hill-Ling

AO FIE Aust. CPEng

Chairman — Non-Executive Director

Age 67. Joined the Company in 1952. Director since June 1958. Managing Director November 1965 to December 1992. Appointed Chairman December 1966. Chairman of Bounty Investments Ltd. and Director of Argo Investments Ltd. and Wakefield Investments Ltd.

Jennifer Helen Hill-Ling

LLB(Adel)

Non-Executive Director

Age 38. Member of the Australian Law Council. Appointed Director in August 1985. Director of Tower Trust Limited and Executor Trustee Australia Limited.



Electronics



This segment comprises Hills Antenna & TV Systems, Hills Electronic Security (Direct Alarm Supplies and Pacific Communications) and Radio Frequency Systems. Revenue improved by 19% to \$128.2M for the year whilst EBIT improved by 44% to \$14.5M.

Antenna & TV Systems

Although the Free To Air Antenna market continued to decline, improved stability in the PayTV market saw a slight increase in overall revenue. In July this year we finalised a long term contract with Foxtel to supply them with satellite dishes and electronics for the roll out of their PayTV service in mainland capital cities. This contract has given us the confidence to upgrade our manufacturing facilities in Adelaide with the objective of being a long term competitive participant in this industry.



During the year we acquired the Step Electronics business. Step specialises in systems and software for microwave, satellite and digital communications. We are targeting further growth in this segment of the industry and in particular, wireless solutions to meet bandwidth requirements. We expect consistent results from Antenna & TV Systems in the current year.

Hills Electronic Security

This Division markets an extensive range of electronic security products ranging from simple domestic alarm systems up to complex integrated surveillance and access control systems. Hills Electronic Security represents some of the world's leading security companies. Our commitment to meeting market needs with new and improved products, as well as conveniently located outlets, makes us the leading distributor of security products in Australia and New Zealand.

The Division achieved good growth during the year, partly as a result of the strong demand in New South Wales leading up to the Olympics and system



upgrades relating to Y2K. The market grew on the back of strong promotions by installation companies to encourage home owners to install monitored alarm systems. The market for high level security and access control systems also expanded as more organisations acknowledged the need for improved security and the replacement of expensive manpower solutions.

In the coming year we will benefit from contracts to install our proprietary train security systems and through the introduction of new products.

Radio Frequency Systems (RFS)

After a couple of difficult years due to the economic crisis in Asia, RFS has made excellent progress this year. RFS manufacture a comprehensive range of advanced mobile antennas and their flagship Dual Band product has been acclaimed around the world, resulting in very high order levels.

In the broadcast arena, RFS is currently very busy with a large order backlog relating to the introduction of Digital TV into Australia. RFS has a world leading position in the provision of broadcast antenna and combining equipment to network operators.

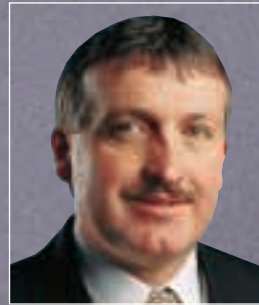
In addition, work on the defence HF Modernisation Project with Boeing Australia is progressing well and contributing to RFS' success in 2000.

We are confident that RFS will continue to grow their sales and profitability, particularly in emerging markets such as in-building and tunnel coverage for mobile phones.

EXECUTIVES



Allen Oliver
Group General
Manager Electronics



Rick Stokes
General Manager
Pacific Communications



Peter Mellino
General Manager
Direct Alarm Supplies



Chris Jaeger
Managing Director
Radio Frequency Systems



Home & Hardware



The Home & Hardware segment is made up of our Consumer Products operations in Australia, New Zealand and the United Kingdom, our Trade Products business and Triton. During the year revenue improved 12% to \$132.8M and EBIT improved 13% to \$9.8M.



Consumer Products

These businesses manufacture a range of predominantly metal based consumer products for use in and around the home. The improvement in sales and profit was largely driven by the strength of the Australian retail market along with the increased level of housing completions in Australia. The shape of the Australian market for our products continues to change as warehouse style outlets grow at the expense of smaller independent hardware retailers.

During the year we launched the "Head for the Hills" advertising campaign to reinforce our brand image and our position in the market. We will continue to promote our key attributes of strength, durability and fitness for purpose.

Although the New Zealand economy remained weak, we were pleased with the results achieved. Our market share in New Zealand is lower than we typically achieve in Australia. Growth in this market is now a priority.

Our growth strategy in the United Kingdom involves the introduction of new products, the expansion of our product range into continental Europe and improvements in our manufacturing operations. During the year we bedded down and fully commissioned our new state of the art Tube rolling facility and significantly increased our sales into Europe. Unfortunately the weather in the UK has been terrible, which meant that our sales in the all important April to June period were much lower than expected.



All of our Consumer Products businesses have strong new product introduction programmes locked in for this year. This, coupled with the renewed commitment to profitable growth, should see further improvement in the coming year.

Trade Products

This business is principally focused on Trade, Government and Contract business and is closely aligned to movements in the domestic and commercial building cycles.

We continued to make improvements to our Ladder range during the year and had our first real success in the New Zealand market with our Industrial Ladder range. In the second quarter of this year we will expand our manufacturing facilities in Brisbane to improve our manufacturing efficiencies and to provide the room for a planned new range of products.

Triton

The Triton Do-It-Yourself woodworking equipment business was purchased from its founder, George Lewin in October 1999. The functionality and quality of the Triton range of products is acknowledged in both domestic and export markets and we have been delighted with the results achieved since acquisition. The Triton management is committed to a new product development and introduction programme. We are confident that we will achieve another good result in the coming year, particularly as we consolidate our position in export markets.

EXECUTIVES



Mark Canny
Group General Manager
Home & Hardware



Nick Weavis
Managing Director
Hills Industries UK



Paul Scanlon
General Manager
Trade Products



Greg Miles
General Manager
Triton



Building & Industrial



This segment consists of Metal Building Products, Hills Tubing, Precision Metal Products and Korvest Ltd. Revenue improved 15% to \$175.1M and EBIT improved 9% to \$11.9M.



Metal Building Products

This business supplies a range of roll-formed products (roofing, gutters, downpipes, steel door frames, purlins, etc) to commercial and domestic building contractors across Australia. On 1 May 2000, we merged our Woodroffe Metal Building Products business with the privately owned, Fielders Steel Roofing. The major shareholder in Fielders Steel Roofing, John Easling, is now the Managing Director of the merged group. John has already brought renewed vigor and enthusiasm to our Metal Building Products business.

Although there will be a downturn in housing starts during the current year, we believe that a controlled geographic expansion of the business and the introduction of unique and superior products, backed up by the most modern manufacturing plant in Australia, will enable us to report growth in both sales and profitability.

Hills Tubing

This business supplies a comprehensive range of small diameter (10mm to 110mm) thin walled tubing to the furniture, fencing, engineering and automotive markets in Australia. Sales and profitability both improved during the year.

The steel industry in Australia is undergoing significant change highlighted by the recent Smorgon bid for the Email Steel distribution assets. With the planned float of BHP's One Steel business and further rationalization of the steel distribution market likely, we formed the view that we needed to increase the critical mass and expertise within our steel manufacturing operations to preserve and grow our market share.

To this end, we recently announced that we will be merging the Hills Tubing business with Welded Tube Mills based in Queensland. The merger brings together the unique distribution capabilities of the Hills business and the excellent manufacturing and technical skills of Welded Tube Mills. We believe the merged business will be a strong contributor to sales and profits in the future.

Precision Metal Products

This business provides a range of high specification enclosures to the Telecommunications Industry and to a number of system integrators and specialized manufacturers. These markets are extremely competitive and we are in the process of down sizing the Victorian operation and slowly changing the business from one dependent on sub-contract manufacture to one where we have better control of sales and marketing of the end products.

Korvest Ltd

Korvest manufacture a range of storage systems and cable support products for national distribution and operates a hot dip galvanizing plant in South Australia. Improved performance by the Elite Built filing cabinet business and continuing good performance by the Ezy-Strut cable support business enabled Korvest to report improved results this year. Investment in new plant, particularly the 14 metre hot dip galvanizing facility in Adelaide, will underwrite the future performance of Korvest.



EXECUTIVES



John Easling
Managing Director
Metal Building Products



Bernie Doyle
General Manager
Hills Tubing



Gary Hayley
General Manager
Precision Metal
Products



Peter Brodribb
Managing Director
Korvest Ltd.

FIELDERS

**Cowells
Steel**

WOODROFFE

Hills

K Korvest Galvanisers

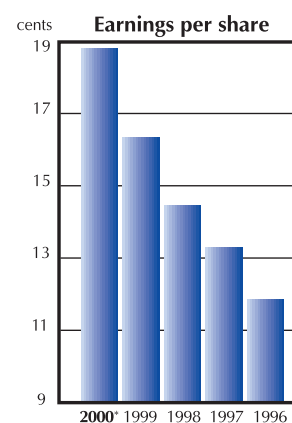
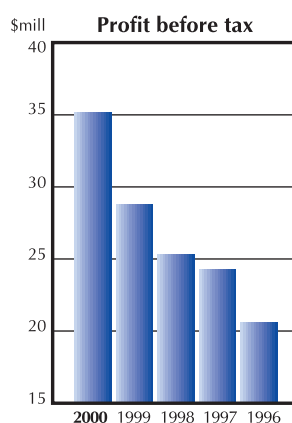
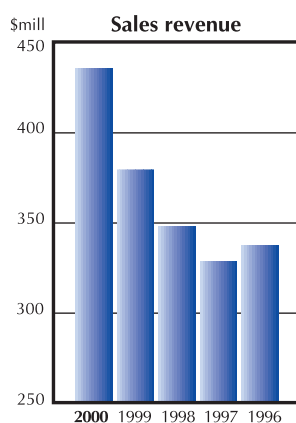
Elite Built

EzyStrut

5 Year Summary

	2000	1999	1998	1997	1996
Sales revenue (\$'000)	435,399	377,783	348,761	326,622	338,270
Operating profit after minorities (\$'000)	21,278 ■	17,904	15,741	14,100	12,238
Depreciation and amortisation (\$'000)	11,579	9,404	8,560	8,824	9,572
Interest (\$'000)	1,654	1,722	1,614	1,765	2,401
Shareholders' equity (\$'000)	113,607	104,000	104,609	98,928	86,062
Operating profit after minorities (\$'000)					
- as a % of shareholders' equity	18.7% ■	17.2%	15.1%	14.3%	14.2%
- as a % of sales	4.9% ■	4.7%	4.5%	4.3%	3.6%
Earnings per share (cents)	18.8 ■	16.3	14.5	13.3	11.8
Dividend					
- total amount (\$'000)	17,827	16,721	14,862	7,041	7,586
- per issued ordinary share (cents)	19.0 ♦	17.0 ♦	15.4 ●	6.6	7.2 ▲
- times covered by operating profit	1.2 ■	1.1	1.1	2.0	1.6
Employees					
- number at year end	2,155	2,012	2,075	2,113	2,117
Shareholders at year end	5,962	5,535	4,999	4,821	4,320

- Before net abnormal income tax expense of \$2,477,000.
- ♦ Includes special dividend of 5¢ per share.
- Includes special dividend of 8¢ per share.
- ▲ Includes special 50th anniversary dividend of 2¢ per share.

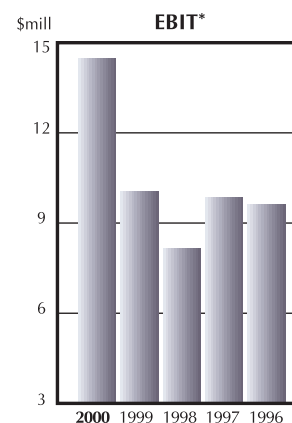
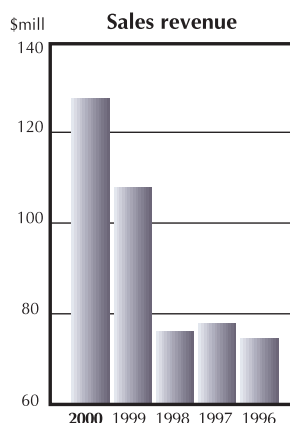


*Excludes net abnormal income tax expense of \$2,477,000.

Group Profile

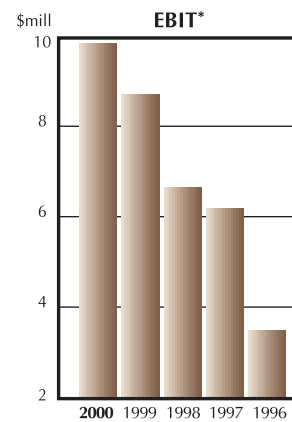
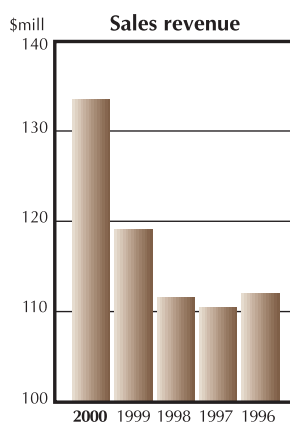
Electronics

- Domestic and commercial alarm systems
- Closed circuit television systems
- Domestic television antennae
- Satellite dishes
- Wireless cable products
- Video and data systems design and installation
- MATV systems
- Amplifiers
- Broadcast and cellular antennae



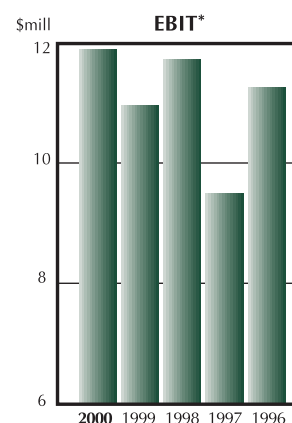
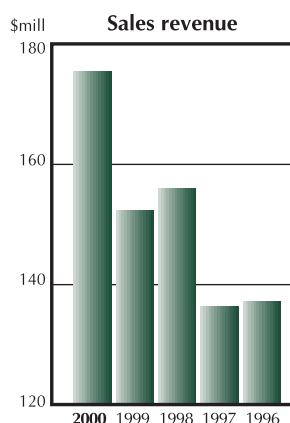
Home & Hardware

- Outdoor clothes dryers and indoor airers
- Ironing boards
- Laundry trolleys
- Ladders
- Security doors
- Childrens' play equipment
- Do-It-Yourself woodworking equipment
- Wheelbarrows and hand trucks
- Folding beds
- Garden sprayers



Building & Industrial

- Steel tubing
- Roll-formed building products
- Steel door frames
- Hot dip galvanizing
- Cable and pipe support systems
- Office storage systems
- Stainless steel products
- Precision metal enclosures and cabinets



*EBIT:- Earnings before interest & tax

Corporate Governance Statement

Year ended 30 June 2000

Hills Industries Limited and its Controlled Entities

Responsibilities

The Board of Directors is responsible for the effective corporate governance of the consolidated entity through:

- specifying and monitoring compliance with appropriate internal controls and risk management procedures;
- the adoption of an annual budget and the continuous review of financial performance;
- appointing and monitoring the performance of the Managing Director;
- the setting of strategic direction;
- the review of business plans; and
- the approval of major capital expenditure.

The Managing Director assists the Board to discharge all of its responsibilities and is responsible to the Board for the implementation of its decisions and the day to day management of the consolidated entity.

Board Of Directors

The Board consists of five non-executive directors, the Managing Director and one other executive director. The composition of the Board is monitored to ensure that the Board has an appropriate mix of experience, qualifications and expertise. Profiles of the directors are set out on page 14. Details of attendances at Board and Board Committee meetings are set out in the Directors' Report.

The position of Chairman is held by a non-executive director. All Directors must retire on or before their 72nd birthday. The fees payable to non-executive directors are determined within the aggregate amount approved by shareholders in general meeting.

Directors may, subject to approval from the Chairman, seek independent professional advice at the Company's cost. Such approval shall not be unreasonably withheld.

Committees

To ensure the effective carrying out of the Board's corporate governance responsibilities, an Audit Committee and a Remuneration Committee have been established.

The Audit Committee consists entirely of non-executive directors and is scheduled to meet at least three times a year. Its role is documented in a Charter adopted by the Committee. Its primary responsibilities are:

- oversight of compliance with statutory responsibilities relating to financial disclosure and other external reporting requirements;
- monitoring of corporate risk assessment, systems and the internal controls instituted;
- review of the entity's audit department, its activities and work programme;
- review of the annual audit strategy with the external auditors;
- review of the findings and reports of the external auditors;
- review of the half yearly and annual Australian Stock Exchange releases and financial statements with management and the external auditors immediately before their submission to the Board;
- review of the nature and impact of any changes in accounting policies during the year and provide a recommendation to the Board on their adoption; and
- examination of any other matters referred to it by the Board.

The Audit Committee may have such members of management attend its meetings as it deems appropriate and has access to both internal and external auditors and senior management of the Company.

The Audit Committee comprises R.D. Hill-Ling (Chairman), J.A.S. Brown, J.H. Hill-Ling and G.G. Hill.

The Company has a Remuneration Committee whose primary function is to review and approve the policies governing remuneration including executive salaries, executive incentives, employee share and bonus schemes and superannuation.

In setting executive remuneration, including that of the Managing Director, the Committee annually reviews performance, peer group remuneration and has regard to external independent advice.

The Remuneration Committee comprises R.D. Hill-Ling (Chairman), D.J. Simmons, J.H. Hill-Ling and G.G. Hill.

Continuous Disclosure

The Board has established continuous disclosure controls throughout the consolidated entity that are designed to protect the Company's interests, to ensure that the Board is aware of all material issues, to ensure that legislative disclosure obligations are met and to ensure that risks in the business are identified and action taken to minimise those risks.

Risk Management

In terms of financial risk management, it is the consolidated entity's policy to hedge significant import commitments with forward exchange contracts.

The consolidated entity enters into interest rate swaps and interest rate options from time to time with the objective of reducing the exposure to changes in interest rates on floating rate medium and long term debt.

The Board is committed to ensuring compliance with all regulatory requirements and community expectations in respect of its corporate conduct.

The Board has in place appropriate policies and management controls in areas such as occupational health and safety, discrimination, fair trading, product liability and environmental management.

The consolidated entity is continually updating information technology disaster recovery procedures.

The Company's Audit Manager plays an integral role in assisting management in controlling risks, monitoring compliance with the consolidated entity's policies and improving the efficiency and effectiveness of internal control systems.

Share Trading

The Board has in place a share trading policy. Directors and officers of the Group are precluded from buying or selling securities in the Company:

- within 45 days prior to the Company's profit announcements, the day of the announcements and the day after such announcements; and
- if in possession of price sensitive information.

In addition, no trading in the Company's securities is to take place by directors during the period between the time when;

- i) an obligation arises under ASX Listing Rule 3A to disclose information to the Stock Exchange and the point at which disclosure is made; and
- ii) the directors become aware of information concerning the Company which is not public information and which a reasonable person would expect to have a material effect on the price or value of the securities of the Company, and the point at which that information is either made public or has an effect on the share price of the Company's securities.

The directors present their report with the financial report of Hills Industries Limited ("the Company") and the consolidated financial report of the consolidated entity being the Company and its controlled entities, for the year ended 30 June 2000 and the auditors' report thereon.

Directors

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

Robert Donald Hill-Ling AO FIE Aust. CPEng

Chairman — Non-Executive Director

Age 67. Joined the Company in 1952. Director since June 1958. Managing Director November 1965 to December 1992. Appointed Chairman December 1966. Chairman of Bounty Investments Ltd. and Director of Argo Investments Ltd. and Wakefield Investments Ltd.

David James Simmons BA(Accountancy) FCPA

Managing Director

Age 46. Joined the Company in 1984. Appointed Finance Director in July 1987. Appointed Managing Director in December 1992. Director of Korvest Ltd. and Radio Frequency Systems Pty. Ltd.

John Arthur Stacy Brown BSc(Adel)

Deputy Chairman — Non-Executive Director

Age 70. Director since March 1981. Deputy Chairman since February 1993. Chairman of Korvest Ltd.

Jennifer Helen Hill-Ling LLB(Adel)

Non-Executive Director

Age 38. Member of the Australian Law Council. Appointed Director in August 1985. Director of Tower Trust Limited and Executor Trustee Australia Limited.

Roger Baden Flynn BEng(Hons) MBA FIE(Aust)

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Age 50. Appointed Director in November 1999. Director of Wattyl Limited. Director of Hartec Limited. Formerly Managing Director of Siddons Ramset Limited.

Geoffrey Guild Hill FCPA FAICD ASIA BEcon(Syd) MBA(NSW)

Non-Executive Director

Age 54. Appointed Director in February 1999. Principal of Geoffrey Hill & Associates. Chairman of Auspine Ltd. and Pacific Strategic Investments Limited. Director of Gemstone Corporation of Australia Limited, Huntley Investment Company Ltd, Heritage Gold NZ Limited and eStar online trading limited.

Graham Lloyd Twartz BA(Adel) Dip Acc(Flinders) ACA

Finance Director

Age 43. Joined the Company in 1993. Appointed Director in July 1993. Director of Korvest Ltd. and Radio Frequency Systems Pty. Ltd.

Phillip Dudley Johns CMAHRI

Personnel Director

Age 60. Joined the Company in 1959. Appointed Director in October 1992. Retired 7 August 2000.

Peter John Donnelly FCPA ACIS ACIM

Non-Executive Director

Age 71. Director since November 1978. Retired 12 November 1999.

Directors' Meetings

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

Director	Directors' Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held
R.D. Hill-Ling	12	12	3	3	2	2
J.A.S. Brown	11	12	2	3	-	-
D.J. Simmons	12	12	-	-	2	2
P.J. Donnelly	4	5	1	1	-	-
J.H. Hill-Ling	12	12	3	3	2	2
P.D. Johns	12	12	-	-	-	-
G.L. Twartz	12	12	-	-	-	-
G.G. Hill	11	12	2	2	2	2
R.B. Flynn	7	7	-	-	-	-

Consolidated Result

The consolidated profit for the year attributable to the members of Hills Industries Limited was:

	2000 \$'000	1999 \$'000
Operating profit after income tax		
– before abnormal income tax expense (*)	22,611	18,571
Operating profit after income tax		
– after abnormal income tax expense (*)	20,034	18,571
Outside equity interests	(1,233)	(667)
Operating profit after income tax attributable to members of Hills Industries Limited	18,801	17,904

(*): To take effect of the impending changes in tax rates from 36% to 34% effective from 1 July 2000, and 34% to 30% effective from 1 July 2001. The abnormal tax expense arises from external regulatory forces and results in the Group reducing the future income tax benefits associated with costs previously provided for as follows:

	2000 \$'000
Abnormal income tax expense attributable to members of Hills Industries Limited	2,477
Outside equity interests in abnormal income tax expense	100
Abnormal income tax expense	2,577

The Group will, however, obtain long-term benefits in the form of paying tax at lower tax rates.

Directors' Report

Hills Industries Limited and its Controlled Entities

Principal Activities

The principal activities of the consolidated entity during the year were the manufacture and distribution of outdoor drying products, laundry aids, ladders, childrens' play equipment, wheelbarrows, garden sprayers, security doors, Do-It-Yourself woodworking equipment, steel tubing, television antennae, MATV and CCTV systems, amplifiers, electronic security products, office storage systems, galvanizing, sheet metal, precision metalwork and steel door frames.

Review of Operations

The Hills Group achieved a record operating profit before taxation of \$35,001,000, which was an increase of 24% over last year's result. On an after tax basis, operating profit attributable to members of Hills Industries Limited advanced 5% to \$18,801,000, in spite of the abnormal income tax expense of \$2,477,000.

Businesses within the Group's three main operating segments of Electronics, Home & Hardware and Building & Industrial continued to perform well, with a strong result experienced in Electronics.

The Electronics segment was buoyed by strong promotions by installation companies encouraging householders to install monitored alarm systems as provided by Direct Alarm Supplies. Growth in high level security and access control systems continued, whilst demand in the PayTV market also continued with the Austar rollout in rural Australia and Foxtel installations of satellite based systems in mainland capitals.

The acquisition of the operations of Triton on 1 October 1999 contributed to strong results within the Home & Hardware segment, in conjunction with a strengthening of the Australian retail market and the significant level of housing completions in Australia. Increased advertising will reinforce the Hills brand image and position in the market place, whilst an investment in new products will also increase exposure. Growth in the United Kingdom was affected by poor weather, however, success was experienced with the industrial ladder range in New Zealand.

The Building and Industrial segment has again performed well. The new venture between Woodroffe Metal Building Products and the privately owned, Fielders Steel Roofing commenced on 1 May 2000. The two months of trading activity that followed were record results for both companies due to the extraordinary demand leading up to the introduction of the Goods & Services Tax. Our tubing, storage systems and cable support operations also showed improved performances, whilst operations within the precision metal arm continue to be downsized due to poor results.

Dividends

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

As proposed and provided for in last year's report:

A final fully franked ordinary dividend of 6.4 cents per share amounting to \$5,746,587 in respect of the year ended 30 June 1999, paid on 30 September 1999 (excludes dividends forgone by shareholders who elected to participate in the Share Investment Plan).

	\$
Over provided in respect of the previous financial year:	(17,516)
Dividends forgone for Share Investment Plan in respect of the previous financial year:	(1,371,897)
In respect of the current financial year:	
A special fully franked ordinary dividend of 5.0 cents per share was paid 17 March 2000	5,657,803
An interim fully franked ordinary dividend of 6.6 cents per share was paid 17 March 2000	7,468,300
Interim and special dividends forgone for Share Investment Plan	(2,515,288)
A final fully franked ordinary dividend of 7.4 cents per share has been declared by the directors to be paid 22 September 2000	8,606,000
Total dividends provided for or paid in respect of the financial year ended 30 June 2000	17,827,402

State of Affairs

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

- The consolidated entity's freehold land and buildings were re-valued during the year to \$59,546,000, resulting in a re-valuation surplus of \$2,174,617.
- The consolidated entity acquired the business operations of Triton Manufacturing & Design and Triton Workshop Systems (UK) on 1 October 1999. Forming part of the Home & Hardware segment of the Group, the operation involves the manufacture, design and sale of woodworking equipment.
- The consolidated entity acquired 60% ownership in the newly incorporated Exosteel Holdings Pty. Ltd. From 1 May 2000, Exosteel Holdings Pty. Ltd. commenced management of the merged operations of the building products arm of Woodroffe Industries Pty. Limited and the privately owned, Fielders Steel Roofing Pty. Ltd.

Environmental Regulation

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

The consolidated entity has established a process whereby compliance with existing environmental regulations and new regulations is monitored continually. This process includes 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. 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.

Directors' Report

Hills Industries Limited and its Controlled Entities



Events Subsequent to Balance Date

On 21 August 2000, the Company announced its intentions to merge the operations of the tubing business of Hills Industries Limited with Welded Tube Mills of Australia Pty. Limited. The merger will be effected by Hills Industries Limited taking a 50% interest in Welded Tube Mills of Australia Pty. Limited. At the same time, Hills tubing operations will be purchased by Welded Tube Mills of Australia Pty. Limited. The merged group will operate within the thin walled and large structural segments of the tubing market.

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

Likely Developments

There are a number of variables in our markets around the world which make the prediction of results for 2000/2001 difficult. The Group remains focused 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' 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 that remuneration is competitive in attracting, retaining and motivating people of 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 are a result of the Employee Share Plan under which shares are issued to all employees with more than one year of service. 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	Other Benefits	Retirement Benefits	Total
	\$	\$	\$	\$	\$
Director					
R.D. Hill-Ling	65,000	-	6,450	-	71,450
J.A.S. Brown	40,000	-	6,450	-	46,450
D.J. Simmons	177,992	65,000	65,205	-	308,197
J.H. Hill-Ling	35,000	-	9,250	-	44,250
G.L. Twartz	168,122	25,000	55,191	-	248,313
G.G. Hill	35,000	-	2,800	-	37,800
R.B. Flynn	21,846	-	-	-	21,846
P.J. Donnelly	12,056	-	907	-	12,963
P.D. Johns	92,588	2,335	36,155	-	131,078
Officer					
The Company					
A.R. Oliver	70,700	255,286	45,045	-	371,031
M.I. Canny	108,251	87,725	54,436	-	250,412
P.J. Mellino	70,632	131,620	33,960	-	236,212
R.J. Stokes	65,000	131,620	27,810	-	224,430
B. Doyle	112,000	25,162	31,390	-	168,552
Consolidated					
A.R. Oliver	70,700	255,286	45,045	-	371,031
M.I. Canny	108,251	87,725	54,436	-	250,412
P.J. Mellino	70,632	131,620	33,960	-	236,212
R.J. Stokes	65,000	131,620	27,810	-	224,430
N.G. Weavis	136,300	20,800	49,500	-	206,600

No options were granted during the year. Accordingly, no amount has been included in total emoluments above. Details of options are set out under "Options".

Options

Since the end of the financial year, the Company granted options over unissued ordinary shares to the following directors and those of the five most highly remunerated officers of the Company as part of their remuneration:

	Number of Options Granted	Exercise Price	Expiry Date
Director			
D.J. Simmons	37,500	\$2.35	31 December 2001
G.L. Twartz	25,000	\$2.35	31 December 2001
Officer			
A.R. Oliver	25,000	\$2.35	31 December 2001
M.I. Canny	25,000	\$2.35	31 December 2001
P.J. Mellino	10,000	\$2.35	31 December 2001
R.J. Stokes	10,000	\$2.35	31 December 2001
N.G. Weavis	25,000	\$2.35	31 December 2001

Directors' Report

Hills Industries Limited and its Controlled Entities

At the date of this report unissued ordinary shares of the Company under option are:

	Number of Shares	Exercise Price	Expiry Date
	137,500	\$2.13	(*) 31 December 2000
	172,500	\$2.35	31 December 2001

(*): options were granted during the financial year ended 30 June 1999.

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

The Company has not issued ordinary shares as a result of the exercise of options during or since the end of the financial year.

Directors' Interests

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

Director	Hills Industries Limited		Korvest Ltd.
	Ordinary Shares	Options over Ordinary Shares	Ordinary Shares
R.D. Hill-Ling	13,215,896	-	48,329
D.J. Simmons	41,116	75,000	500
J.A.S. Brown	9,158,494	-	5,172
J.H. Hill-Ling	9,170,186	-	-
G.L. Twartz	5,177	50,000	500
G.G. Hill	2,167	-	-
R.B. Flynn	12,626	-	-

* includes 9,103,138 shares owned by Hills Associates 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 for current and former officers, including executive officers of the Company and directors, executive officers and secretaries of all 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 premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

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 11th day of September 2000.

Signed in accordance with a resolution of the directors:

R.D. Hill-Ling
Director

D.J. Simmons
Director

Profit & Loss Statements

Year ended 30 June 2000

Hills Industries Limited and its Controlled Entities



	Note	Consolidated		The Company	
		2000	1999	2000	1999
		\$'000	\$'000	\$'000	\$'000
Revenue	2	439,081	382,012	274,902	247,983
Operating profit before income tax	2	35,001	28,168	32,859	23,280
Income tax attributable to operating profit	3	14,967	9,597	13,437	7,259
Operating profit after income tax		20,034	18,571	19,422	16,021
Outside equity interests in operating profit		1,233	667	-	-
Operating profit after income tax attributable to members of the Company		18,801	17,904	19,422	16,021
Retained profits at the beginning of the financial year		62,094	60,911	34,909	35,609
Total available for appropriation		80,895	78,815	54,331	51,630
Dividends provided for or paid	14	17,827	16,721	17,827	16,721
Retained profits at the end of the financial year		63,068	62,094	36,504	34,909

The Profit & Loss Statements are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 21 to 33.

Balance Sheets

Year ended 30 June 2000

Hills Industries Limited and its Controlled Entities

	Note	Consolidated		The Company	
		2000	1999	2000	1999
		\$'000	\$'000	\$'000	\$'000
CURRENT ASSETS					
Cash		7,315	2,533	4,896	1
Receivables	4	81,439	65,077	45,531	53,973
Inventories	6	56,876	45,397	30,651	31,427
Total current assets		145,630	113,007	81,078	85,401
NON-CURRENT ASSETS					
Investments	5	1,375	1,125	20,214	19,963
Property, plant and equipment	7	91,314	85,489	43,402	40,638
Intangibles	8	6,560	2,250	5,935	-
Other	3	14,632	13,518	10,838	11,597
Total non-current assets		113,881	102,382	80,389	72,198
Total assets		259,511	215,389	161,467	157,599
CURRENT LIABILITIES					
Accounts payable	9	60,659	45,480	34,822	31,083
Borrowings	10	4,725	2,568	6,878	16,963
Provisions	11	36,449	29,258	21,484	18,588
Total current liabilities		101,833	77,306	63,184	66,634
NON-CURRENT LIABILITIES					
Borrowings	10	32,313	23,563	18,398	20,398
Provisions	11	7,025	6,931	5,000	5,000
Total non-current liabilities		39,338	30,494	23,398	25,398
Total liabilities		141,171	107,800	86,582	92,032
Net assets		118,340	107,589	74,885	65,567
SHAREHOLDERS' EQUITY					
Share capital	12	27,055	21,022	27,055	21,022
Reserves	13	23,484	20,884	11,326	9,636
Retained profits		63,068	62,094	36,504	34,909
Shareholders' equity attributable to members of the Company		113,607	104,000	74,885	65,567
Outside equity interests in controlled entities	24	4,733	3,589	-	-
Total shareholders' equity		118,340	107,589	74,885	65,567

The Balance Sheets are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 21 to 33.

Statements of Cash Flows

Year ended 30 June 2000

Hills Industries Limited and its Controlled Entities



	Note	Consolidated		The Company	
		2000	1999	2000	1999
		\$'000	\$'000	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts in the course of operations		414,356	372,404	266,414	238,194
Cash payments in the course of operations		(373,448)	(335,031)	(223,277)	(204,144)
Dividends received		-	-	1,308	-
Interest received		142	110	32	44
Borrowing costs		(1,796)	(1,832)	(1,498)	(1,446)
Income taxes paid		(13,662)	(9,299)	(11,387)	(5,951)
Net cash provided by operating activities	16	25,592	26,352	31,592	26,697
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(11,594)	(9,580)	(6,113)	(4,269)
Proceeds from sale of property, plant and equipment		497	886	209	392
Payments for investments		(251)	-	(251)	(400)
Proceeds from the sale of investments		86	1,521	86	-
Loans to/from other entities		(75)	299	(75)	299
Payments for acquisition of businesses		(4,261)	-	-	-
Payments for intangible assets		(6,850)	(250)	(6,200)	(250)
Rent received		1,054	939	884	825
Net cash used in investing activities		(21,394)	(6,185)	(11,460)	(3,403)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		11,044	591	-	-
Repayment of borrowings		-	(3,848)	(2,000)	(1,000)
Dividends paid		(16,809)	(14,253)	(16,357)	(13,767)
Proceeds from share issue		6,214	3,257	6,033	3,257
Share buy back		-	(3,180)	-	(3,180)
Net cash provided by/(used in) financing activities		449	(17,433)	(12,324)	(14,690)
Net increase in cash held		4,647	2,734	7,808	8,604
Cash at the beginning of the financial year		2,533	(176)	(2,912)	(11,516)
Exchange rate adjustments		135	(25)	-	-
Cash at the end of the financial year	16	7,315	2,533	4,896	(2,912)

The Statements of Cash Flows are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 21 to 33.

1. Statement of Significant Accounting Policies

The significant 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 Law. It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets. The accounting policies have been consistently applied except as set out below.

The carrying amounts of all non-current assets are reviewed at least annually to determine whether they are in excess of their recoverable amount. If the carrying value of a non-current asset exceeds the recoverable amount, the asset is written down to the lower value. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

(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

Goodwill, representing the excess of the purchase consideration over the fair value of the identifiable net assets acquired on the acquisition of controlled entities, 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 profit and loss statement.

(d) Foreign Currency

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 balance date are translated at the rates of exchange ruling at that date. Exchange differences relating to such amounts are brought to account in the profit and loss statement in the financial year in which the exchange rates change.

Translation of Controlled Foreign Entities

The balance sheets of the controlled entities incorporated overseas (being self-sustaining foreign operations) are translated at the rates of exchange ruling at their balance dates. The profit and loss statements are translated at a weighted average rate for

the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

(e) Taxation

The consolidated entity adopts the liability method of tax effect accounting. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

(f) Investments

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

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

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

Manufacturing Activities

Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of both variable and fixed costs. Fixed costs have been allocated on the basis of normal operating capacity.

Net Realisable Value

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

(h) Property, Plant and Equipment

Acquisition

Items of property, plant and equipment are recorded at cost and depreciated as outlined below.

Revaluation

Land and buildings are independently valued at least every three years on an existing use basis and are included in the financial statements at the revalued amounts. This is in addition to the annual review for recoverable amount.

A provision for capital gains tax is only provided when it is known that the asset will eventually be sold. Other items of property, plant and equipment are carried at the lower of cost or valuation, less accumulated depreciation, and recoverable amount.

Depreciation and Amortisation

Property, plant and equipment, excluding land, are depreciated over their estimated useful lives. Either the reducing balance or straight line 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.

1. Statement of Significant Accounting Policies continued

The depreciation rates used for each class of assets are as follows:

Buildings	0.75%
Leasehold improvements	20.00% to 33.3%
Plant and equipment	10.00% to 33.3%

Leased Plant and Equipment

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(i) Patents and Trademarks

The costs of patents and trademarks are amortised 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 accounting period to ensure the carrying amount is not in excess of the recoverable amount.

(j) Provisions

Provision for Employee Entitlements

This provision relates to annual leave and long service leave and has been calculated at nominal amounts based on current wage and salary rates and includes related on-costs. Amounts provided for long service leave represent the present value of the estimated future cash flows to be made by the employer resulting from employees' services provided up to balance date. The dissection between current and non-current is based upon past experience.

Provision for Outstanding Claims

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

(k) Derivatives

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.

Derivative financial instruments designated as hedges are accounted for on the same basis as the underlying exposure.

Interest Rate Swaps

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

Forward Foreign Exchange Contracts

The accounting for forward foreign exchange contracts is set out in Note 1(d).

(l) Superannuation Plans

The Company and other controlled entities contribute to an employer sponsored superannuation fund and several accumulation superannuation funds. Contributions are charged against income as they are made. Further information is set out in Note 15.

(m) Receivables

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

(n) Accounts Payable

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.

(o) Bank Loans

Bank loans are carried on the balance sheet at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in "Sundry creditors."

(p) Revenue Recognition

Sales Revenue

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

Interest Income

Interest income is recognised as it accrues.

(q) Comparatives

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

2. Revenue and Operating Profit

(a) Revenue

	Consolidated		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Revenue from operating activities				
Sales revenue	435,399	377,783	270,985	245,963
Interest received from:				
– other parties	142	110	32	44
Dividends received from:				
– related parties	-	-	1,308	-
Property rent	1,054	939	884	824
Revenue from outside operating activities				
Gross proceeds from the sale of non-current assets	497	886	209	392
Other	1,989	2,294	1,484	760
Total revenue	439,081	382,012	274,902	247,983

Notes to and forming part of the

Financial Statements

Year Ended 30 June 2000
Hills Industries Limited and its Controlled Entities

2. Revenue and Operating Profit continued

(b) Operating Profit

	Consolidated		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Operating profit before income tax has been arrived at after charging/(crediting) the following items:				
Depreciation of:				
– freehold buildings	156	169	94	106
– leasehold buildings	191	175	46	34
– plant and equipment	8,442	7,822	4,488	4,489
Amortisation of:				
– goodwill	2,275	988	-	-
– patents & trademarks	515	250	515	250
Total depreciation and amortisation	11,579	9,404	5,143	4,879
Lease rental expense:				
– operating leases	2,936	2,958	1,178	995
Borrowing costs:				
– other parties	1,796	1,832	1,435	1,446
– controlled entities	-	-	63	-
Interest received:				
– other parties	(142)	(110)	(32)	(44)
Total net borrowing costs	1,654	1,722	1,466	1,402
Amounts set aside to provision for:				
– Employee entitlements	5,785	6,101	3,835	3,657
– Doubtful debts	473	226	400	336
– Stock obsolescence	1,068	1,024	1,323	260
– Outstanding claims	2,577	765	-	-
Auditors' remuneration:				
Audit services:				
– Auditors of the Company	145	132	108	105
– Other KPMG member firms	75	75	-	-
– Other auditors	11	-	-	-
	231	207	108	105
Other services:				
– Auditors of the Company	46	43	38	36
– Other KPMG member firms	29	24	-	-
	75	67	38	36
Sales of Non-Current Assets:				
(Profit)/loss on sale of:				
– fixed assets	(1)	(285)	(49)	(68)
– investments	(86)	-	(86)	-

3. Taxation

	Consolidated		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
(a) Income Tax Expense				
Prima facie income tax expense calculated at 36% (1999: 36%) on the operating profit	12,600	10,140	11,829	8,381
Other items	(210)	(543)	(491)	(1,122)
Income tax expense on operating profit before abnormal tax expense	12,390	9,597	11,338	7,259
Abnormal item:				
Restatement of deferred tax balances due to change in income tax rate (*)	2,577	-	2,099	-
Total income tax expense	14,967	9,597	13,437	7,259
(*) Comprising:				
Abnormal income tax expense attributable to members of Hills Industries Limited	2477			
Outside equity interests in abnormal income tax expense	100			
Abnormal income tax expense	2,577			
(b) Provision For Deferred Income Tax	955	906	-	-
(c) Future Income Tax Benefit	14,632	13,518	10,838	11,597

4. Receivables

Current				
Trade debtors	84,027	65,619	46,827	42,256
Less provision for doubtful debts	3,468	2,929	2,000	1,600
	80,559	62,690	44,827	40,656
Owing by wholly owned controlled entities	-	-	-	11,951
Other debtors	372	1,464	530	607
Prepayments	508	923	174	759
	81,439	65,077	45,531	53,973

5. Investments

	Consolidated		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Non-current				
Shares in controlled entities				
– unlisted companies at cost	-	-	18,839	18,838
Shares in other companies				
– listed – at cost	256	6	256	6
– unlisted – at cost	1,119	1,119	1,119	1,119
	1,375	1,125	1,375	1,125
	1,375	1,125	20,214	19,963

6. Inventories

Raw materials at cost	16,827	10,816	7,729	6,354
Work in progress at cost	1,675	1,485	421	478
Finished goods at cost	42,435	36,018	25,501	26,595
Less provision for stock obsolescence	4,061	2,922	3,000	2,000
	38,374	33,096	22,501	24,595
	56,876	45,397	30,651	31,427

7. Property, Plant and Equipment

Freehold Land				
Independent valuation:				
– at 2000	20,233	-	9,230	-
– at 1997	-	16,166	-	8,475
At cost	176	1,440	176	166
	20,409	17,606	9,406	8,641
Freehold Buildings				
Independent valuation:				
– at 2000	39,313	-	19,385	-
– at 1997	-	29,373	-	18,080
Less accumulated depreciation	-	412	-	268
	39,313	28,961	19,385	17,812
At cost	763	10,572	350	836
Less accumulated depreciation	4	329	-	12
	759	10,243	350	824
Leasehold Buildings				
At cost	727	486	305	207
Less accumulated depreciation	447	256	102	56
	280	230	203	151
Plant and Equipment				
At cost	96,008	85,607	61,679	56,189
Less accumulated depreciation	65,455	57,158	47,621	42,979
	30,553	28,449	14,058	13,210
Total property, plant and equipment net book value	91,314	85,489	43,402	40,638

The independent valuation in 2000 of freehold land and buildings was carried out as at May 2000 by Mr. N. Satchell, AAPI, B.App.Sc(Val), and is on the basis of market value for existing use. The directors are of the opinion that this basis provides a reasonable estimate of recoverable amount.

This valuation is in accordance with the consolidated entity's policy of obtaining an independent valuation of land and buildings every three years. Land and buildings carried at cost were purchased after May 2000.

The net surplus on revaluation of the consolidated entity's freehold land and buildings during 2000 of \$2,174,617 (the Company \$1,689,943) was transferred to the asset revaluation reserve – refer Note 13.

8. Intangibles

	Consolidated		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Goodwill				
Goodwill on consolidation	7,431	7,431	-	-
Less accumulated amortisation	7,431	6,009	-	-
	-	1,422	-	-
Goodwill purchased	5,012	4,362	1,791	1,791
Less accumulated amortisation	4,387	3,534	1,791	1,791
	625	828	-	-
Patents and Trademarks				
Patents and trademarks	8,370	2,170	7,350	1,150
Less accumulated amortisation	2,435	2,170	1,415	1,150
	5,935	-	5,935	-
	6,560	2,250	5,935	-

9. Accounts Payable

Current				
Trade creditors	43,652	34,489	27,300	25,699
Sundry creditors	17,007	10,991	7,522	5,384
	60,659	45,480	34,822	31,083

10. Borrowings

Current				
Bank loans – unsecured	3,205	972	-	-
Other loans – unsecured	1,520	1,596	1,520	1,596
Bank overdrafts	-	-	-	2,913
Owing to wholly owned controlled entities	-	-	5,358	12,454
	4,725	2,568	6,878	16,963
Non-current				
Bank loans – unsecured	31,750	23,000	18,000	20,000
Other loans – unsecured	563	563	398	398
	32,313	23,563	18,398	20,398

Notes to and forming part of the

Financial Statements

Year Ended 30 June 2000
Hills Industries Limited and its Controlled Entities

10. Borrowings continued

The consolidated entity has access to the following lines of credit:

Type	Total \$'000	Utilised \$'000	Available \$'000
Bank loans	46,768	34,955	11,813
Bank overdraft	3,267	-	3,267
	50,035	34,955	15,080

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 Loans

Bank loans are denominated in \$A, \$N.Z. and £U.K. Interest on bank loans is charged at prevailing market rates. The weighted average effective interest rate is 5.76% (1999: 5.17%).

Bank Overdrafts

Bank overdrafts are denominated in \$A, \$N.Z. and £U.K. Interest on bank overdrafts is charged at prevailing market rates. The weighted average effective interest rate is 8.35% (1999: 7.92%).

11. Provisions

	Consolidated		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Current				
Income tax	10,658	8,485	8,551	7,261
Employee entitlements	8,669	7,292	4,327	4,191
Outstanding claims	8,109	5,645	-	-
Other provisions	407	700	-	-
Proposed dividends	8,606	7,136	8,606	7,136
	36,449	29,258	21,484	18,588
Non-current				
Employee entitlements	6,070	6,025	5,000	5,000
Deferred income tax	955	906	-	-
	7,025	6,931	5,000	5,000
Employee entitlements				
Current	8,669	7,292	4,327	4,191
Non-current	6,070	6,025	5,000	5,000
	14,739	13,317	9,327	9,191

12. Share Capital

Issued Capital				
116,303,873 ordinary shares fully paid (1999: 111,226,316 ordinary shares fully paid)	27,055	21,022	27,055	21,022
Movements in Ordinary Share Capital				
Balance at beginning of year	21,022	11,004	21,022	11,004
Balance of share premium reserve	-	9,941	-	9,941
Shares issued	6,033	3,257	6,033	3,257
Share buy back	-	(3,180)	-	(3,180)
	27,055	21,022	27,055	21,022

The Company Law Review Act 1998 (the "Act") came into effect on 1 July 1998. The Act abolished par value shares, and any amount standing to the credit of the share premium reserve became part of the Company's share capital on 1 July 1998. From 1 July 1998 share capital does not have a nominal (par) value.

The Company made two issues of ordinary shares under the employee share plan during the year. All employees with more than one year of service were eligible to participate in the issues. The shares were issued at market value. Details of the issues 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
23/9/99	361,920	\$825,178	260	3
10/3/00	244,103	\$563,878	173	3

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 the special dividend 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 the special dividend in whole or in part and to substitute shares issued out of the capital account.

Date Of Issue	Plan Issued Under	Total No. of Shares Issued	Issue Price per Share
30/9/99	Dividend Investment	943,873	\$2.20
30/9/99	Share Investment	623,950	\$2.20
17/3/00	Dividend Investment	1,775,412	\$2.23
17/3/00	Share Investment	1,128,299	\$2.23

13. Reserves

	Consolidated		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Asset realisation reserve	1,800	1,800	833	833
Share premium reserve	-	-	-	-
Asset revaluation reserve	21,784	19,609	10,493	8,803
Foreign currency translation reserve	(100)	(525)	-	-
	23,484	20,884	11,326	9,636
Movements in Reserves for the Year:				
Share Premium Reserve				
Balance at beginning of year	-	9,941	-	9,941
Transfer to/(from) reserve	-	(9,941)	-	(9,941)
Balance at end of year	-	-	-	-
Asset Revaluation Reserve				
Balance at beginning of year	19,609	19,609	8,803	8,803
Add revaluation increment on freehold land and buildings	2,175	-	1,690	-
Balance at end of year	21,784	19,609	10,493	8,803
Foreign Currency Translation Reserve				
Balance at beginning of year	(525)	1,344	-	-
Translation adjustment on translation of controlled foreign entities' financial statements	425	(1,869)	-	-
Balance at end of year	(100)	(525)	-	-

14. Dividends

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

As proposed and provided for in last year's report:

A final fully franked ordinary dividend of 6.4 cents per share amounting to \$5,746,587 in respect of the year ended 30 June 1999, paid on 30 September 1999 (excludes dividends forgone by shareholders who elected to participate in the Share Investment Plan).

	\$
Over provided in respect of the previous financial year:	(17,516)
Dividends forgone for Share Investment Plan in respect of the previous financial year:	(1,371,897)
In respect of the current financial year:	
A special fully franked ordinary dividend of 5.0 cents per share was paid 17 March 2000	5,657,803
An interim fully franked ordinary dividend of 6.6 cents per share was paid 17 March 2000	7,468,300
Interim and special dividends forgone for Share Investment Plan	(2,515,288)
A final fully franked ordinary dividend of 7.4 cents per share has been declared by the directors to be paid 22 September 2000	8,606,000
Total dividends provided for or paid in respect of the financial year ended 30 June 2000	17,827,402

Dividend Franking Account

Amounts of retained profits that could be distributed as franked dividends using franking credits already in existence or which will arise from income tax payments in the following period, and after deducting franking credits to be used in the payment of dividends provided for:

	Consolidated		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Franked at 34%	57,580	-	26,790	-
Franked at 36%	-	51,033	-	24,299

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

15. Commitments

(a) Superannuation Commitments

The consolidated entity contributes to an employer sponsored superannuation fund that provides defined benefits to certain members and accumulation benefits to others. The consolidated entity also contributes to a number of accumulation superannuation funds. Each fund provides lump sum benefits on retirement, permanent disability, death, and resignation. Contributions are made by employees and entities in the consolidated entity at various percentages of wages and salaries and in accordance with the rules of the funds and all relevant legislation. In respect of contributions made in addition to those required under legislation, entities in the consolidated entity may reduce, vary, suspend or terminate contributions, prospectively.

An actuarial assessment of the defined benefit fund was undertaken as at 1 July 1997 by Mr Leigh McMahon F.I.A., F.I.A.A. The actuary concluded that the assets of the fund are sufficient to meet all benefits payable in the event of the fund's termination, or the voluntary or compulsory termination of employment of each employee of the Company and other controlled entities.

Details of contributions to the defined benefit plan during the year and contributions payable at 30 June 2000 are as follows:

	Consolidated		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Employer contributions to the plan	269	50	-	-
Employer contributions payable to the plan	25	4	-	-

The defined benefit fund has been on a contribution holiday with contributions funded out of surplus in accordance with the actuarial assessment.

Defined Benefits Plan

The following plan is sponsored by the Company with other entities in the consolidated entity:

Hills Industries Limited Staff Superannuation Fund

	Consolidated	
	2000	1999
	\$'000	\$'000
Plan Assets At Net Market Value	*28,074	** 29,727
Total Accrued Benefits	16,485	16,485
Excess/(Deficit)	11,589	13,242
Total Vested Benefits	22,262	20,725

* Plan assets at net market value and vested benefits have been calculated at 30 June 1999 being the date of the most recent financial statements of the plan.

** Plan assets at net market value and vested benefits have been calculated at 30 June 1998 being the date of the most recent financial statements of the plan.

Accrued benefits have been determined based on the amount calculated by the actuary at the date of the most recent actuarial review being 30 June 1997.

Notes to and forming part of the

Financial Statements

Year Ended 30 June 2000
Hills Industries Limited and its Controlled Entities

15. Commitments continued

	Consolidated		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
(b) Capital Expenditure Commitments				
Capital expenditure projects contracted but not provided for and payable:				
Not longer than one year	3,265	3,364	2,753	2,023
(c) Lease Commitments				
Operating leases payable:				
Not later than one year	2,672	2,118	901	739
Later than one year but not later than five years	4,623	1,908	1,324	863
Later than five years	-	-	-	-
	7,295	4,026	2,225	1,602

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.

16. 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 financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheets as follows:

	Consolidated		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Cash	7,315	2,533	4,896	1
Bank overdraft	-	-	-	(2,913)
	7,315	2,533	4,896	(2,912)

(b) Reconciliation of Operating Profit after Income Tax to Net Cash provided by Operating Activities

	Consolidated		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Operating profit after income tax	20,034	18,571	19,422	16,021
Add/(less) items classified as investing/financing activities:				
(Profit)/loss on sale of:				
– non-current assets	(1)	285	(49)	(68)
– investments	(86)	-	(86)	-
Rent received	(1,054)	(939)	(884)	(824)
Add/(less) non-cash items:				
Amortisation	2,790	-	515	250
Amounts set aside to provisions:				
Depreciation	8,789	8,166	4,628	4,629
Employee entitlements	5,785	6,101	3,835	3,657
Doubtful debts	473	226	400	336
Stock obsolescence	1,068	1,024	1,323	260
Outstanding claims	2,577	765	-	-
Net cash provided by operating activities before change in assets and liabilities	40,375	35,437	29,104	24,261
Change in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the financial year:				
(Increase)/decrease in:				
Debtors	(18,408)	(8,293)	(4,570)	(7,769)
Prepayments and other debtors	1,954	658	663	(158)
Inventories	(9,527)	(1,652)	(225)	(3,826)
(Decrease)/increase in:				
Accounts payable	15,169	6,717	3,738	5,685
Other loans	-	-	4,854	10,676
Provisions	(5,079)	(6,791)	(4,021)	(3,480)
Income taxes payable	2,173	2,285	1,290	2,686
Deferred taxes payable	(1,065)	(2,009)	759	(1,378)
Net cash provided by operating activities	25,592	26,352	31,592	26,697

16. Notes to the Statements of Cash Flows continued

(c) Acquisition of Business Operations

The consolidated entity acquired the business operations of Triton Manufacturing & Design and Triton Workshop Systems (UK) on 1 October 1999. Details of the acquisition are as follows:

	Consolidated		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Consideration	11,111	-	6,200	-
Fair value of net assets acquired:				
Patents & trademarks	6,200	-	6,200	-
Plant & equipment	1,150	-	-	-
Inventory	2,907	-	-	-
Other	204	-	-	-
	10,461	-	6,200	-
Goodwill	650	-	-	-
Consideration	11,111	-	6,200	-

17. Directors' and Executives' Remuneration

Remuneration of Directors

The number of directors (including executive directors) of the Company, whose income from the Company or any related party falls within the following bands is:

	Consolidated		The Company	
	2000	1999	2000	1999
			No.	No.
\$ 10,000 – \$ 19,999			1	1
\$ 20,000 – \$ 29,999			1	-
\$ 30,000 – \$ 39,999			1	2
\$ 40,000 – \$ 49,999			2	1
\$ 60,000 – \$ 69,999			-	1
\$ 70,000 – \$ 79,999			1	-
\$ 120,000 – \$ 129,999			-	1
\$ 130,000 – \$ 139,999			1	-
\$ 210,000 – \$ 219,999			-	1
\$ 240,000 – \$ 249,999			1	-
\$ 290,000 – \$ 299,999			-	1
\$ 300,000 – \$ 309,999			1	-
	\$'000	\$'000	\$'000	\$'000
Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities from the Company or any related party	1,272	1,263	922	822

17. Directors' and Executives' Remuneration continued

Remuneration of Executives

The number of executive officers of the Company and of controlled entities, whose remuneration from the Company or related parties, and from entities in the consolidated entity, falls within the following bands is:

	Consolidated		The Company	
	2000	1999	2000	1999
	No.	No.	No.	No.
\$100,000 – \$109,999	11	11	8	10
\$110,000 – \$119,999	6	5	5	4
\$120,000 – \$129,999	2	2	2	2
\$130,000 – \$139,999	3	2	2	2
\$140,000 – \$149,999	5	1	5	1
\$150,000 – \$159,999	2	1	2	1
\$160,000 – \$169,999	2	-	1	-
\$170,000 – \$179,999	2	-	2	-
\$200,000 – \$209,999	1	2	-	1
\$220,000 – \$229,999	1	2	1	1
\$230,000 – \$239,999	1	-	1	-
\$250,000 – \$259,999	1	-	1	-
\$280,000 – \$289,999	-	1	-	1
\$370,000 – \$379,999	1	-	1	-
\$420,000 – \$429,999	-	*1	-	*1
	\$'000	\$'000	\$'000	\$'000
Total remuneration received, or due and receivable, from the Company, entities in the consolidated entity or related parties by executive officers of the Company whose income exceeds \$100,000	5,464	4,115	4,535	3,447

* includes retirement benefits of \$259,055.

18. Contingent Liabilities

The estimated maximum amount of contingent liabilities of the Company and its controlled entities were:

Letters of credit established in favour of suppliers	422	609	384	609
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Notes to and forming part of the

Financial Statements

Year Ended 30 June 2000
Hills Industries Limited and its Controlled Entities

19. Particulars in Relation to Controlled Entities

Hills Industries Limited	Percentage Held	
	2000	1999
Controlled Entities		
Hills Nominees Pty. Ltd.	100%	100%
DAS Security Wholesalers Pty. Ltd.	100%	100%
Pacific Communications Pty. Ltd.	100%	100%
Hills Hoists Pty. Ltd.	100%	100%
Bailey Aluminium Products Pty. Ltd.	100%	100%
Triton Manufacturing & Design Co. Pty. Limited (previously named W.H. Bailey Ladders Pty. Ltd.)	100%	100%
Triton Workshop Systems (UK) Pty. Limited	(1) 100%	-
Pathfinder Insurance Pte. Limited*	(2) 100%	100%
Hills Finance Pty. Ltd.	100%	100%
Hills Industries Limited*	(3) 100%	100%
Hills Industries Limited*	(4) 100%	100%
Spraygen Sprayers Limited*	(4) 100%	100%
Hills Marketing Services Limited*	(4) 100%	100%
Korvest Ltd.**	46.7%	46.5%
Step Electronics Pty. Ltd. (previously named A.C.N. 008 160 843 Pty. Ltd.)	100%	100%
Pacom S.E. Asia Pte. Ltd.*	(2) 100%	100%
Pacific Communications Services Snd Bhd	(5) 100%	100%
Woodroffe Industries Pty. Limited	100%	100%
Exosteel Holdings Pty. Ltd.	60%	-

All shares are ordinary shares.

Names inset indicate shares held by the Company immediately above inset.

* These companies are audited by other firms of KPMG International.

** Treated as a controlled entity by virtue of the parent entity's control of the Board of Directors.

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

- (1) Registered branch in United Kingdom
- (2) Incorporated in Singapore
- (3) Incorporated in New Zealand
- (4) Incorporated in United Kingdom
- (5) Incorporated in Malaysia

20. Acquisitions of Controlled Entities and Business Operations

The following business operation was acquired during the financial year:

	Consideration \$'000	The Consolidated Entity's Interest %
Triton Manufacturing & Design and Triton Workshop Systems (UK)	11,111	100%

The business operations were acquired for cash on 1 October 1999 and the operating results from that date have been included in consolidated operating profit.

The business operations of Triton Manufacturing & Design are included within the company Triton Manufacturing & Design Co. Pty. Limited, previously named W.H. Bailey Ladders Pty. Ltd.

The business operations of Triton Workshop Systems (UK) are included within the newly acquired company Triton Workshop Systems (UK) Pty. Limited.



21. Segment Reporting

	Total Assets		Total Revenue		Consolidated Profit Before Interest & Tax	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
SEGMENT						
Electronics	46,623	43,287	128,173	108,074	14,483	10,087
Home & Hardware	56,907	41,223	132,843	118,931	9,846	8,707
Building & Industrial	70,259	51,276	175,110	152,517	11,905	10,899
Other	85,722	79,603	2,955	2,490	421	197
Total segment assets	259,511	215,389				
Total revenue			439,081	382,012		
Consolidated profit before interest and tax					36,655	29,890
Interest					1,654	1,722
Earnings before tax					35,001	28,168
Income tax attributable to operating profit					14,967	9,597
Operating profit after tax					20,034	18,571
GEOGRAPHIC SEGMENT						
Australia	219,493	178,580	394,814	341,748	19,705	17,741
Overseas	40,018	36,809	44,267	40,264	329	830
Total	259,511	215,389	439,081	382,012	20,034	18,571

Where appropriate, segment assets and costs have been allocated on a pro rata basis, inter-segment pricing is determined on a cost basis for wholly owned entities and on a arms length basis for non wholly owned entities.

The major products/services which the above segments derive revenue are:

INDUSTRY SEGMENT	PRODUCTS/SERVICES
Electronics	Communications related products and services, domestic and commercial antennae, MATV and CCTV systems, communications antennae, amplifiers and electronic security systems.
Home & Hardware	Outdoor clothes driers, ladders, ironing boards, laundry trolleys, folding beds, security doors, playtime equipment, garden sprayers, wheelbarrows, hand trucks and Do-It-Yourself woodworking equipment.
Building & Industrial	Steel tubing, fence posts, galvanizing, office storage systems, sheet metal, steel door frames and precision metal cabinets.
Other	Property rental, investments, self insurance and corporate services.

Notes to and forming part of the

Financial Statements

Year Ended 30 June 2000
Hills Industries Limited and its Controlled Entities

22. Related Party Transactions

Other Related Parties

Other Transactions

During the year the Company entered into transactions with Korvest Ltd. for the purchase of galvanizing services and sheet metal components to the value of \$582,258. Korvest Ltd. purchased steel, printing and computer services from the Company amounting to \$437,936.

Directors

The name of each person holding the position of Director of Hills Industries Limited during the financial year are R.D. Hill-Ling, D.J. Simmons, J.A.S. Brown, J.H. Hill-Ling, G.L. Twartz, P.D. Johns, P.J. Donnelly, G.G. Hill and R.B. Flynn. P.J. Donnelly retired 12 November 1999 and P.D. Johns retired 7 August 2000.

Ms J.H. Hill-Ling is a consultant to a firm of solicitors, which rendered legal services to the consolidated entity in the ordinary course of business.

Mr R.B. Flynn rendered consulting services to the consolidated entity in the ordinary course of business.

Directors' Holdings of Shares and Share Options

The interests of directors of the reporting entity and their director-related entities in shares and share options of entities within the consolidated entity at year end are set out below.

	Consolidated Number Held	
	2000	1999
Hills Industries Limited		
– Ordinary shares	31,605,662	29,716,265
– Options over ordinary shares	75,000	75,000
Korvest Ltd.		
– Ordinary shares	54,501	53,829

23. Earnings per Share

	Consolidated	
	2000	1999
Basic earnings per share		
– before abnormal tax expense	18.8 cents	16.3 cents
Basic earnings per share		
– after abnormal tax expense	16.5 cents	16.3 cents
	Consolidated Number of Shares	
	2000	1999
Weighted average number of shares used in the calculation of basic earnings per share	113,662,282	110,071,905

Diluted earnings per share is not materially different from basic earnings per share.

24. Outside Equity Interests

	Issued and Paid Up Capital		Shares held by Outside Equity Interests	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Korvest Ltd.				
– ordinary shares	2,269	2,088	1,209	1,118
Exosteel Holdings Pty. Ltd.				
– ordinary shares	1	-	0.4	-

On 24 September 1999, Korvest Ltd. issued 42,000 ordinary shares as part of an employee share plan. All permanent employees with more than six months service were eligible to participate in the issue, participating employees (including one executive director) being issued with 300 ordinary shares each. The market value of these shares at the date of issue was \$75,180, the shares being issued at market value.

On 31 March 2000, Korvest Ltd. issued 42,280 ordinary shares as part of an employee share plan. All permanent employees with more than six months service were eligible to participate in the issue, participating employees (including one executive director) being issued with 280 ordinary shares each. The market value of these shares at the date of issue was \$69,762 the shares being issued at market value.

	2000 \$'000	1999 \$'000
Outside equity interests comprise:		
Share capital	1,210	1,118
Reserves	800	576
Retained profits	2,723	1,895
	4,733	3,589

25. 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 Company to raise long term borrowings at floating rates and swap them into fixed rates. Maturities of swap contracts are for three or five years.

Each contract involves the quarterly payment or receipt of the net amount of interest. At 30 June 2000 the fixed rates varied from 5.5% to 5.8% (1999: 5.5% to 7.3%) and the floating rates were prevailing market rates. The weighted average effective floating interest rate at 30 June 2000 was 6.69% (1999: 4.93%).

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

25. Additional Financial Instruments Disclosure continued

		Fixed interest maturing in:				
	Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years	Non- interest bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2000						
FINANCIAL ASSETS						
Cash deposits	7,315	-	-	-	-	7,315
Receivables	-	-	-	-	80,931	80,931
Investments	-	-	-	-	1,375	1,375
	7,315	-	-	-	82,306	89,621
Weighted average interest rate	5.40%					
FINANCIAL LIABILITIES						
Bank overdrafts	-	-	-	-	-	-
Bank and other loans	-	31,750	-	-	5,288	37,038
Accounts payable	-	-	-	-	60,659	60,659
Dividends payable	-	-	-	-	8,606	8,606
	-	31,750	-	-	74,553	106,303
Interest rate swaps*	(14,000)	2,000	12,000			
Weighted average interest rate	6.69%	6.10%	5.67%			

* notional principal amounts

1999						
FINANCIAL ASSETS						
Cash deposits	2,533	-	-	-	-	2,533
Receivables	-	-	-	-	64,154	64,154
Investments	-	-	-	-	1,125	1,125
	2,533	-	-	-	133,091	67,812
Weighted average interest rate	4.78%					
FINANCIAL LIABILITIES						
Bank overdrafts	-	-	-	-	-	-
Bank and other loans	726	21,842	3,000	-	563	26,131
Accounts payable	-	-	-	-	45,480	45,480
Dividends payable	-	-	-	-	7,136	7,136
	726	21,842	3,000	-	53,179	78,747
Interest rate swaps*	(23,000)	9,000	14,000			
Weighted average interest rate	4.93%	5.54%	5.53%			

* notional principal amounts

25. Additional Financial Instruments Disclosure continued

(b) Foreign Exchange Risk

The Company enters into forward exchange contracts to hedge certain firm purchase 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 within the following three months within Board approved limits.

The following table sets out the gross value to be received under foreign exchange contracts, the weighted average exchange rates and the settlement periods of outstanding contracts for the consolidated entity.

	Consolidated		Consolidated	
	2000	1999	2000	1999
	Weighted average rate		\$'000	\$'000
Buy US dollars Not longer than one year	0.61	0.60	2,678	4,846
Buy GBP pounds Not longer than one year	-	0.41	-	300
Buy Japanese yen Not longer than one year	48.5	-	500	-

(c) 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:

On-Balance Sheet Financial Instruments

The carrying amounts of bank term deposits, accounts receivable, accounts payable, bank loans and dividends payable approximate net fair value. The net fair value of investments in unlisted shares in other corporations is determined by reference to the underlying net assets of the respective corporations.

Off-Balance Sheet Financial Instruments

The valuation of off-balance sheet 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 reporting date. This is based on independent market quotations and determined using standard valuation techniques.

	2000	1999
	\$'000	\$'000
The net fair value of interest rate swaps as at the reporting date are:	(243)	455

26. Events Subsequent to Balance Date

On 21 August 2000, the Company announced its intentions to merge the operations of the tubing business of Hills Industries Limited with Welded Tube Mills of Australia Pty. Limited. The merger will be effected by Hills Industries Limited taking a 50% interest in Welded Tube Mills of Australia Pty. Limited. At the same time, Hills tubing operations will be purchased by Welded Tube Mills of Australia Pty. Limited. The merged group will operate within the thin walled and large structural segments of the tubing market.

The financial effects of the above transaction have not been brought to account in the financial statements for the year ended 30 June 2000.

Directors' Declaration

Year Ended 30 June 2000

Hills Industries Limited and its Controlled Entities



In the opinion of the Directors of Hills Industries Limited:

- (a) the financial statements and notes, set out on pages 18 to 33, are in accordance with the Corporations Law, including:
 - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2000 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 and the Corporations Regulations; 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.

Dated at Edwardstown this 11th day of September 2000.

Signed in accordance with a resolution of the Directors:

R.D. Hill-Ling
Director

D.J. Simmons
Director

Independent Auditors' Report

to the Members of Hills Industries Limited

Scope

We have audited the financial report of Hills Industries Limited for the financial year ended 30 June 2000, consisting of the profit and loss statements, balance sheets, statements of cash flows, accompanying notes, and the directors' declaration. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the year's end or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

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

- (a) the Corporations Law, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2000 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

KPMG

Gary Savage
Partner

Adelaide, 11th September 2000

Shareholder Information

Hills Industries Limited



Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report.

Analysis of Shareholdings as at 6 September 2000

	Size of Holdings	Number of Shareholders
1	- 1,000	1,376
1,001	- 5,000	3,044
5,001	- 10,000	833
10,001	- 100,000	763
100,001	and over	61
		6,077

The number of shareholders holding less than a marketable parcel of shares at 6 September 2000 was 260.

Twenty Largest Shareholders as at 6 September 2000

	No. Of Shares Held	Percentage %
Poplar Pty. Limited	12,565,664	10.80
BT Custodial Services Pty. Ltd.	11,005,299	9.46
Hills Associates Limited	8,782,774	7.55
Perpetual Nominees Limited	6,800,160	5.85
National Nominees Limited	6,282,383	5.40
Jacaranda Pastoral Pty. Ltd.	5,589,587	4.81
Chase Manhattan Nominees Ltd.	5,304,936	4.56
Perpetual Trustees Australia Limited	3,949,740	3.40
Argo Investments Ltd.	2,750,730	2.37
The National Mutual Life Association of Australasia Limited	2,737,774	2.35
Australian Foundation Investment Company Limited	2,011,417	1.73
AMP Nominees Pty. Limited	1,746,983	1.50
Colleen Sims Nominees Pty. Ltd.	1,690,049	1.45
Bankers Trust Australia Ltd.	1,416,548	1.22
Donald Cant Pty. Ltd.	1,374,514	1.18
Hills Associates Limited & Poplar Pty. Limited	816,439	0.70
Whitefield Limited	784,190	0.67
Perpetual Trustees Victoria Limited	614,995	0.53
Bounty Investments Limited	585,332	0.50
Milton Corporation Ltd.	548,640	0.47

The twenty largest shareholders held 77,358,154 shares equal to 66.50% of the total issued 116,303,873 shares.

Substantial Shareholders

The number of shares held by the substantial shareholders listed in the Company's register of substantial shareholders as at 8 September 2000 were:

	No. Of Shares Held
Perpetual Trustees Australia Limited	17,568,058
Argo Investments Limited	16,042,362
Poplar Pty. Limited	12,068,419
BT Australia Limited	11,240,962
Maple Brown Abbott Ltd.	6,600,887

Office and Officers

Registered Office

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

Share Registry

Computershare Registry Services Pty. Limited
Level 11
115 Grenfell Street
Adelaide S.A. 5000
Telephone: (08) 8236 2300
Facsimile: (08) 8236 2305

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, etc. should contact the Company's share registry.

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Financial Calendar

Final Dividend:

Books close 8 September 2000

Dividend paid 22 September 2000

Annual General Meeting 10 November 2000

Half Year's Result Announced February 2001

Interim Dividend:

Books close late March 2001

Dividend paid April 2001

Annual General Meeting

The 43rd Annual General Meeting of Hills Industries Limited will be held at Australian Mineral Foundation, 63 Conyngham Street, Glenside, SA 5065 on Friday, November 10, 2000 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



Hills Industries Limited
A.B.N. 35 007 573 417