



Hills Industries Limited

2001 ANNUAL REPORT



Contents

FOR THE NINTH CONSECUTIVE YEAR THE GROUP PRODUCED A RECORD PROFIT ATTRIBUTABLE TO HILLS SHAREHOLDERS. THIS WAS ACHIEVED IN DIFFICULT AND PATCHY TRADING CONDITIONS.



Overview

RECORD GROUP PROFIT

Hills Industries' Group achieved a record group profit after tax attributable to Hills' shareholders of \$22.8M. This was an increase of 7% over last year, ignoring the unfavourable income tax adjustment booked last year due to changes in the rates of company tax.

DIVIDENDS

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

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

As a result of this policy, shareholders have received a total of 19.4 cents per share fully franked dividends in respect of the year ending June 2001.

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

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TRADING CONDITIONS

The trading conditions in the markets in which we operate were somewhat subdued during the year. The introduction of the Goods & Services Tax and the disruption surrounding the Sydney Olympic Games made trading conditions unpredictable.

In addition the sharp decline in building activity, both commercial and residential, resulted in very tough trading conditions, particularly in the Building & Industrial products sector.

Whilst our revenue increased by 15.3%, this was due to the full year affect of a number of acquisitions and joint ventures.

LIKELY DEVELOPMENTS

The outlook for improved activity in the building industry should see better trading conditions for a number of our business units. The current low level of the Australian dollar provides incentive to Australian manufacturers to continue to invest. Offsetting this will be the uncertainties surrounding the upcoming Federal Election.

HILLS' PEOPLE

A commitment to the Hills Employee Share Scheme saw the number of Hills employees who are shareholders in the company increase to approximately 1800 during the year.

We encourage our Managers to direct and operate their business units with a high degree of autonomy. We find that employees react well to this environment and consistently initiate changes and improvements to our great advantage. The appointment of Tim Payze to the role of General Manager Business Development indicates our commitment to grow by way of acquisition.

Front row left to right:

DAVID JAMES SIMMONS

BA(Accountancy) FCPA

Managing Director

Age 47. Joined the Company in 1984.

Appointed Finance Director in July 1987.

Appointed Managing Director in December 1992.

Member of the Remuneration Committee.

Director of Korvest Ltd, Exosteel Holdings Pty Ltd,

Orrcon Pty Ltd, ePic Australia Pty Ltd and Radio

Frequency Systems Pty Ltd.

ROBERT DONALD HILL-LING

AO FIE(Aust) CPEng

Chairman - Non-Executive Director

Age 68. Joined the Company in 1952. Director since

June 1958. Managing Director November 1965 to

December 1992. Appointed Chairman December

1966. Chairman of the Audit and Remuneration

Committees. Director of Argo Investments Limited

and Deputy Chairman of the Carrick Hill Trust.

JOHN ARTHUR STACY BROWN

BSc(Adel)

Deputy Chairman - Non-Executive Director

Age 71. Director since March 1981. Deputy Chairman

since February 1993. Member of the Audit

Committee. Chairman of Korvest Ltd.

Back row left to right:

ROGER BADEN FLYNN

BEng(Hons) MBA FIE(Aust)

Non-Executive Director

Age 51. Appointed Director in November 1999.

Managing Director of Wattyl Limited and Director

of Hartec Limited.

GEOFFREY GUILD HILL

FCPA FAICD ASIA BEcon(Syd) MBA(NSW)

Non-Executive Director

Age 55. Appointed Director in February 1999.

Member of the Audit and Remuneration Committees.

Principal of Geoffrey Hill & Associates. Chairman of

Auspine Limited and Pacific Strategic Investments

Limited. Director of Biron Corporation Limited,

Ellex Medical Lasers Limited, Huntley Investment

Company Limited and Heritage Gold NZ Limited.

GRAHAM LLOYD TWARTZ

BA(Adel) DipAcc(Flinders) ACA

Finance Director

Age 44. Joined the Company in 1993.

Appointed Director in July 1993.

Director of Korvest Ltd, Exosteel Holdings Pty Ltd,

Orrcon Pty Ltd, ePic Australia Pty Ltd and Radio

Frequency Systems Pty Ltd.

JENNIFER HELEN HILL-LING

LLB(Adel)

Non-Executive Director

Age 39. Appointed Director in August 1985.

Member of the Audit and Remuneration Committees.

Member of the Australian Law Council.

Consultant to Blessington Judd, solicitors.

Directors





Electronics

THIS SEGMENT COMPRISES HILLS ANTENNA & TV SYSTEMS, HILLS ELECTRONIC SECURITY (DIRECT ALARM SUPPLIES AND PACIFIC COMMUNICATIONS) AND RADIO FREQUENCY SYSTEMS. REVENUE IMPROVED BY 14% TO \$145.8M FOR THE YEAR WHILST EBIT IMPROVED BY 3% TO \$14.9M.

ANTENNA & TV SYSTEMS

This business unit provides a full range of television reception and distribution equipment for the PayTV and Free To Air markets. For the first time in several years, our Free To Air antenna sales improved. This was principally due to the launch of our Engineered For Digital range. Although our sales into the PayTV market were below our initial forecasts, we welcomed the relative stability in the market as Foxtel continued their direct to home roll out in metropolitan markets and Austar further expanded its coverage in rural and regional markets.

We have made a significant investment to upgrade our satellite dish manufacturing plant to world standard. As a result of this investment, we believe we are well placed to be a long term supplier into the Australian and New Zealand markets. Our sales of 85cm dishes into the US market increased further during the year.

HILLS ELECTRONIC SECURITY

This business unit markets an extensive range of electronic security products ranging from simple domestic alarm systems up to complex integrated surveillance and access control systems. We represent a





ALLEN OLIVER
Group General Manager
Electronics



PETER MELLINO
General Manager
Direct Alarm Supplies



RICK STOKES
General Manager
Pacific Communications
and ePic Australia



CHRIS JAEGER
Managing Director
Radio Frequency Systems

number of the world's leading security companies and have achieved a market leading position on the basis of exceptional customer service. Although the weaker Australian dollar impacted margins, the continuing growth in the security market saw this unit achieve record sales in the year. The domestic security market is moving more towards the larger dealer programmes at the expense of smaller independent companies. We achieved reasonable distribution into these dealer programmes during the year.

We have recognised the need to expand our product range in order to continue the growth record of this business unit. During the year we developed a number of new product offerings. These include the Hills Home Integrated Systems package of structured cabling and home automation, the Hills Home Electronics range of ducted vacuum cleaners, intercoms and branded alarm panels and the launch of the Pacom Public Transport Surveillance Systems business in Australia and the United Kingdom. Each of these three business units will generate revenue and profits in the year ending June 2002 and thereafter.

In addition, we established a joint venture with a US based company to form ePic Australia. ePic Australia has exclusive rights in Australia and New Zealand to manufacture and distribute a web based Video Motion Detection system enabling users to record and interrogate security incidents via the internet. This business is being launched in the first quarter of the year ending June 2002.

RADIO FREQUENCY SYSTEMS (RFS)

RFS leads the world in the design and manufacture of Panel Antennas for mobile phone systems, Broadcast Antenna, HF Systems for Defence applications and confined coverage systems for mobiles. RFS achieved excellent results during the year. RFS achieved significant export sales for its Panel Antennas and benefited from the roll out of Digital Television in Australia. The HF Modernisation project for the Department of Defence commenced last year and will continue through this year. A dividend of \$499,000 was received during the year.



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 BY 11% TO \$146.9M AND EBIT IMPROVED BY 35% TO \$13.2M.

CONSUMER PRODUCTS

This business unit manufactures and distributes a range of predominantly metal based consumer products for use in and around the home.

The results for the year were most pleasing. The improvements were as a result of a number of factors including the full year ownership of the Triton business, improved results in our United Kingdom business and the introduction of new innovative products in all markets.

We continued to support the Hills brand with the "Head for the Hills" advertising campaign during the year. Our key message is that Hills products provide strength, durability and are always fit for purpose.

After some years of development we have achieved our first reasonable sales into Continental Europe. Further product initiatives are planned to build on the success we have achieved to date.

Our Triton business, both in Australia and the United Kingdom, showed pleasing growth for the year. Considerable work to re-launch the range in the UK is bearing fruit. The launch of new products, in particular the Triton 235mm precision power saw, resulted in pleasing growth in sales and profitability.

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





TRADE PRODUCTS

This business unit is focused on trade, government and contract business and specialises in ladder and materials handling equipment. During the year we completed the extension to our Brisbane ladder manufacturing facility so that all of our ladder production can be housed under one roof. In addition, a new range of ladders designed specifically to compete against Chinese imports was introduced with great success.

Building & Industrial

**THIS SEGMENT CONSISTS OF ORRCON,
METAL BUILDING PRODUCTS, WOODROFFE
EQUIPMENT AUSTRALIA AND KORVEST LTD.
REVENUE IMPROVED 20% TO \$209.5M AND EBIT
DECLINED BY 32% TO \$8.1M.**

ORRCON

On October 1, 2000 we sold the business of Hills Tubing into a joint venture company with Welded Tube Mills of Australia to form Orrcon, a supplier of a complete range of precision and structural tubing into the Australian industrial market.

Shareholders will be well aware of the rationalisation occurring in the steel industry with the spin off of OneSteel from BHP and the subsequent acquisition by Smorgon and OneSteel of the Email metal distribution assets. In this environment we felt it was essential that our business achieved a sufficient scale of operations to be competitive. The merger of our interests with those of Welded Tube Mills saw us immediately achieve the required scale. Orrcon has changed its distribution method for its structural steel to selling direct to selected re-sellers and to end users. This saw a significant disruption to sales in Orrcon while it established its new presence in the market. Results for the year were generally in line with our business plan although, because of the change in distribution and the general reduction in the steel industry volumes, the results achieved were lower than the previous year.

We believe Orrcon is well placed to benefit from the improved economic environment in the current year and further improvements in profitability are expected.





SILVIO PRADELLA
Managing Director
Orrcon



JOHN EASLING
Managing Director
Metal Building Products



GARY HAYLEY
General Manager
Woodroffe Equipment



PETER BRODRICK
Managing Director
Korvest Ltd

METAL BUILDING PRODUCTS

This business unit supplies a range of rollformed products (roofing, gutters, downpipes and steel flooring systems) to the commercial and domestic building industry throughout Australia. This year was the first full year of operation of our 60% owned Exosteel business, which trades as Fielders and Cowells Woodroffe. The significant slow down in the building industry as a result of the introduction of the GST, as well as the one time expenses to restructure and expand our business nationally, impacted on our results. We expect an improved climate in the building industry and are confident that the branches that we have opened in Sydney and Melbourne together with the new products which we have developed will see a significant turnaround in the results of this operation in the coming year.

WOODROFFE EQUIPMENT

This business unit provides a range of high specification cabinets and enclosures to both industrial and consumer markets. In addition, it supplies a range of stainless steel equipment for the catering industry. The business was restructured during the year with the closure of the Melbourne operation and the centralisation of all the manufacturing operations onto a single site in Adelaide. Although the results for last year were poor, we believe a strong base has been formed for improvement in the future.

KORVEST LTD

Korvest is a small publicly listed company involved in the manufacture of storage systems and cable support products for national distribution. It also operates a hot dip galvanising plant in South Australia.

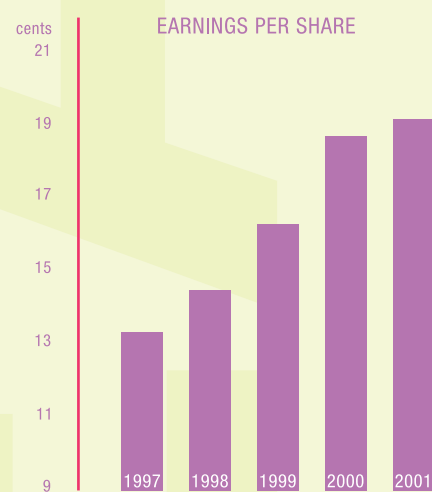
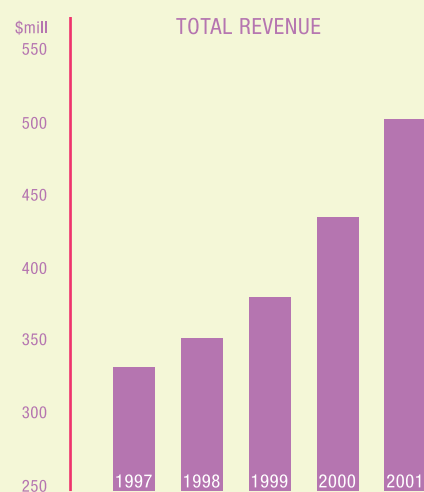
Korvest's results were in line with last year as a result of improved performance in the Elite Built filing cabinet business, offsetting lower returns in Galvanising and the Ezy-Strut cable support business. In last year's report we referred to the investment in a 14 metre hot dip galvanising facility in Adelaide. Due to the lower demand for structural products this investment has not yet achieved our financial objectives.



5 YEAR SUMMARY

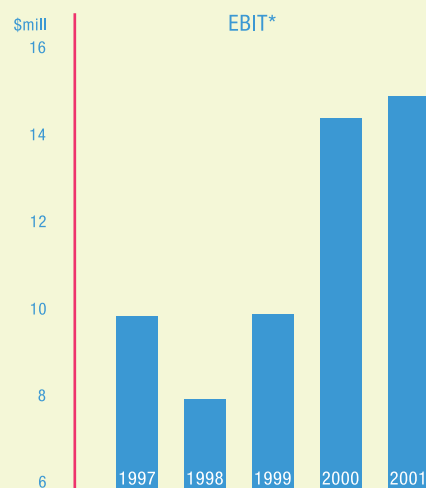
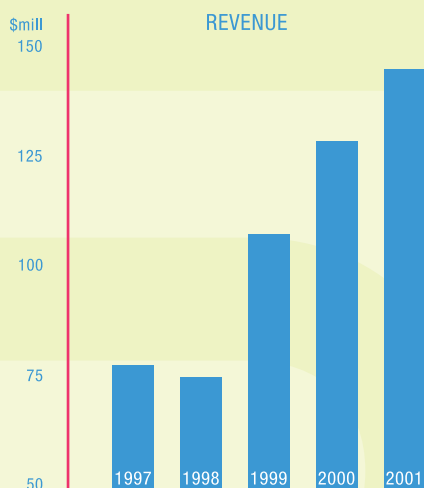
	1997	1998	1999	2000	2001
Total revenue (\$'000)	335,312	352,471	382,012	439,081	506,151
Operating profit after minorities (\$'000)	14,100	15,741	17,904	21,278 ■	22,770
Depreciation and amortisation (\$'000)	8,824	8,560	9,404	11,579	10,735
Net borrowing costs (\$'000)	1,765	1,614	1,722	1,654	3,315
Shareholders' equity (\$'000)	98,928	104,609	104,000	113,605	123,426
Operating profit after minorities (\$'000)					
- as a % of shareholders' equity	14.3%	15.1%	17.2%	18.7% ■	18.4%
- as a % of total revenue	4.2%	4.5%	4.7%	4.8% ■	4.5%
Earnings per share (cents)	13.3	14.5	16.3	18.8 ■	19.2
Dividends per share (cents)	6.6	15.4	17.0	19.0	19.4
Employees at year end	2,113	2,075	2,012	2,155	2,338
Shareholders at year end	4,821	4,999	5,535	5,962	7,073

■ Before net abnormal income tax expense of \$2,477,000



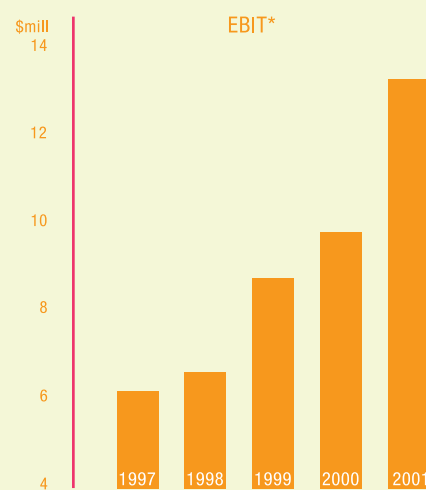
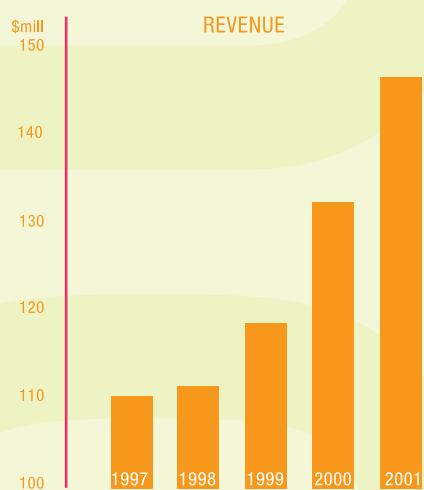
ELECTRONICS

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



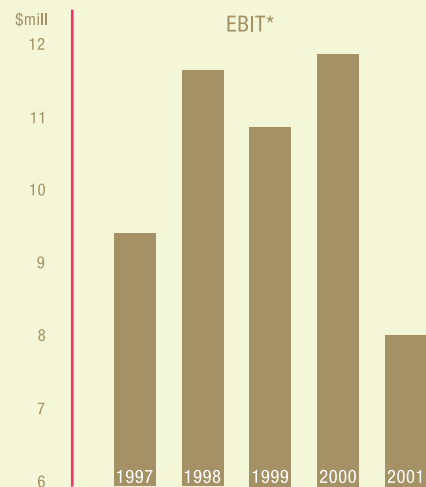
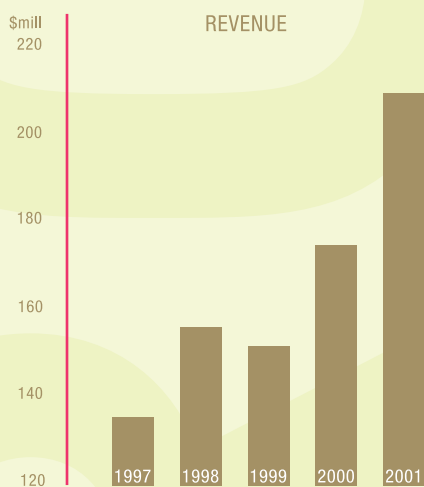
HOME & HARDWARE

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



BUILDING & INDUSTRIAL

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



*EBIT - Earnings before interest and tax

CORPORATE GOVERNANCE STATEMENT

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 in the Directors' Report, along with details of their attendances at Board and Board Committee meetings.

The position of Chairman is held by a non-executive director. All directors must retire at or before the next annual general meeting following 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 four 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 Company's internal 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 consolidated entity.

The Audit Committee comprises RD Hill-Ling (Chairman), JAS Brown, GG Hill and JH Hill-Ling.

The primary function of the Remuneration Committee 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 RD Hill-Ling (Chairman), DJ Simmons, GG Hill and JH Hill-Ling.

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. GL Twartz (Finance Director) is responsible for communications with the Australian Stock Exchange.

RISK MANAGEMENT

In terms of financial risk management, it is the policy of the consolidated entity to hedge significant import and export 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 its 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 Internal 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 specifying that directors and officers of the consolidated entity 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:

- an obligation arises under ASX Listing Rule 3A to disclose information to the Stock Exchange and the point at which disclosure is made; and
- 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.

DIRECTORS' REPORT

Hills Industries Limited and its Controlled Entities

The directors present their report together 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 2001 and the auditor's report thereon.

DIRECTORS

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

ROBERT DONALD HILL-LING

AO FIE(Aust) CPEng

Chairman - Non-Executive Director

Age 68. Joined the Company in 1952. Director since June 1958. Managing Director November 1965 to December 1992. Appointed Chairman December 1966. Chairman of the Audit and Remuneration Committees. Director of Argo Investments Limited and Deputy Chairman of the Carrick Hill Trust.

JOHN ARTHUR STACY BROWN

BSc(Adel)

Deputy Chairman - Non-Executive Director

Age 71. Director since March 1981. Deputy Chairman since February 1993. Member of the Audit Committee. Chairman of Korvest Ltd.

DAVID JAMES SIMMONS

BA(Accountancy) FCPA

Managing Director

Age 47. Joined the Company in 1984. Appointed Finance Director in July 1987. Appointed Managing Director in December 1992. Member of the Remuneration Committee. Director of Korvest Ltd, Exosteel Holdings Pty Ltd, Orrcon Pty Ltd, ePic Australia Pty Ltd and Radio Frequency Systems Pty Ltd.

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Age 55. Appointed Director in February 1999. Member of the Audit and Remuneration Committees. Principal of Geoffrey Hill & Associates. Chairman of Auspine Limited and Pacific Strategic Investments Limited. Director of Biron Corporation Limited, Ellex Medical Lasers Limited, Huntley Investment Company Limited and Heritage Gold NZ Limited.

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Age 39. Appointed Director in August 1985. Member of the Audit and Remuneration Committees. Member of the Australian Law Council. Consultant to Blessington Judd, solicitors.

GRAHAM LLOYD TWARTZ

BA(Adel) DipAcc(Flinders) ACA

Finance Director

Age 44. Joined the Company in 1993. Appointed Director in July 1993. Director of Korvest Ltd, Exosteel Holdings Pty Ltd, Orrcon Pty Ltd, ePic Australia Pty Ltd and Radio Frequency Systems Pty Ltd.

PHILLIP DUDLEY JOHNS

CMAHRI

Age 61. Joined the Company in 1959. Appointed Director October 1992. Retired 7 August 2000.

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
RD Hill-Ling	13	13	4	4	2	2
JAS Brown	12	13	4	4	-	-
DJ Simmons	13	13	-	-	2	2
RB Flynn	12	13	-	-	-	-
GG Hill	12	13	4	4	2	2
JH Hill-Ling	12	13	3	4	2	2
GL Twartz	13	13	-	-	-	-
PD Johns	2	2	-	-	-	-

CONSOLIDATED RESULT

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

	2001 \$'000	2000 \$'000
Profit from ordinary activities after related income tax expense and after abnormal income tax expense in the previous year *	23,013	20,034
Profit attributable to outside equity interests	(243)	(1,233)
Net profit attributable to members of the Company	22,770	18,801

* In the previous year, an abnormal income tax expense was recognised to take effect of the changes in company tax rates from 36% to 34% effective from 1 July 2000 and 34% to 30% effective from 1 July 2001. The abnormal income tax expense arose from external regulatory forces and resulted in the consolidated entity reducing its future income tax benefits associated with costs previously provided as follows:

Abnormal income tax expense	-	2,577
Abnormal income tax expense attributable to outside equity interests	-	(100)
Abnormal income tax expense attributable to members of the Company	-	2,477

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year were the manufacture and distribution of outdoor drying products, laundry aids, ladders, children's play equipment, wheelbarrows, garden sprayers, security doors, do-it-yourself woodworking equipment, precision and structural steel tubing, television antenna, closed circuit television systems (CCTV), master antenna television systems (MATV), electronic security products, office storage systems, galvanising, sheet metal, metal building products, precision metalwork and steel door frames.

DIRECTORS' REPORT

Hills Industries Limited and its Controlled Entities

REVIEW OF OPERATIONS

The Hills Group achieved a record profit after tax attributable to Hills' shareholders of \$22,770,000. This is an increase of 21% over the previous year. However, after adjusting for the \$2,477,000 abnormal income tax expense last year, the increase is 7%.

The Group's three main operating segments of Electronics, Home & Hardware Products and Building & Industrial Products faced difficult trading conditions throughout the year due to a number of conditions effecting the overall economy. Despite this, the Electronics and Home and Hardware Products divisions achieved pleasing results.

The Security business continued to grow, although the weakness of the Australian dollar placed considerable pressure on margins. The New Zealand security operation performed particularly well and an office has been established in the United Kingdom to support contracts in Europe where interest in our Public Transport Surveillance Systems remains high. Offices in both Singapore and Malaysia were closed during the year. The Group also established ePic Australia whose principal product is a web based video motion detection system enabling users to record and interrogate security incidents via the internet. It was launched in the first quarter of the 2002 financial year.

Sales in the Antenna business improved for the first time in several years due to the introduction of an Engineered for Digital range of antenna and stability in the PayTV market. A new world class satellite dish manufacturing plant has been commissioned in Adelaide and our sales of satellite dishes into the United States continued to grow.

The Home and Hardware Products division achieved pleasing results given the housing downturn and general uncertainty in the economy. The Triton business experienced significant growth in sales and profitability, both in Australia and the United Kingdom, resulting from the launch of several new products. An extension to the ladder manufacturing facility in Brisbane was completed, allowing more effective ladder manufacture and distribution.

The results of the Building and Industrial Products division reflected the poor economic climate of the sector in which it operates. This was the first full year of operation of the Exosteel partnership (60% owned) which completed a restructuring of its operations. During the year, the Hills' Tubing business was merged with Welded Tube Mills of Australia Pty Ltd to form Orrcon Pty Ltd (50% owned). Despite a reduced demand for steel and the restructuring of its operations, the Orrcon results were in line with expectations. The Precision Metal business was further down-sized due to poor results. The Melbourne facility was closed with a substantial amount of the business consolidated into the Adelaide facility. Korvest Ltd (45.9% owned) achieved a modest increase in sales and profitability.

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 7.4 cents per share amounting to \$6,919,178 in respect of the year ended 30 June 2000, paid on 22 September 2000 (excludes dividends forgone by shareholders who elected to participate in the Share Investment Plan).

	\$
Under provided in respect of the previous financial year	486
Dividends forgone for Share Investment Plan in respect of the previous financial year	(1,687,307)
In respect of the current financial year:	
■ A special fully franked dividend of 5.0 cents per share was paid 19 March 2001	5,912,839
■ An interim fully franked ordinary dividend of 7.0 cents per share was paid 19 March 2001	8,277,974
■ Interim and special dividends forgone for Share Investment Plan	(3,147,909)
■ A final fully franked ordinary dividend of 7.4 cents per share has been declared by the directors to be paid 28 September 2001	9,000,000
■ Total dividends provided for or paid in respect of the year ended 30 June 2001	18,356,083

STATE OF AFFAIRS

On 1 October, 2000 the consolidated entity merged its tubing business with Welded Tube Mills of Australia Pty Ltd to form the Orrcon Group. The merger was effected by the Company taking a 50% interest in Welded Tube Mills of Australia Pty Ltd and, at the same time, selling its tubing operations to Welded Tube Mills of Australia Pty Ltd. The merged group operates within the thin walled and large structural segments of the tubing market.

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.

EVENTS SUBSEQUENT TO BALANCE DATE

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

DIRECTORS' REPORT

Hills Industries Limited and its Controlled Entities

LIKELY DEVELOPMENTS

There are a number of variables in our markets around the world which makes the prediction of results for the year ended 30 June 2002 difficult. However, the outlook for improved activity in the building industry should see better trading conditions for a number of our businesses. The current low level of the Australian dollar provides incentive to Australian manufacturers to continue to invest. Offsetting this will be uncertainties surrounding the upcoming Federal election.

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 the highest quality.

Executive directors and senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity (including operational results). Shares issued 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:

Director	Base Emolument	Incentive	Other Benefits	Retirement Benefits	Total
	\$	\$	\$	\$	\$
RD Hill-Ling	70,000	-	6,850	-	76,850
JAS Brown	45,000	-	4,850	-	49,850
DJ Simmons	197,830	70,000	70,070	-	337,900
RB Flynn	43,200	-	-	-	43,200
GG Hill	40,000	-	3,200	-	43,200
JH Hill-Ling	40,000	-	4,450	-	44,450
GL Twartz	184,701	-	59,121	-	243,822
PD Johns	9,721	-	3,118	77,521	90,360
Officer					
The Company					
MI Canny	117,304	84,270	58,764	-	260,338
AR Oliver	79,210	129,835	47,847	-	256,892
PJ Mellino	70,632	102,350	33,960	-	206,942
RJ Stokes	70,632	102,350	28,719	-	201,701
TA Payze	150,000	-	39,260	-	189,260
Consolidated					
MI Canny	117,304	84,270	58,764	-	260,338
AR Oliver	79,210	129,835	47,847	-	256,892
S Pradella	210,870	-	39,130	-	250,000
J Easling	194,150	-	36,850	-	231,000
NG Weavis	140,000	30,200	49,500	-	219,700

Certain options were granted during the year as set out below. All options are subject to certain future performance measures. At the date of this report these measures had not been met. Accordingly, no amount has been included in total emoluments above.

OPTIONS

During 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 consolidated entity:

Director	Number of Options Granted	
	Issue 1	Issue 2
DJ Simmons	37,500	60,000
GL Twartz	25,000	25,000
Officer		
MI Canny	25,000	25,000
AR Oliver	25,000	25,000
PJ Mellino	10,000	10,000
RJ Stokes	10,000	10,000
NG Weavis	25,000	25,000
Other officers	15,000	15,000
Total number of options granted	172,500	195,000
Exercise price	\$2.35	\$2.50
Exercise date	31/12/01	31/12/02

All options are subject to certain future performance measures. At the date of this report, these measures had not been met. These options represent the total unissued ordinary shares of the Company under option at the date of this report. The Company has not issued ordinary shares as a result of the exercise of options during or since the end of the financial year.

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

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 Act 2001, at the date of this report is as follows:

Director	Hills Industries Limited	Korvest Ltd	
	Ordinary Shares	Options over Ordinary Shares	Ordinary Shares
RD Hill-Ling*	14,257,776	-	73,329
JAS Brown**	9,998,844	-	5,537
DJ Simmons	41,514	97,500	500
RB Flynn	13,691	-	-
GG Hill	2,351	-	-
JH Hill-Ling**	10,061,679	-	-
GL Twartz	6,025	50,000	500

* includes 9,244,402 shares owned by Hills Associates Limited

** includes 694,424 shares owned by Hills Associates Limited and Poplar Pty Ltd



DIRECTORS' REPORT

Hills Industries Limited and its Controlled Entities

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 13th day of September 2001.

Signed in accordance with a resolution of the directors:

RD Hill-Ling

Director

DJ Simmons

Director

STATEMENTS OF FINANCIAL PERFORMANCE

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

	Note	Consolidated		The Company	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Revenues from ordinary activities	3	506,151	439,081	248,723	274,902
Expenses from ordinary activities, excluding borrowing costs expense	3	468,502	402,284	218,965	240,545
Borrowing costs expense	3	3,669	1,796	1,038	1,498
Profit from ordinary activities before related income tax expense		33,980	35,001	28,720	32,859
Income tax expense relating to ordinary activities	4	10,967	14,967	9,209	13,437
Profit from ordinary activities after related income tax expense		23,013	20,034	19,511	19,422
Profit attributable to outside equity interests		(243)	(1,233)	-	-
Net profit attributable to members of the Company		22,770	18,801	19,511	19,422
Non-owner transaction changes in equity:					
■ Increase in asset revaluation reserve	14	-	2,175	-	1,690
■ Net exchange differences on translation of financial statements of self-sustaining foreign operations	14	1,711	425	-	-
Total revenues, expenses and valuation adjustments attributable to members of the Company recognised directly in equity		1,711	2,600	-	1,690
Total changes in equity from non-owner related transactions attributable to members of the Company		24,481	21,401	19,511	21,112

The Statements of Financial Performance are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 22 to 35.

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2001

Hills Industries Limited and its Controlled Entities

		Consolidated		The Company	
	Note	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
CURRENT ASSETS					
Cash assets		2,301	7,315	15	4,896
Receivables	5	89,542	81,439	34,211	45,531
Inventories	6	74,146	56,874	26,494	30,651
Total current assets		165,989	145,628	60,720	81,078
NON-CURRENT ASSETS					
Investments	7	1,163	1,375	29,994	20,214
Property, plant and equipment	8	116,067	91,314	45,557	43,402
Intangibles	9	6,647	6,560	5,437	5,935
Deferred tax assets		13,512	14,632	9,838	10,838
Total non-current assets		137,389	113,881	90,826	80,389
Total assets		303,378	259,509	151,546	161,467
CURRENT LIABILITIES					
Payables	10	66,929	60,659	41,411	40,180
Interest bearing liabilities	11	12,868	4,725	1,954	1,520
Current tax liabilities		2,639	10,658	3,069	8,551
Provisions	12	25,611	25,791	12,221	12,933
Total current liabilities		108,047	101,833	58,655	63,184
NON-CURRENT LIABILITIES					
Interest bearing liabilities	11	49,972	32,313	8,155	18,398
Deferred tax liabilities		1,290	955	-	-
Provisions	12	5,912	6,070	5,000	5,000
Total non-current liabilities		57,174	39,338	13,155	23,398
Total liabilities		165,221	141,171	71,810	86,582
Net assets		138,157	118,338	79,736	74,885
EQUITY					
Contributed equity	13	30,751	27,055	30,751	27,055
Reserves	14	25,195	23,484	11,326	11,326
Retained profits	15	67,480	63,066	37,659	36,504
Total parent entity interest		123,426	113,605	79,736	74,885
Outside equity interest	17	14,731	4,733	-	-
Total equity	18	138,157	118,338	79,736	74,885

The Statements of Financial Position are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 22 to 35.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

	Note	Consolidated		The Company	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers excluding GST		507,491	414,356	255,622	266,414
GST receipts from customers and ATO		56,104	-	29,734	-
Cash receipts in the course of operations		563,595	414,356	285,356	266,414
Payments to suppliers excluding GST		(470,812)	(373,448)	(209,854)	(223,277)
GST payments to suppliers and ATO		(52,984)	-	(27,583)	-
Cash payments in the course of operations		(523,796)	(373,448)	(237,437)	(223,277)
Dividends received		499	-	499	1,308
Interest received		351	142	222	32
Borrowing costs paid		(3,660)	(1,796)	(1,038)	(1,498)
Income taxes paid		(17,461)	(13,662)	(13,691)	(11,387)
Net cash provided by operating activities	19	19,528	25,592	33,911	31,592
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for purchase of property, plant and equipment		(18,561)	(11,594)	(8,947)	(6,113)
Proceeds from sale of property, plant and equipment		817	497	2,957	209
Payments for purchase of investments		(378)	(251)	(10,379)	(251)
Proceeds from sale of investments		601	86	525	86
Payments for loans to other entities		-	(75)	-	(75)
Payments for acquisition of businesses		(1,661)	(4,261)	-	-
Payments for purchase of intangible assets		(1,090)	(6,850)	(209)	(6,200)
Rent received		1,525	1,054	1,336	884
Net cash used in investing activities		(18,747)	(21,394)	(14,717)	(11,460)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		15,704	11,044	-	-
Repayment of borrowings		(10,832)	-	(9,809)	(2,000)
Finance lease payments		(73)	-	-	-
Dividends paid		(18,365)	(16,809)	(17,962)	(16,357)
Proceeds from share issue		3,723	6,214	3,696	6,033
Net cash provided by / (used in) financing activities		(9,843)	449	(24,075)	(12,324)
Net increase / (decrease) in cash held		(9,062)	4,647	(4,881)	7,808
Cash at the beginning of the year		7,315	2,533	4,896	(2,912)
Effect of exchange rate fluctuations		51	135	-	-
Cash at the end of the year	19	(1,696)	7,315	15	4,896

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 22 to 35.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

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 Act 2001. It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or 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 statement of financial performance.

(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 statement of financial performance in the financial year in which the exchange rates change.

Translation of Controlled Foreign Entities

The statements of financial position of the controlled entities incorporated overseas (being self-sustaining foreign operations) are translated at the rates of exchange ruling at their balance dates. The statements of financial performance 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

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

Revaluation

Land and buildings are valued independently at least every three years on an existing use basis and valued by directors during the intervening years based on the most recent independent valuations. This is in addition to the annual review for recoverable amount.

Land and buildings are included in the financial statements at their revalued amounts. 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 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. The depreciation rates used for each class of assets remain unchanged from the previous year and are as follows:

Buildings	0.75%
Leasehold improvements	20.00% to 33.33%
Plant and equipment	5.00% to 33.33%

Leased Plant and Equipment

Payments made under operating leases are charged against profits in equal installments 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

(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 year 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 statements of financial performance 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 20.

(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) Payables

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 statements of financial position 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 year amounts and other disclosures. Some line items and sub-totals reported in the previous financial year have been reclassified and repositioned in the financial statements as a result of the first time application on 1 July 2000 of the revised standards AASB 1018 'Statement of Financial Performance', AASB 1034 'Financial Report Presentation and Disclosures' and the new AASB 1040 'Statement of Financial Position'.

(r) Goods and Services Tax

Revenues, expenses and assets (other than receivables) are recognised net of the amount of goods and services tax (GST) except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

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

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

2. CHANGE IN ACCOUNTING POLICY

Revaluation of Non-Current Assets

The consolidated entity has applied AASB 1041 'Revaluation of Non-Current Assets' for the first time from 1 July 2000. This standard requires each class of non-current asset to be measured using either the cost or fair value basis. AASB 1041 does not apply to inventories, foreign currency monetary assets, goodwill, deferred tax assets and other assets measured at net market value where the market value movements are recognised in the statements of financial performance.

The consolidated entity has applied AASB 1041 as follows:

Investments

The Company has continued to apply the cost basis of valuation for shares in controlled entities and for both listed and unlisted shares in other corporations.

Land and Buildings

The consolidated entity has adopted the fair value basis for land and buildings and has deemed the fair value of the land and buildings to be equal to their carrying value as at 1 July 2000. The carrying value brought forward is shown in the comparatives to Note 8. The change in accounting policy has no financial effect on the current or prior financial years.

Other Non-Current Assets

The consolidated entity has continued to apply the cost basis for other non-current assets such as receivables, plant and equipment and intangibles (other than goodwill).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

3. REVENUES, EXPENSES AND PROFIT FROM ORDINARY ACTIVITIES

(a) Revenues from Ordinary Activities

	Consolidated		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Revenues from operating activities				
Sales revenue	500,283	435,399	240,837	270,985
Interest received from:				
- other parties	354	142	127	32
- controlled entities	-	-	95	-
Dividends received from:				
- other parties	499	-	499	-
- controlled entities	-	-	-	1,308
Property rentals	1,525	1,054	1,336	884
Revenues from outside operating activities				
Proceeds from the sale of non-current assets	1,418	583	3,482	295
Other	2,072	1,903	2,347	1,398
Total revenues from ordinary activities	506,151	439,081	248,723	274,902

(b) Expenses from Ordinary Activities

Cost of goods sold	336,847	284,500	146,770	160,134
Sales and marketing expenses	68,445	62,240	41,775	46,365
Distribution expenses	33,824	27,184	15,365	17,807
Administration expenses	22,452	22,506	10,490	12,207
Occupancy expenses	4,779	3,981	3,083	3,495
Other expenses	2,155	1,873	1,482	537
Expenses from ordinary activities, excluding borrowing costs expense	468,502	402,284	218,965	240,545
Borrowing costs expense	3,669	1,796	1,038	1,498
Total expenses from ordinary activities	472,171	404,080	220,003	242,043

(c) Profit from Ordinary Activities

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

Depreciation of freehold buildings	415	156	150	94
Depreciation of plant and equipment	9,317	8,633	4,261	4,534
Amortisation of goodwill	296	2,275	36	-
Amortisation of patents and trademarks	707	515	671	515
Total depreciation and amortisation	10,735	11,579	5,118	5,143
Lease rental expense				
- operating leases	3,839	2,936	1,831	1,178
Borrowing costs - other parties	3,669	1,796	934	1,435
Borrowing costs - controlled entities	-	-	104	63
Interest received - other parties	(354)	(142)	(127)	(32)
Interest received - controlled entities	-	-	(95)	-
Net borrowing costs	3,315	1,654	816	1,466

(c) Profit from Ordinary Activities (cont)

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

	Consolidated		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Amounts set aside to provision for:				
- employee entitlements	4,475	5,785	2,156	3,835
- doubtful debts	1,388	473	610	400
- stock obsolescence	126	1,068	-	1,323
- outstanding claims	(1,581)	2,577	-	-
Total amount set aside to provisions	4,408	9,903	2,766	5,558
Auditors' remuneration:				
Audit services				
- auditors of the Company	187	145	114	108
- other KPMG member firms	69	75	-	-
- other auditors	12	11	-	-
	268	231	114	108
Other services:				
- auditors of the Company	37	46	31	38
- other KPMG member firms	50	29	-	-
	87	75	31	38
Sales of non-current assets:				
- (profit) / loss on sale of property, plant and equipment	(622)	(1)	(575)	(49)
- (profit) / loss on sale of investments	73	(86)	73	(86)
	(549)	(87)	(502)	(135)

4. TAXATION

Income Tax Expense

Prima facie income tax expense calculated at 34% (2000: 36%) on

the profit from ordinary activities	11,553	12,600	9,765	11,829
Other items	(586)	(210)	(556)	(491)

Income tax expense relating to ordinary activities before individually significant income tax items

	10,967	12,390	9,209	11,338
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Individually significant income tax items:

- restatement of deferred tax balances due to change in tax rates from 36% to 34% on 1 July 2000 and then to 30% on 1 July 2001	-	2,577	-	2,099
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Income tax expense relating to ordinary activities	10,967	14,967	9,209	13,437
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5. RECEIVABLES

Current

Trade debtors	90,430	84,027	36,266	46,827
Less provision for doubtful debts	4,443	3,468	2,055	2,000
	85,987	80,559	34,211	44,827
Other debtors	3,555	880	-	704
	89,542	81,439	34,211	45,531

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

6. INVENTORIES

	Consolidated		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Current				
Raw materials	24,095	16,827	4,520	7,729
Work in progress	3,684	1,675	76	421
Finished goods	50,125	42,433	24,898	25,501
Less provision for stock obsolescence	3,758	4,061	3,000	3,000
	46,367	38,372	21,898	22,501
	74,146	56,874	26,494	30,651

7. INVESTMENTS

Non-current				
Shares in controlled entities				
- unlisted companies at cost	-	-	28,838	18,839
Shares in other entities				
- listed companies at cost	44	256	37	256
- unlisted companies at cost	1,119	1,119	1,119	1,119
	1,163	1,375	1,156	1,375
	1,163	1,375	29,994	20,214

8. PROPERTY, PLANT AND EQUIPMENT

Freehold Land				
At fair value	21,401	-	10,311	-
At 2000 independent valuation	-	20,233	-	9,230
At cost	-	176	-	176
	21,401	20,409	10,311	9,406
Freehold Buildings				
At fair value	43,909	-	21,511	-
At 2000 independent valuation	-	39,313	-	19,385
At cost	-	763	-	350
Less accumulated depreciation	-	4	-	-
	43,909	40,072	21,511	19,735
Plant and Equipment				
At cost	115,499	96,735	55,330	61,984
Less accumulated depreciation	64,742	65,902	41,595	47,723
	50,757	30,833	13,735	14,261
Total property, plant and equipment at net book value	116,067	91,314	45,557	43,402

Fair value is a directors' valuation at 30 June 2001 based on an independent valuation carried out as at May 2000 by Mr N Satchell, AAPI, BAppSc(Val) on the basis of market value for existing use. The cost of additions during the 2001 financial year are deemed to be the fair value of these assets. The directors are of the opinion that this basis provides a reasonable estimate of fair value.

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

	Consolidated		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Reconciliations				
Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:				
Freehold Land				
Carrying amount at the beginning of the year	20,409		9,406	
Additions	905		905	
Differences on translation of foreign operations	87		-	
Carrying amount at the end of the year	21,401		10,311	
Freehold Buildings				
Carrying amount at the beginning of the year	40,072		19,735	
Additions	3,734		1,926	
Depreciation	(415)		(150)	
Differences on translation of foreign operations	518		-	
Carrying amount at the end of the year	43,909		21,511	
Plant and Equipment				
Carrying amount at the beginning of the year	30,833		14,261	
Additions	15,595		6,116	
Additions through acquisition of entities	13,166		-	
Disposals	(194)		(2,381)	
Depreciation	(9,317)		(4,261)	
Differences on translation of foreign operations	674		-	
Carrying amount at the end of the year	50,757		13,735	

9. INTANGIBLES

	Consolidated		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Goodwill				
Goodwill on consolidation	7,431	7,431	-	-
Less accumulated amortisation	7,431	7,431	-	-
	-	-	-	-
Goodwill purchased	5,264	5,012	1,981	1,791
Less accumulated amortisation	4,670	4,387	1,827	1,791
	594	625	154	-
Patents and Trademarks				
Patents and trademarks	9,195	8,370	7,369	7,350
Less accumulated amortisation	3,142	2,435	2,086	1,415
	6,053	5,935	5,283	5,935
	6,647	6,560	5,437	5,935

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

10. PAYABLES

	Consolidated		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Current				
Trade creditors	47,760	43,652	25,053	27,300
Sundry creditors	19,169	17,007	9,422	7,522
Owing to controlled entities	-	-	6,936	5,358
	66,929	60,659	41,411	40,180

11. INTEREST BEARING LIABILITIES

Current				
Bank overdrafts	3,997	-	-	-
Bank loans - unsecured	6,503	3,205	-	-
Other loans - unsecured	1,954	1,520	1,954	1,520
Lease liabilities	414	-	-	-
	12,868	4,725	1,954	1,520
Non-current				
Bank loans - unsecured	48,013	31,750	7,657	18,000
Other loans - unsecured	703	563	498	398
Lease liabilities	1,256	-	-	-
	49,972	32,313	8,155	18,398
The consolidated entity has access to the following lines of credit:				
Total facilities available:				
- bank overdrafts	7,469	3,267	1,000	1,000
- bank loans	81,651	46,768	25,000	24,000
- short term money market	12,000	-	10,000	-
	101,120	50,035	36,000	25,000
Facilities utilised at balance date:				
- bank overdrafts	3,997	-	-	-
- bank loans	52,516	34,955	7,657	18,000
- short term money market	2,000	-	-	-
	58,513	34,955	7,657	18,000
Facilities not utilised at balance date:				
- bank overdrafts	3,472	3,267	1,000	1,000
- bank loans	29,135	11,813	17,343	6,000
- short term money market	10,000	-	10,000	-
	42,607	15,080	28,343	7,000

Bank Facilities

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

Bank Overdrafts

Bank overdrafts are denominated in \$A, \$NZ and £UK. Interest on bank overdrafts is charged at prevailing market rates. The weighted average effective interest rate is 8.14% (2000: 8.35%).

Bank Loans

Bank loans are denominated in \$A, \$NZ and £UK. Interest on bank loans is charged at prevailing market rates. The weighted average effective interest rate is 6.08% (2000: 5.76%).

Short Term Money Market

Borrowings on the short term money market are denominated in \$A. Interest on the borrowings is charged at prevailing market rates. The weighted average effective interest rate is 5.76% (2000: N/A).

12. PROVISIONS

	Consolidated		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Current				
Employee entitlements	9,727	8,669	3,221	4,327
Outstanding claims	6,884	8,516	-	-
Proposed dividends	9,000	8,606	9,000	8,606
	25,611	25,791	12,221	12,933
Non-current				
Employee entitlements	5,912	6,070	5,000	5,000
	5,912	6,070	5,000	5,000
Employee entitlements				
Current	9,727	8,669	3,221	4,327
Non-current	5,912	6,070	5,000	5,000
	15,639	14,739	8,221	9,327

13. CONTRIBUTED EQUITY

Issued Capital				
120,546,050 ordinary shares fully paid (2000: 116,303,873 ordinary shares fully paid)	30,751	27,055	30,751	27,055
Movements in Ordinary Shares				
Balance at the beginning of the year	27,055	21,022	27,055	21,022
Shares issued	3,696	6,033	3,696	6,033
	30,751	27,055	30,751	27,055

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 are eligible to participate in the issues. The shares are issued at market value. Details of the issues in the current year are as follows:

Date of Issue	Total No of Shares Issued	Market Value of Shares Issued	Shares Issued per Participating Employee	Number of Executive Directors
11/09/00	348,259	\$919,404	227	2
26/03/01	264,708	\$619,417	171	2

The Company issued ordinary shares under a dividend investment plan and a share investment plan during the year. Under the dividend investment plan, participating shareholders elected to apply dividends in whole or in part to the purchase of ordinary shares at an issue price. Under the share investment plan, participating shareholders elected to forgo dividends in whole or in part and to substitute shares issued out of the capital account.

Date of Issue	Plan Issued Under	Total No of Shares Issued	Issue Price per Share
22/09/00	Dividend Investment	904,388	\$2.38
22/09/00	Share Investment	709,359	\$2.38
19/03/01	Dividend Investment	664,006	\$2.33
19/03/01	Share Investment	1,351,457	\$2.33

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

13. CONTRIBUTED EQUITY (CONT)

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

14. RESERVES

	Consolidated		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Asset revaluation reserve	21,784	21,784	10,493	10,493
Asset realisation reserve	1,800	1,800	833	833
Foreign currency translation reserve	1,611	(100)	-	-
	25,195	23,484	11,326	11,326
Movements in Reserves				
Asset Revaluation Reserve				
Balance at the beginning of the year	21,784	19,609	10,493	8,803
Revaluation increment on freehold land and buildings	-	2,175	-	1,690
Balance at the end of the year	21,784	21,784	10,493	10,493
Foreign Currency Translation Reserve				
Balance at the beginning of the year	(100)	(525)	-	-
Translation adjustment on translation of controlled foreign entities' financial statements	1,711	425	-	-
Balance at the end of the year	1,611	(100)	-	-

There were no movements in the Asset Realisation Reserve.

Nature and Purpose of Reserves

Asset Revaluation

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

Asset Realisation Reserve

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

Foreign Currency Translation Reserve

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

15. RETAINED PROFITS

Balance at the beginning of the year	63,066	62,092	36,504	34,909
Net profit attributable to members of the Company	22,770	18,801	19,511	19,422
Dividends	(18,356)	(17,827)	(18,356)	(17,827)
Balance at the end of the year	67,480	63,066	37,659	36,504

16. 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 7.4 cents per share amounting to \$6,919,178 in respect of the year ended 30 June 2000, paid on 22 September 2000 (excludes dividends forgone by shareholders who elected to participate in the Share Investment Plan).

	\$
Under provided in respect of the previous financial year	486
Dividends forgone for Share Investment Plan in respect of the previous financial year	(1,687,307)
In respect of the current financial year:	
- A special fully franked dividend of 5.0 cents per share was paid 19 March 2001	5,912,839
- An interim fully franked ordinary dividend of 7.0 cents per share was paid 19 March 2001	8,277,974
- Interim and special dividends forgone for Share Investment Plan	(3,147,909)
- A final fully franked ordinary dividend of 7.4 cents per share has been declared by the directors to be paid 28 September 2001	9,000,000
Total dividends provided for or paid in respect of the year ended 30 June 2001	18,356,083

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	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Franked at 30% (2000: 34%)	65,635	57,580	28,602	26,790

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

17. OUTSIDE EQUITY INTEREST

Outside equity interest in controlled entities comprises:

Interest in share capital	11,106	1,210	-	-
Interest in reserves	1,012	800	-	-
Interest in retained profits at the end of the year	2,613	2,723	-	-
	14,731	4,733	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

18. TOTAL EQUITY RECONCILIATION

		Consolidated		The Company	
		2001	2000	2001	2000
		\$'000	\$'000	\$'000	\$'000
Balance at the beginning of the year		118,338	107,587	74,885	65,567
Total changes in parent entity interest in equity recognised in the statements of financial performance		24,481	21,401	19,511	21,112
Transactions with owners as owners					
- contributions of equity	13	3,696	6,033	3,696	6,033
- dividends	16	(18,356)	(17,827)	(18,356)	(17,827)
Total changes in outside equity interests	17	9,998	1,144	-	-
Balance at the end of the year		138,157	118,338	79,736	74,885

19. NOTES TO THE STATEMENTS OF CASH FLOWS

(a) Reconciliation of Cash

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

Cash	2,301	7,315	15	4,896
Bank overdraft	(3,997)	-	-	-
	(1,696)	7,315	15	4,896

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

Profit from ordinary activities after related income tax expense	23,013	20,034	19,511	19,422
Add / (less) items classified as investing / financing activities:				
- (profit) / loss on sale of fixed assets	(622)	(1)	(575)	(49)
- (profit) / loss on sale of investments	73	(86)	73	(86)
- rent received	(1,525)	(1,054)	(1,336)	(884)
- finance charges on capitalised leases	8	-	-	-
Add / (less) non-cash items:				
- amortisation	1,003	2,790	707	515
- depreciation	9,732	8,789	4,411	4,628
Add / (less) amounts set aside to provisions:				
- employee entitlements	4,475	5,785	2,156	3,835
- doubtful debts	1,388	473	610	400
- stock obsolescence	126	1,068	-	1,323
- outstanding claims	(1,581)	2,577	-	-

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

	Consolidated		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Net cash provided by operating activities before changes in assets and liabilities	36,090	40,375	25,557	29,104
Changes in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the year:				
(Increase) / decrease in:				
- debtors	12	(18,408)	10,824	(4,570)
- prepayments and other debtors	909	1,954	739	663
- inventories	(7,711)	(9,527)	4,157	(225)
(Decrease) / increase in:				
- accounts payable	964	15,169	43	3,738
- other loans	949	-	891	4,854
- provisions	(4,950)	(5,079)	(3,818)	(4,021)
- income taxes payable	(8,252)	2,173	(5,482)	1,290
- deferred taxes payable	1,517	(1,065)	1,000	759
Net cash provided by operating activities	19,528	25,592	33,911	31,592

(c) Acquisition of Controlled Entities and Business Operations

During the year the consolidated entity acquired a 50% interest in Orrcon Metals Pty Ltd (formerly Welded Tube Mills of Australia Pty Ltd). (2000: acquired the business operations of Triton Manufacturing & Design and Triton Workshop Systems (UK)). Details of the acquisitions are as follows:

Consideration	-	11,111	-	6,200
Cash acquired	(37)	-	-	-
Overdraft acquired	1,698	-	-	-
Outflow of cash	1,661	11,111	-	6,200
Fair value of net assets acquired:				
- cash assets	37	-	-	-
- receivables	9,122	-	-	-
- inventories	9,096	2,907	-	-
- investments	83	-	-	-
- property, plant and equipment	13,166	1,150	-	-
- patents and trade marks	-	6,200	-	6,200
- other assets	757	204	-	-
- accounts payable	(11,859)	-	-	-
- borrowings	(9,132)	-	-	-
- provisions	(1,133)	-	-	-
	10,137	10,461	-	6,200
Outside equity interest at acquisition	(10,137)	-	-	-
	-	10,461	-	6,200
Goodwill on acquisition	-	650	-	-
Consideration (cash)	-	11,111	-	6,200

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

19. NOTES TO THE STATEMENTS OF CASH FLOWS (CONT)

(c) Acquisition of Controlled Entities and Business Operations (cont)

The consolidated entity assumed control of Orrcon Metals Pty Ltd (formerly Welded Tube Mills of Australia Pty Ltd) and its controlled entities on 1 October 2000 after subscribing to a 50% interest. The operating results of the entities have been included in the consolidated operating profit from that date. The main activity of the entities is the manufacture and sale of precision and structural steel tubing.

In 2000 the consolidated entity acquired the business operations of Triton Manufacturing & Design and Triton Workshop Systems (UK) for cash on 1 October 1999 and the operating results have been included in the consolidated operating profit from that date. The main activities of the businesses is the manufacture and sale of home workshop products.

(d) Non-Cash Financing Activities

During the year the consolidated entity acquired plant and equipment with a capitalised value of \$1,649,000 (2000: Nil) by means of a finance lease. These acquisitions are not reflected in the statements of cash flows.

20. 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 2000 by Mr John Holbrook BEc BSc. 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 2001 are as follows:

	Consolidated		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Employer contributions to the plan	507	269	-	-
Employer contributions payable to the plan	59	25	-	-

The defined benefit fund has been on a contribution holiday with contributions funded out of the surplus in accordance with the actuarial assessment of 1 July 1997. As a result of the actuarial assessment of 1 July 2000, the actuary has recommended that partial employer contributions recommence from 1 July 2001.

(a) Superannuation Commitments (cont)

Defined Benefits Plan

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

Hills Industries Limited Staff Superannuation Fund

	The Fund	
	2001	2000
	\$'000	\$'000
Plan assets at net market value	* 29,455	** 28,074
Total accrued benefits	26,088	16,485
Excess	3,367	11,589
Total vested benefits	* 24,986	** 22,262

* Plan assets at net market value and vested benefits have been calculated at 30 June 2000 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 1999 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 1 July 2000 (2000: 1 July 1997).

(b) Capital Expenditure Commitments

	Consolidated		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Capital expenditure projects contracted but not provided for and payable:				
- not longer than one year	6,324	3,265	4,294	2,753

(c) Operating Lease Commitments

Operating leases payable:				
- not later than one year	387	2,672	172	901
- later than one year but not later than five years	6,347	4,623	2,243	1,324
- later than five years	263	-	263	-
	6,997	7,295	2,678	2,225

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

20. COMMITMENTS (CONT)

(d) Finance Lease Commitments

	Consolidated		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Finance leases payable:				
- not later than one year	501	-	-	-
- later than one year but not later than five years	1,368	-	-	-
- later than five years	-	-	-	-
	1,869	-	-	-
Less future finance charges	199	-	-	-
	1,670	-	-	-
Lease liabilities provided for in the statements of financial position				
- current	414	-	-	-
- non-current	1,256	-	-	-
Total lease liability	1,670	-	-	-

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

21. CONTINGENT LIABILITIES

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

Guarantees

Letters of credit established in favour of suppliers	3,122	422	3,073	384
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Legal Claims

Legal proceedings have been issued against the Company by a customer alleging breach of contract and misleading and deceptive conduct. The Company strongly disputes the claim and will vigorously defend the action. At the date of this report, it is not possible to assess the maximum amount that may become payable.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

22. SEGMENT REPORTING

Segment	Total Assets		Total Revenue		Consolidated Profit Before Interest & Tax	
	2001	2000	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Electronics	51,759	46,623	145,822	128,173	14,983	14,483
Home & Hardware Products	62,896	56,907	146,896	132,843	13,244	9,846
Building & Industrial Products	106,171	70,259	209,530	175,110	8,067	11,905
Other	82,552	85,720	3,903	2,955	1,001	421
Total segment assets	303,378	259,509				
Total revenue			506,151	439,081		
Consolidated profit before interest and tax					37,295	36,655
Interest					3,315	1,654
Earnings before tax					33,980	35,001
Income tax attributable to operating profit					10,967	14,967
Consolidated profit after tax					23,013	20,034

Geographic Segment	Total Assets		Total Revenue		Consolidated Profit After Tax	
	2001	2000	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Australia	265,903	219,493	453,932	394,814	21,515	19,705
Overseas	37,475	40,016	52,219	44,267	1,498	329
Total	303,378	259,509	506,151	439,081	23,013	20,034

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 an arms length basis for non wholly owned entities.

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

INDUSTRY SEGMENT	PRODUCTS / SERVICES
Electronics	Communications related products and services, domestic and commercial antenna, closed circuit television systems (CCTV), master antenna television systems (MATV), communications antenna, amplifiers and electronic security systems.
Home and Hardware Products	Outdoor clothes dryers, ladders, ironing boards, folding beds, security doors, playtime equipment, laundry trolleys, garden sprayers, wheelbarrows, hand trucks and do-it-yourself woodworking equipment.
Building and Industrial Products	Structural and precision steel tubing, fence posts, galvanising, office storage systems, precision metal cabinets, sheet metal, steel door frames and metal building products.
Other	Property rental, investments, self insurance and corporate services.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

23. DIRECTORS' AND EXECUTIVES' REMUNERATION

(a) Remuneration of Directors

	The Company	
	2001	2000
	No	No
The number of directors (including executive directors) of the Company whose remuneration from the Company or any related party falls within the following bands is:		
\$ 10,000 - \$ 19,999	-	1
\$ 20,000 - \$ 29,999	-	1
\$ 30,000 - \$ 39,999	-	1
\$ 40,000 - \$ 49,999	4	2
\$ 70,000 - \$ 79,999	1	1
\$ 90,000 - \$ 99,999	1	-
\$130,000 - \$139,999	-	1
\$240,000 - \$249,999	1	1
\$300,000 - \$309,999	-	1
\$330,000 - \$339,999	1	-
	Consolidated	The Company
	2001	2000
	\$	\$
Total income paid or payable or otherwise made available to all directors of the Company and of controlled entities from the Company or any related party:	2,256,460	1,272,296
		929,632
		922,347

(b) 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	
	2001	2000	2001	2000
	No	No	No	No
\$100,000 - \$109,999	6	6	3	4
\$110,000 - \$119,999	6	5	4	4
\$120,000 - \$129,999	4	2	2	2
\$130,000 - \$139,999	8	3	5	2
\$140,000 - \$149,999	2	3	2	3
\$150,000 - \$159,999	4	2	2	2
\$160,000 - \$169,999	1	2	-	1
\$170,000 - \$179,999	2	2	2	2
\$180,000 - \$189,999	2	-	1	-
\$190,000 - \$199,999	1	-	-	-
\$200,000 - \$209,999	3	1	2	-
\$220,000 - \$229,999	-	1	-	1
\$230,000 - \$239,999	1	1	-	1
\$240,000 - \$249,999	1	1	1	1
\$250,000 - \$259,999	2	1	1	1
\$260,000 - \$269,000	1	-	1	-
\$300,000 - \$309,999	-	1	-	1
\$330,000 - \$339,999	1	-	1	-
\$370,000 - \$379,999	-	1	-	1

(b) Remuneration of Executives (cont)

	Consolidated		The Company	
	2001	2000	2001	2000
	\$	\$	\$	\$
Total remuneration received, or due and receivable, from the Company, entities in the consolidated entity or related parties by executive officers of the Company and of controlled entities:	7,046,418	5,101,460	4,288,611	4,271,397

The remuneration of the executive directors of the Company and of controlled entities is included in both the directors' and executive officers' remuneration totals shown above.

24. RELATED PARTY TRANSACTIONS

Directors

The names of each person holding the position of Director of Hills Industries Limited during the financial year are RD Hill-Ling, JAS Brown, DJ Simmons, RB Flynn, GG Hill, JH Hill-Ling, GL Twartz and PD Johns. PD Johns retired on 7 August 2000.

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

Ms JH Hill-Ling is a consultant to a firm of solicitors which rendered legal 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.

	Number Held	
	2001	2000
Hills Industries Limited		
- ordinary shares	31,112,679	31,605,662
- options over ordinary shares	147,500	75,000
Korvest Ltd		
- ordinary shares	79,866	54,501

25. EARNINGS PER SHARE

	Consolidated	
	2001	2000
Basic earnings per share		
- before abnormal tax expense	19.2 cents	18.8 cents
Basic earnings per share		
- after abnormal tax expense	19.2 cents	16.5 cents
	Consolidated	
	Number of Shares	
	2001	2000
Weighted average number of shares used in the calculation of basic earnings per share	118,367,674	113,662,282

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

26. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

			Percentage Held	
			2001	2000
HILLS INDUSTRIES LIMITED				
Controlled Entities				
Hills Finance Pty Ltd			100%	100%
Hills Industries Limited	(1)	(c)	100%	100%
Hills Industries Limited	(2)	(c)	100%	100%
Spraygen Sprayers Limited	(2)	(c)	100%	100%
Hills Marketing Services Limited	(2)	(c)	100%	100%
Korvest Ltd		(b)	45.9%	46.7%
Hills Hoists Pty Ltd			100%	100%
Bailey Aluminium Products Pty Ltd			100%	100%
Triton Manufacturing & Design Co Pty Ltd			100%	100%
Triton Workshop Systems (UK) Pty Ltd	(3)		100%	100%
Woodroffe Industries Pty Ltd			100%	100%
Exosteel Holdings Pty Ltd			60%	60%
Orrcon Metals Pty Ltd	(a)	(b)	50%	-
Tube Specialist Pty Ltd	(a)	(b)	50%	-
Precision Tube Company Pty Ltd	(a)	(b)	50%	-
Orrcon Pty Ltd	(a)	(b)	50%	-
Orrcon Tubing Pty Ltd	(a)	(b)	50%	-
ePic Australia Pty Ltd	(a)	(b)	50%	-
Pathfinder Insurance Pte Ltd	(4)	(c)	100%	100%
Pacom SE Asia Pte Ltd	(4)	(d)	100%	100%
Pacific Communications Services Snd Bhd	(5)	(d)	100%	100%
Hills Nominees Pty Ltd			100%	100%
DAS Security Wholesalers Pty Ltd			100%	100%
Pacific Communications Pty Ltd			100%	100%
Pacom Security Pty Ltd	(a)		100%	-
Step Electronics Pty Ltd			100%	100%

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

During the year, Korvest Ltd issued 107,204 ordinary shares pursuant to its employee share bonus plan for no consideration. It also issued 18,218 ordinary shares pursuant to its dividend investment and share investment plans for an effective consideration of \$26,362. As a result of these issues, the interest of Hills Industries Limited in Korvest Ltd decreased by \$48,191 and the outside equity interest increased by \$74,553.

No other controlled entities issued shares during the financial year.

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

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

- (a) These companies have become part of the economic entity during the financial year.
- (b) These companies are controlled by virtue of the parent entity's control of the Board of Directors.
- (c) These companies are audited by other firms of KPMG International.
- (d) These companies are audited by firms other than KPMG International.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

27. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest Rate Risk

The consolidated entity enters into interest rate swaps to lower funding costs or to alter interest rate exposures arising from mismatches in repricing dates between assets and liabilities.

Interest rate swaps allow the consolidated entity to raise long term borrowings at floating rates and swap them into fixed rates. Maturities of swap contracts are for three to five years.

Each contract involves the quarterly payment or receipt of the net amount of interest. At 30 June 2001 the fixed rates varied from 5.40% to 6.68% (2000: 5.50% to 5.80%) and the floating rates were prevailing market rates. The weighted average effective floating interest rate at 30 June 2001 was 5.45% (2000: 6.69%).

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

	Fixed interest maturing in:					Total \$'000
	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000	Non interest bearing \$'000	
2001						
Financial assets						
Cash deposits	2,301	-	-	-	-	2,301
Receivables	-	-	-	-	89,542	89,542
Investments	-	-	-	-	1,163	1,163
	2,301	-	-	-	90,705	93,006
Weighted average interest rate	4.85%					
Financial liabilities						
Bank overdrafts	3,997	-	-	-	-	3,997
Bank and other loans	-	54,516	-	-	2,657	57,173
Lease liabilities	-	-	1,670	-	-	1,670
Accounts payable	-	-	-	-	66,929	66,929
Dividends payable	-	-	-	-	9,000	9,000
	3,997	54,516	1,670	-	78,586	138,769
Interest rate swaps*	(49,000)	3,000	46,000			
Weighted average interest rate	5.45%	5.30%	5.79%			

* notional principal amounts

	Fixed interest maturing in:					Total \$'000
	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000	Non interest bearing \$'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
Lease liabilities	-	-	-	-	-	-
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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

Hills Industries Limited and its Controlled Entities

27. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONT)

(b) Foreign Exchange Risk

The consolidated entity enters into forward exchange contracts to hedge certain firm purchase and sale commitments denominated in foreign currencies (principally US dollars). The terms of these derivatives and commitments are rarely more than three months. The consolidated entity's policy is to enter into forward foreign exchange contracts to hedge a portion of foreign currency purchases and sales within the following three months within Board approved limits.

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

	Consolidated 2001 Rate		Consolidated 2000 Rate	
			\$'000	\$'000
Buy US dollars				
Not longer than one year	0.52	0.61	3,537	2,678
Sell US dollars				
Not longer than one year	0.54	-	2,220	-
Buy GBP pounds				
Not longer than one year	0.38	-	990	-
Buy Japanese yen				
Not longer than one year	-	48.50	-	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-Statement of Financial Position 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-Statement of Financial Position Financial Instruments

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

	Consolidated	
	2001	2000
	\$'000	\$'000
The net fair value of interest rate swaps as at the reporting date are:	638	(243)

28. EVENTS SUBSEQUENT TO BALANCE DATE

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



DIRECTORS' DECLARATION

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 19 to 35, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2001 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 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Edwardstown this 13th day of September 2001.

Signed in accordance with a resolution of the Directors:

RD Hill-Ling

Director

DJ Simmons

Director

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF HILLS INDUSTRIES LIMITED

Hills Industries Limited and its Controlled Entities

SCOPE

We have audited the financial report of Hills Industries Limited for the financial year ended 30 June 2001, consisting of the statements of financial performance, statements of financial position and statements of cash flows, accompanying notes and the directors' declaration set out on pages 19 to 36. 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 Act 2001, including:
 - i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2001 and of their performance for the year ended on that date; and
 - ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements.

KPMG

Gary Savage

Partner

Adelaide, 13 September 2001

ASX ADDITIONAL INFORMATION

Hills Industries Limited and its Controlled Entities

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

Analysis of Shareholdings as at 30 August 2001

Size of Holdings	No of Shareholders
1 – 1,000	1,724
1,001 – 5,000	3,502
5,001 – 10,000	1,000
10,001 – 100,000	886
100,001 – and over	55

The number of shareholders holding less than a marketable parcel of shares at 30 August 2001 was 145.

Twenty Largest Shareholders as at 30 August 2001

	No of Shares Held	Percentage
Poplar Pty Limited	13,393,209	11.11
JP Morgan Custodial Services Pty Ltd	12,049,117	10.00
Hills Associates Limited	9,244,402	7.67
RBC Global Services Australia Nominees Pty Ltd (PI Pooled A/c)	6,954,564	5.77
National Nominees Limited	5,800,432	4.81
Chase Manhattan Nominees Ltd	5,509,520	4.57
Jacaranda Pastoral Pty Ltd	5,137,554	4.26
Argo Investments Ltd	2,750,730	2.28
Australian Foundation Investment Company Limited	2,180,771	1.81
Perpetual Trustees Nominees Limited	1,723,360	1.43
Colleen Sims Nominees Pty Ltd	1,690,049	1.40
Cogent Nominees Pty Ltd	1,560,147	1.29
Donald Cant Pty Ltd	1,444,378	1.20
RBC Global Services Australia Nominees Pty Ltd (PIIC A/c)	1,215,535	1.01
Westpac Custodian Nominees Limited	844,081	0.70
Whitefield Limited	784,190	0.65
Hills Associates Limited & Poplar Pty Limited	694,424	0.58
Perpetual Trustees Victoria Limited	614,995	0.51
Mirrabooka Investments Limited	600,000	0.50
Bounty Investments Limited	585,332	0.49

The twenty largest shareholders held 74,776,790 shares equal to 62.04% of the total issued 120,546,050 shares.

Substantial Shareholders

The number of shares held by the substantial shareholders as listed in the Company's register of substantial shareholders as at 30 August 2001 were:

	No of Shares Held
Perpetual Trustees Australia Limited	17,568,058
Argo Investments Limited	16,042,362
Poplar Pty Limited	13,910,564
BT Australia Limited	11,240,962
Maple Brown Abbott Ltd	6,600,887

Office and Officers

Share Registry

Computershare Investor Services Pty Limited

Level 5, 115 Grenfell Street

Adelaide SA 5000

Telephone (within Australia): 1300 556 161

Telephone (outside Australia): +61 3 9615 5970

Facsimile: (08) 8236 2305

Internet address: www.computershare.com

Registered Office

944-956 South Road

Edwardstown SA 5039

Telephone: (08) 8301 3200

Facsimile: (08) 8297 4468

Internet address: www.hills.com.au

Company Secretary

Mr Graham L Twartz

Voting Rights

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

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

Stock Exchange

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

Direct Payment to Shareholders' Accounts

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

Shareholder Enquiries / Change of Address

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



FINANCIAL CALENDAR

Final Dividend:

Books close 7 September 2001

Dividend paid 28 September 2001

Annual General Meeting 9 November 2001

Half Year Result announced February 2002

Interim Dividend:

Books close late March 2002

Dividend paid April 2002

Annual General Meeting:

The 44th Annual General Meeting of Hills Industries Limited will be held at Australian Mineral Foundation, 63 Conyngham Street, Glenside, SA 5065 on Friday, November 9, 2001 at 2.30pm.

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

Auditors:

KPMG

Bankers:

ANZ Banking Group Limited

National Australia Bank Limited

Westpac Banking Corporation



Hills Industries Limited

ABN 35 007 573 417