



**Enhancing shareholder value through diversification.**

**2005 Full Annual Report**

# The Hills Group

## Building and Industrial



KORVEST LTD

## Electronic Security and Entertainment



Pacific Communications  
CLOSED CIRCUIT VIDEO SYSTEMS



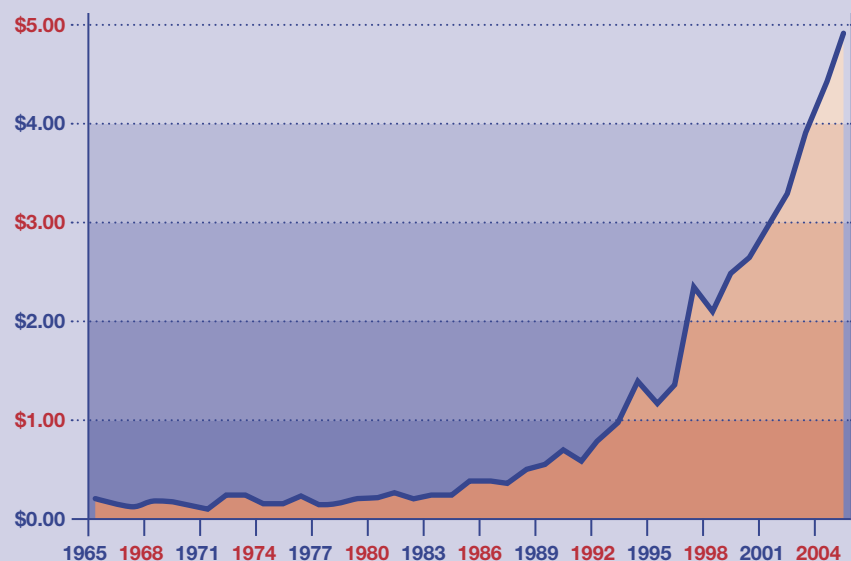
## Home and Hardware

## Table of Contents

The End of an Era	02
Overview of 2005	04
4 Year Summary	06
Group Profile	07
Board of Directors	08
Electronic Security and Entertainment	10
Home and Hardware	12
Building and Industrial	14

Directors' Report	17
Corporate Governance Statement	25
Statement of Financial Performance	28
Statement of Financial Position	29
Statement of Cash Flows	30
Notes to the Financial Statements	31
Directors' Declaration	87
Independent Audit Report	88
ASX Additional Information	89
Shareholder Information	90

## Share price growth with Bob Hill-Ling as Chairman



## The End of an Era



## The story of one man, who oversaw the evolution of Hills Industries from the backyard to one of Australia's top 200 companies.

Bob Hill-Ling was the first Cadet Engineer at Hills. He joined the Company in 1952, gaining his engineering degree from Adelaide University in 1957.

When Bob joined the Board of Hills Industries Limited in 1958 (which had first listed on the Stock Exchange earlier that year) the Company's sales were dominated by clotheslines. Seven years later in November 1965 at the age of 32, Bob became Chairman and Managing Director of Hills.

In that year turnover exceeded \$10 million for the first time, the net profit was just over \$300,000 and the market capitalisation was a little more than \$3 million.

Sales are now in excess of \$800 million, the net profit is over \$36 million and the market capitalisation is over \$750 million. This growth has been achieved while keeping debt to a modest level and continuing to pay high dividends to shareholders.

Under Bob's leadership as Managing Director and Chairman over 40 years the Company is now unrecognisable from the one that he joined.

Bob saw the need to move the Company into new fields so that it was not reliant on clothesline sales. By embracing new technology he was able to pioneer moves into television repair and television antennae and later into electronic security.

During Bob's years Hills has made many acquisitions and has at the same time disposed of many business operations. Some of the larger acquisitions that Bob encouraged include Bailey Ladders, Direct Alarm Supplies, Pacific Communications, Kelso Wheelbarrows, Woodroffe Industries and only recently Team Poly and Audio Telex.

Bob has always taken a fair and reasonable approach to his dealings with all stakeholders in the Company, including employees, suppliers, bankers and shareholders. His simple view has always been that the Company should act in the best interests of the majority.

While Hills has grown and diversified over those 40 years, Bob has always ensured that the doctrine of commonsense has applied.

In 1981 Bob was awarded an Officer of the Order of Australia for his services to Industry, recognising his long and valuable contribution. For many years Bob represented Hills on a number of Boards including Korvest, Radio Frequency Systems, the Australian Industry Group and the Engineering Employers Association of South Australia. He has always been a champion of employee share ownership firstly through the unique vehicle of Hills Associates, but also through wide spread Employee Share Plans. Well over 75% of Hills employees are now shareholders in Hills.

In November 1992, after 27 years as Managing Director, Bob handed the role of Managing Director over to David Simmons and became the non-executive Chairman.

When Bob hands over the Chairmanship of Hills to his daughter Jennifer Hill-Ling following the AGM in October, she will be continuing the family involvement in the Company since its inception.

More than anyone before him, Bob has left an indelible mark on Hills and its people. His contribution at Board level and his involvement with the business operations will be missed.

We welcome Jennifer Hill-Ling to the role of Chairman as the Company enters into the next chapter of its development.

### Key to photographs

- |                              |                                   |
|------------------------------|-----------------------------------|
| 1. 1957                      | 4. 1984 AGM                       |
| 2. Today                     | 5. Hill's 50th Anniversary (1995) |
| 3. Bob's first board meeting | 6. Jennifer and Bob Hill-Ling     |

# Overview of 2005

## Overview

The year was highlighted by three strategic acquisitions in the second half being the remaining 50% of Orrcon which Hills did not own, 75% of Team Poly and 100% of Audio Telex and Crestron Control Solutions. Earlier in the year the business of Access Television Services was also acquired.

These acquisitions were funded by equity issues to shareholders and to institutional investors.

As part of our continual review of operations the Triton DIY woodworking business was sold in June 2005.

Our operating businesses continue to generate good cash flows. Our Balance Sheet remains conservative, within our target gearing levels and has the capacity to fund further acquisitions.

## Group Strategy

Our strategy is to develop competitive businesses in three main industry segments being Electronic Security and Entertainment, Building and Industrial Products and Home and Hardware Products. 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.

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

## Trading Conditions

Trading conditions in the year under review were favourable in Australia and New Zealand. Commercial building activity and consumer confidence were strong which translated into reasonable results in all but the Home and Hardware Products division which experienced difficult trading conditions.

Further information on each division is contained later in this report.

## Dividends

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

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

As a result of this policy shareholders have received a total of 24 cents per share fully franked dividends in respect of the year ended June 2005. Earnings per share for the same period were 23.5 cents. At balance date the debt to equity ratio stood at 27.1%.

## HILLS GROUP ACHIEVES 13TH CONSECUTIVE RECORD PROFIT

**The Hills Industries Group achieved a group profit after tax attributable to Hills shareholders of \$36.217 million. This was an increase of 16.4% over the previous year and represents the 13th consecutive year of record profits for the group.**

### Hills People

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

This year we welcomed a number of new employees as a result of the acquisitions. Without doubt the passion and commitment of each of our employees are the main reasons for our continuing improved results.

### Shareholders

The number of shareholders in the Company continued to grow during the year from just under 18,000 to in excess of 20,000. The Hills share price has recently reached record levels although some volatility was experienced during the year.

We continue to offer our dividend reinvestment plans to shareholders at discount levels that the directors feel are attractive for reinvestment. We also continued our practice of ensuring that the maximum number of employees participate in our employee share scheme. We believe that widespread share ownership by our employees has many positive benefits for the employees, the Company and you as shareholders.

### Likely Developments

The Australian and New Zealand economies have experienced strong growth over the past few years. Generally it is felt that economic conditions will remain favourable over the next year notwithstanding some slow down in domestic building activity in Australia.

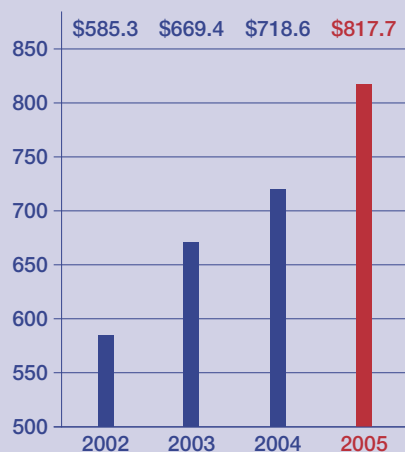
The advantage of Hills strategy of diversification is that changes in a single economic variable such as exchange rates or commodity prices do not influence all of our divisions in the same way at the same time.

We are expecting some moderation in steel prices which will provide some respite for Australian manufacturers. Overall your Directors anticipate an acceptable improved profit result for the year ended 30th June 2006.

# 4 Year Summary

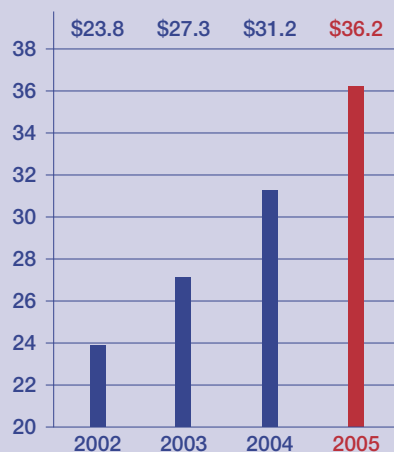
## Total revenue\*

Amount in \$ millions



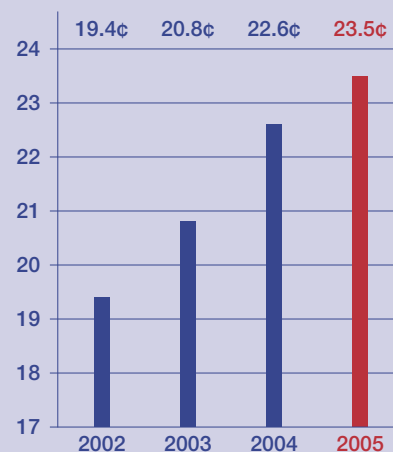
## Net profit attributable to members\*

Amount in \$ millions



## Earnings per share\*

Amount in cents



\*Excluding individually significant items.

	2002	2003	2004	2005
Total revenue (\$'000)	585,308	669,410 •	718,666 •	817,784 •
Operating profit attributable to members (\$'000)	23,864	27,315 •	31,260 •	36,213 •
Net profit after tax and before outside equity interest (\$'000)	26,433	31,988	38,232	42,459
Depreciation and amortisation (\$'000)	13,727	18,042	19,723	20,904
Net borrowing costs (\$'000)	4,291	4,348	4,539	3,308
Shareholders' equity (\$'000)	136,100	175,869	199,516	296,345
Operating profit attributable to members				
– as a % of shareholders' equity	17.5 %	15.5 % •	15.7 % •	12.2 % •
Net profit after tax and before outside equity interests				
– as a % of total revenue	4.5 %	4.8 % •	5.3 % •	5.2 % •
Earnings per share (cents)	19.4	20.8 •	22.6 •	23.5 •
Dividends per share (cents) ♦	20.0	21.0	22.5	24.0
Employees at year end	2,314	2,420	2,666	2,694
Shareholders at year end	9,915	14,263	17,125	20,270

• Excluding individually significant items

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



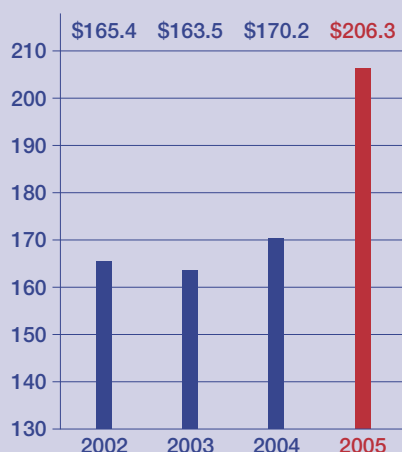
# Group Profile

## Electronic Security and Entertainment

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

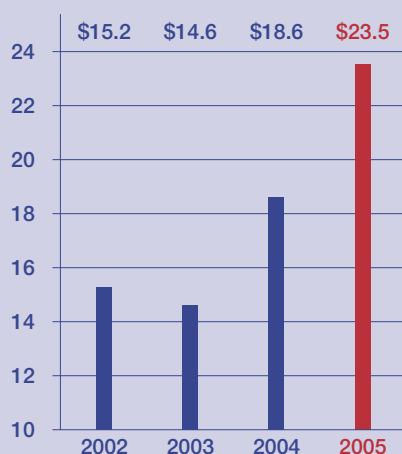
### Revenue

Amount in \$ million



### EBIT\*

Amount in \$ million

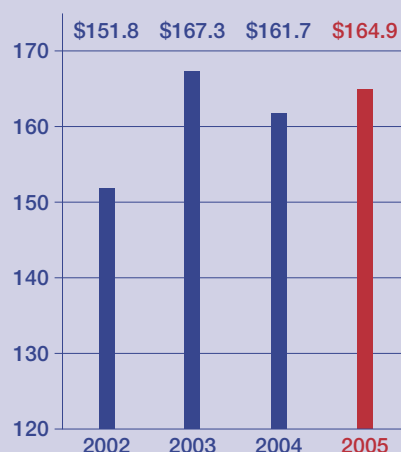


## Home and Hardware

- Ladders
- Ironing boards
- Laundry trolleys
- Outdoor clothes dryers
- Security doors
- Playtime equipment
- Garden sprayers
- Wheelbarrows
- Rehabilitation and mobility products
- Water storage solutions

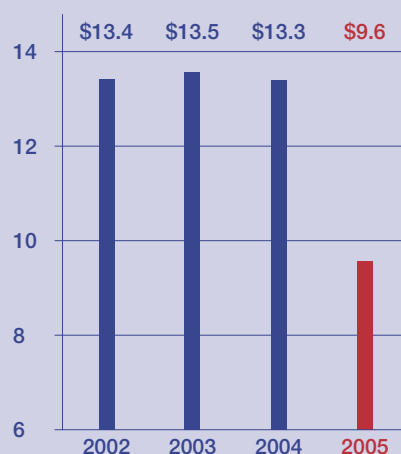
### Revenue

Amount in \$ million



### EBIT\*

Amount in \$ million

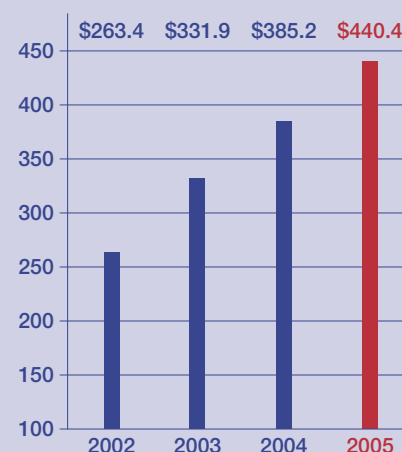


## Building and Industrial

- Structural, precision and large steel tubing
- Metal roofing, flooring and fencing
- Carports and shed systems
- Cable and pipe support systems
- Stainless steel products
- Steel door frames
- Hot-dip galvanising
- Precision metal cabinets

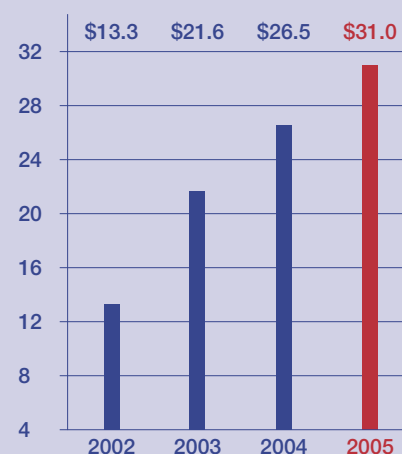
### Revenue

Amount in \$ million



### EBIT\*

Amount in \$ million



\*EBIT – Earnings before interest and tax

## Board of Directors



**Robert Donald Hill-Ling**  
AO FIE(Aust) FAICD CPEng

Chairman - Non-Executive Director

Age 72. Joined the Company in 1952. Director since June 1958. Managing Director November 1965 to December 1992. Appointed Chairman in December 1966.

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

Director of Argo Investments Limited.



**Jennifer Helen Hill-Ling**  
LLB(Adel)

Deputy Chairman - Non-Executive Director

Age 43. Appointed Director in August 1985. Appointed Deputy Chairman in June 2004.



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

Managing Director

Age 51. Joined the Company in 1984. Appointed Finance Director in July 1987. Appointed Managing Director in December 1992.

Chairman of Korvest Ltd, Fielders Australia Pty Ltd and Orrcon Limited.



**Ian Elliot**  
GAICD

Independent Non-Executive Director

Age 51. Appointed Director in August 2003.

Chairman of Zenith Media Pty Ltd, Promentum Limited, Allied Brands Limited and is a Director of Salmat Limited.



**Roger Baden Flynn**

BEng(Hons) MBA FIE(Aust)

Independent Non-Executive Director

Age 55. Appointed Director in November 1999.

Non-Executive Director of Coventry Group Limited.

Previously Managing Director of ION Limited, Non-Executive Director of Wattyl Limited and Director of Longreach Group Limited.



**Geoffrey Guild Hill**

F CPA FAICD ASIA

BEcon(Syd) MBA(NSW)

Independent Non-Executive Director

Age 59. Appointed Director in February 1999.

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

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

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



**Peter William Stancliffe**

BE(Civil) FAICD

Independent Non-Executive Director

Age 57. Appointed Director in August 2003.

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

Chairman of Victorian Regional Executives Group. Chairman of Deck Guardrail Australia Pty Ltd. Chairman of Xtract Technologies Limited.



**Graham Lloyd Twartz**

BA(Adel) DipAcc(Flinders)

Finance Director

Age 48. Joined the Company in 1993. Appointed Director in July 1993.

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

# Electronic Security and Entertainment



**The Electronic Security and Entertainment segment comprises Hills Electronic Security, Hills Antenna & TV Systems, Audio Telex Communications, Crestron Control Solutions and Access Television Services. Revenue of \$206.3 million was 21.2% higher than the previous year. EBIT of \$23.5 million was 26.5% higher than 2004.**

### **Hills Electronic Security**

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

The improved results in this division were underpinned by our success in winning a number of significant commercial contracts. These contracts generally provide for the roll out or upgrade of access control and closed circuit television systems to businesses with a national presence. Conversely demand for domestic security systems was subdued as it has been for some years.

The Hills Technology Solutions Group aims to bring together all of the Hills products as a single bundled offer to architects, builders and developers of properties. This group was instrumental in securing a number of important projects spanning products from different business units within Hills during the year.

The innovative and affordable Hills Home Hub gained further market share during the year. We have continued to improve and enhance our product offering in this market segment.

### **Access Television Services**

Access Television Services (ATS) is the major supplier of installation services to Austar Entertainment, the leading provider of subscription TV in rural and regional Australia.

In November 2004 ATS was successful in renewing the installation contract with Austar to provide services for a further 3 years. Following the renewal of this contract Hills acquired the shares in ATS which has performed in line with our expectations.

### **Hills Antenna & TV Systems**

This business unit provides a full range of reception and distribution equipment for subscription television, free to air television and wireless voice and data markets. During the year we achieved further improvements in this business as a result of strong demand for subscription television products as well as the introduction of additional distributed products into our range.

Late in the year we were successful in winning the Air Services Australia contract to roll out remote surveillance of regional airports. The bulk of the sales and profit related to this project will be recorded in the 2006 year.

We have undertaken a significant branch refurbishment programme aimed at improving our product presentation as well as opening new convenient locations.

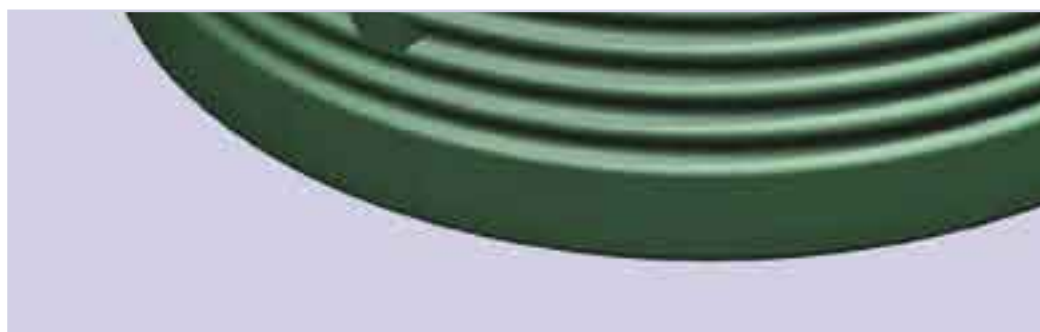
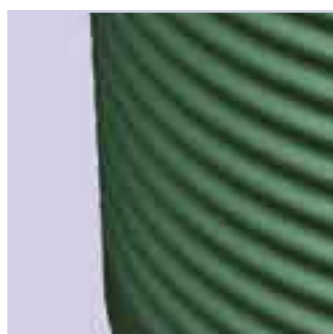
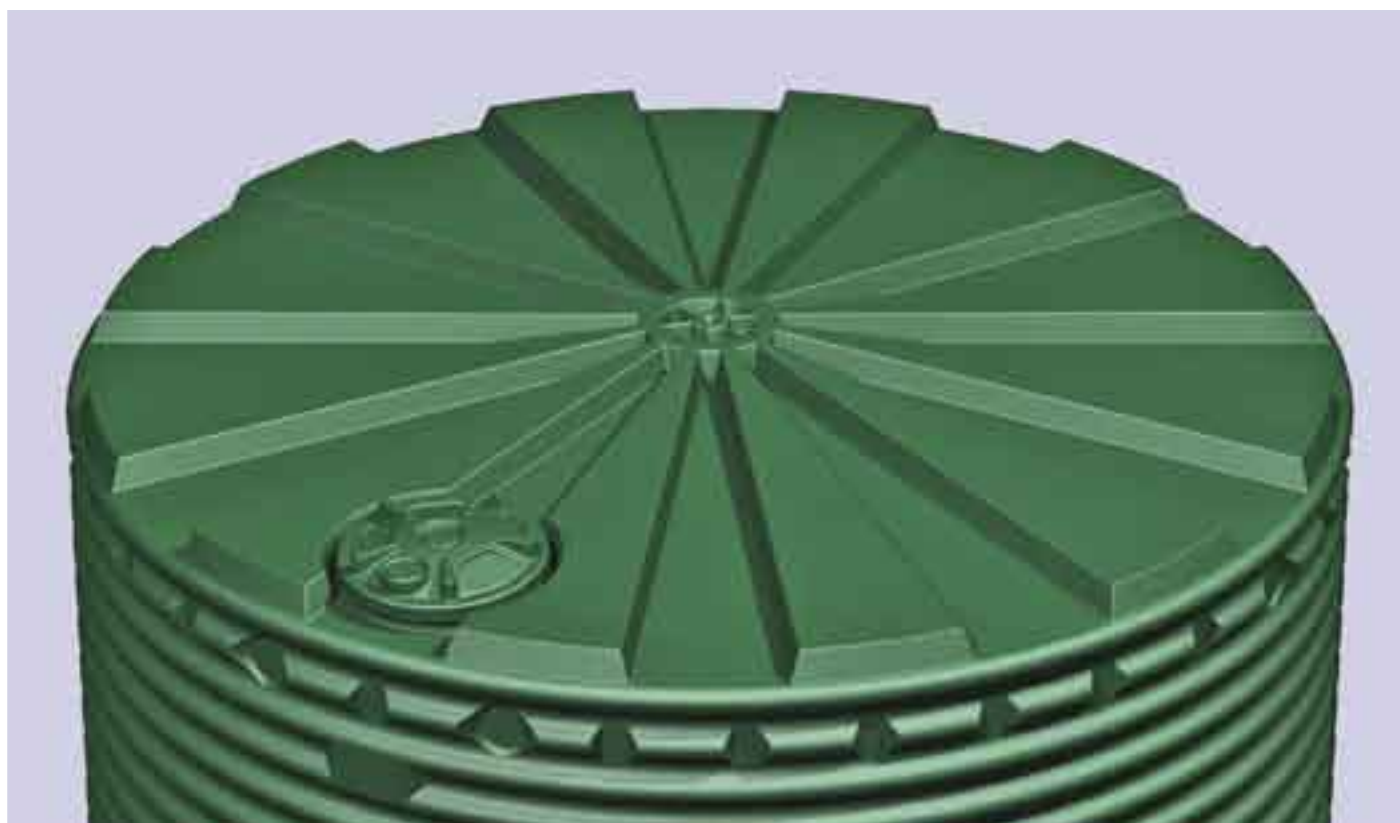
### **Audio Telex & Crestron Control Solutions**

On 1st June 2005 we acquired 100% of these two businesses. Audio Telex Communications is a leader in all segments of the professional audio market in Australia and New Zealand while Crestron Control Solutions is one of the regions leading distributors of advanced control and automation systems for integration and control of audio, video, data and the internet.

The products represented by these two companies provide important additions to the range offered by the Hills Electronic Security and Entertainment Division. We aim to build long term relationships with our suppliers who are world leaders in their markets.

The results of Audio Telex and Crestron in the first month of ownership were outstanding and we look forward to good growth in the forthcoming year.

## Home and Hardware





**The Home and Hardware segment is made up of our branded Consumer Products operations in Australia and New Zealand as well as the K•Care and Kerry Rehabilitation and Mobility businesses together with the newly acquired Team Poly rotationally moulded tank business. During the year revenue increased by 1.9% to \$164.9 million and EBIT declined by 28.6% to \$9.6 million.**

## **Team Poly**

Team Poly is involved in the manufacture of water storage tanks, chemical storage, septic and holding tanks as well as SmartBar vehicle frontal protection systems. In April 2005 Hills acquired a 75% interest in this business. Team Poly's results since acquisition have been in line with our expectations.

There is increased awareness of the long term need to store and conserve water in Australia and we have an objective to build a significant business in the water sector. Team Poly is the first step in the delivery of this strategy. We will build this business through a combination of acquisitions and organic growth so that our water business will be a significant contributor to Hills profit in the medium term.

## **K•Care and Kerry Equipment**

This business unit manufactures a range of mobility, rehabilitation and aged care products for domestic and overseas markets. The range includes hospital equipment and nursing home products such as patient lifters.

K•Care and Kerry Equipment produced results in line with our expectations and improved over the previous year. We were successful in becoming the main supplier to the Victorian Government Health Department during the year.

These businesses operate in markets with growth profiles slightly above the general economy and with the opportunity to add additional products to the range we are expecting continuing good results.

## **Hills United Kingdom**

The performance of our 50% owned subsidiary was in line with our expectations, however further improvement in operating performance is required before this business will generate an acceptable return on the funds invested.

## **Branded Products**

This business unit manufactures and distributes a range of predominantly metal based branded hardware products to consumers, trade customers and government utilities. Our market leading brands include Hills, Bailey, Oldfields Ladders and Kelso. As foreshadowed last year, we saw continuing competition from lower specification products imported into this country. In addition, significant input cost increases were encountered including steel, plastics and freight. Many of these cost increases could not be passed on in a timely fashion to our customers.

Our strategy to evolve away from reliance on Australian manufactured goods to products made to our design overseas continued during the year. We improved our market share in outdoor drying and ladders as a result of these strategies.

We have announced a review of the operations at the Edwardstown manufacturing plant and have now determined that certain products will be made offshore. We have undertaken a review of the equipment and personnel employed and have made a \$2.3 million provision for impairment of assets and other restructuring costs associated with this review. This item is included as an individually significant item during the year.

Late in the year we announced the sale of our Triton DIY Woodworking business to GMC, an Australian based power tool specialist. Triton has been an excellent business for Hills since we acquired it. However, as our growth strategies took us further into the power tool market we increasingly found ourselves competing against much larger players with critical mass which we could not match. We took the view that it was in the best interest of the business to dispose of the assets to GMC.

As a result of this sale we booked an individually significant profit of \$2.306 million being the profit on the sale of the business.

We will maintain the strength of our brands and invest in innovation, research and development. Speed to market for new products is a critical determination of a long term success.

## Building and Industrial





**The Building and Industrial segment consists of Orrcon, Korvest, Fielders and Woodroffe Equipment. Revenues improved by 16.3% to \$440.4 million and EBIT improved by 22.7% to \$31.0 million.**

## **Orrcon**

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

In February 2005 Hills acquired the remaining 50% of Orrcon which it did not already own from Silvio Pradella the previous Managing Director. Orrcon has achieved good sales and profit growth since it was formed by a merger of Hills Tubing and Welded Tube Mills in the year 2000. Orrcon is set to build on this track record of growth over the next few years.

As we have relatively small market shares in the structural, fluids and engineering sectors further growth opportunities are anticipated.

During the year we experienced significant price increases in our most important raw material, steel coil. Generally we were able to recover these increases in the market place. In the first half we experienced some supply difficulties with our major supplier. As a result of these difficulties we have adopted a strategy to increase our imports of steel in future.

The results of the Large Pipe and Tube Mill located in Wollongong were below our expectations. A complete review of the engineering requirements to meet our objectives has been completed which will result in some further capital expenditure to improve the results in the medium term.

## **Korvest**

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

Hills holds 47% of the shares in Korvest. Korvest's results continued to improve on the back of Ezy-Strut increasing its market share across Australia and New Zealand. During the year we were pleased to announce the appointment of Ric Gros to the position of Managing Director upon the retirement of Peter Brodribb from that role. Peter's enormous contribution to the results by Korvest over many years is especially appreciated by the Hills Board.

## **Fielders**

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

Fielders achieved improved results this year as it consolidated the launch of Centenary Carports which occurred in the previous year. In addition, new branches were opened providing improved access to our products for customers.

We continued with the development of our patented angle cut technology which gives us the opportunity to provide a unique solution to our roofing customers to significantly reduce the amount of labour required on site to install a steel roof. The launch of the Endurance Sheds business was delayed as we ensured that our product offering completely met market needs.

## **Woodroffe Equipment**

This business unit manufactures and distributes a range of metal products specialising in stainless steel fabrication. It also operates in the food services equipment market. After several years of difficult trading conditions, Woodroffe has successfully introduced a new range of stainless steel products into the market and now relies less on contract manufacturing.

As a result Woodroffe Equipment produced improved results in the year and has established a good base for further improvements in 2006.

# Full Financial Report

For the year ended 30 June 2005. Hills Industries Limited and its Controlled Entities.

The Full Financial Report includes the following:

	<b>Page(s)</b>
Directors' Report	17 - 24
Corporate Governance Statement	25 - 27
Statement of Financial Performance	28
Statement of Financial Position	29
Statement of Cash Flows	30
Notes to the Financial Statements	31 - 86
Directors' Declaration	87
Independent Audit Report	88
ASX Additional Information	89
Shareholder Information	90

# Directors' Report

For the year ended 30 June 2005. Hills Industries Limited and its Controlled Entities

The directors present their report together with the financial report of Hills Industries Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2005 and the auditor's report thereon.

## Directors

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

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

Age 72. Joined the Company in 1952. Director since June 1958. Managing Director November 1965 to December 1992. Appointed Chairman in December 1966.

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

Director of Argo Investments Limited.

Bob Hill-Ling has been a director of Hills Industries for 47 years and Chairman for 39 years. Over this time, he has gained considerable experience in the consumer products industry in Australia, along with the other sectors within which the Group operates. He has previously held many directorships including Chairman of Bedford Industries Inc and Deputy Chairman of the Carrick Hill Trust. Mr Hill-Ling has a background in engineering, is a councillor of the Australian Industry Group and has been past president of the Engineering Employers Association of South Australia.

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

Age 43. Appointed Director in August 1985. Appointed Deputy Chairman in June 2004.

Jennifer Hill-Ling has extensive experience in corporate and commercial law. She specialises in corporate and business structuring, mergers and acquisitions, joint ventures and related commercial transactions. She has practiced in the law for some 21 years and is currently a consultant to Sydney law firm Blessington Judd. Ms Hill-Ling has previously served on the Company's Audit Committee and Remuneration Committee.

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

Age 51. Joined the Company in 1984. Appointed Finance Director in July 1987. Appointed Managing Director in December 1992.

Chairman of Korvest Limited, Fielders Australia Pty Ltd and Orrcon Limited.

David Simmons is the Group Managing Director and is responsible for group operations, including business strategy and acquisitions. Mr Simmons has extensive financial and general management experience and is a member of the SA Government Economic Development Board.

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

Age 51. Appointed Director in August 2003.

Chairman of Zenith Media Pty Ltd, Promentum Limited, Allied Brands Limited and is a Director of Salmat Limited.

Ian Elliot has spent 31 years in marketing. His speciality is brand building, with extensive involvement in a number of icon brands. Mr Elliot is a fellow of the AICD and graduate of the Harvard Business School Advanced Management Program.

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

Age 55. Appointed Director in November 1999.

Non-Executive Director of Coventry Group Limited.

Previously Managing Director of ION Limited, Non-Executive Director of Wattyl Limited and Director of Longreach Group Limited.

Roger Flynn has 38 years experience working in a range of technical and commercial roles in manufacturing and distribution industries in Australia and the United States, as well as 30 years of Board experience in ASX listed companies.

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

Age 59. Appointed Director in February 1999.

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

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

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

Geoffrey Hill is a merchant banker with over 31 years experience in the securities industry. He has worked both in Europe and the United States and has managed merchant banks in Australia since 1989. Mr Hill specialises in mergers and acquisitions and corporate reconstructions and has been active in the South Australian corporate field since 1979.

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

Age 57. Appointed Director in August 2003.

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

Chairman of Victorian Regional Executives Group. Chairman of Deck Guardrail Australia Pty Ltd. Chairman of Xtract Technologies Limited.

Peter Stancliffe has over 36 years experience in the management of large industrial companies both in Australia and overseas and has held various senior management positions, including Chief Executive Officer. He has extensive experience in strategy development and a detailed knowledge of modern company management practices. Mr Stancliffe is a graduate of the MIT Senior Management Program and the AICD Company Directors' Course.

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

Age 48. Joined the Company in 1993. Appointed Director in July 1993.

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

Graham Twartz is the Finance Director and Company Secretary and has over 21 years experience in his field. Mr Twartz held senior management positions in diversified companies before joining Hills in 1993.

# Directors' Report

For the year ended 30 June 2005. Hills Industries Limited and its Controlled Entities

## Directors' Meetings

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

	Board Meetings		Audit and Compliance Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
Director	Attended	Held*	Attended	Held*	Attended	Held*	Attended	Held*
RD Hill-Ling	13	13	5	5	2	2	1	1
JH Hill-Ling	13	13						
DJ Simmons	13	13			1	2		
I Elliot	10	13						
RB Flynn	11	13	3	3				
GG Hill	11	13	3	5	2	2	1	1
PW Stancliffe	12	13	3	3	2	2	1	1
GL Twartz	12	13						

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

## Consolidated Result

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

	2005	2004
	\$'000	\$'000
Profit from ordinary activities after related income tax expense	<b>42,463</b>	37,989
Net profit attributable to outside equity interests	<b>6,246</b>	6,875
Net profit attributable to members of the Company	<b>36,217</b>	31,114

## Principal Activities

The principal activities of the consolidated entity during the financial year were the manufacture and / or distribution of communications related products and services, domestic and commercial antennas, master antenna television systems, communications antennas, satellite dishes, amplifiers, audio amplifiers and mixers, speakers, paging systems, electronic security systems, closed circuit television systems, home and office automation and control systems, fibre optic transmission solutions, outdoor clothes driers, ladders, ironing boards, laundry trolleys, security doors, playtime equipment, garden sprayers, wheelbarrows, rehabilitation and mobility products, structural, precision and large steel tubing, hot-dip galvanising, precision metal cabinets, stainless steel products, steel door frames, roll-formed metal building products, carports and shed systems and cable and pipe support systems. Acquisitions during the year resulted in the expansion of principal activities to include the provision of installation services for subscription television, the manufacture of rotationally moulded water tanks and the distribution of professional audio and domestic and commercial control systems. Refer note 18 (c).

During the year the consolidated entity sold its Triton business to GMC, an Australian based power tool specialist. Refer note 18(d) for further information.

## Review and Results of Operations

The results of operations have been reviewed under the *Overview of 2005* (pages 4 to 5), *4 Year Summary* (page 6), *Group Profile* (page 7), *Electronic Security and Entertainment* (pages 10 to 11), *Home and Hardware* (pages 12 to 13) and *Building and industrial* (pages 14 to 15).

# Directors' Report

For the year ended 30 June 2005. Hills Industries Limited and its Controlled Entities

## Dividends

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

Type	Cents per share	Amount \$'000	Date of payment
As proposed in last year's report:			
- final – ordinary	11.5	16,105	27 September 2004
In respect of the current financial year:			
<i>Relating to previous year</i>			
- final dividend forgone for Share Investment Plan		(3,456)	
<i>Declared and paid during the year</i>			
- interim – ordinary	12.0	19,577	29 March 2005
- interim dividend forgone for Share Investment Plan		(3,097)	
<i>Declared after end of year</i>			
- final – ordinary	12.0	19,823	26 September 2005
		48,952	

### Note

Dealt with in the financial report as:

- dividends	15	29,129
- noted as a subsequent event	15	19,823
		48,952

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

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

- the debt to equity ratio remains around or below 45% taking into account the funding needed to finance growth (this ratio was 27.1% at 30 June 2005);
- no changes in the law in connection with the distribution of accumulated franking credits; and
- continued profitability at an acceptable level.

# Directors' Report

For the year ended 30 June 2005. Hills Industries Limited and its Controlled Entities

## State of Affairs

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

During the year, the consolidated entity acquired three entities and increased control in one other entity. The three acquisitions were Team Poly Pty Ltd (75% acquired), Access Television Services Group (100% acquired) and the Audio Telex Group (100% acquired). In addition the consolidated entity acquired the balance of the shares in the Orrcon Group and now holds 100% of the shareholding in that group (2004 – 50%). The consolidated entity paid \$1.7 million deferred payment in respect of the acquisition of the K-Care Group acquired in 2003. These acquisitions and deferred payment resulted in a net cash outflow of \$87.020 million. Refer note 18 (c) for further information.

The consolidated entity disposed of the Triton business as its performance had deteriorated over recent years and in the current year had become a loss making operation. The profit on disposal of \$2.306 million has been recognised as individually significant. Refer Note 18(d) for further information.

During the year the Company conducted a review of the Hills Branded Products business within Home & Hardware Products. As a result of this review, it was determined that the business should be restructured to better compete with lower cost economies. As a result of the restructure of the Branded Products business, a \$2.3 million charge for impairment of assets and other restructuring costs has been booked. This item has been recognised as individually significant.

## Environmental Regulation

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

The consolidated entity is committed to achieving a high standard of environmental performance. It has established processes whereby compliance with existing environmental regulations and new regulations is monitored continually. These processes include procedures to be followed should an incident occur which adversely impacts the environment.

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

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

## Events Subsequent to Reporting Date

For reporting periods beginning on or after 1 July 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 29.

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

## Likely Developments

New home starts have reduced, however non-residential construction activity remains strong. Although housing is an important driver for a number of our business units it is by no means the major influence on our results.

With a strong new product introduction programme and the full year impact of the acquisitions made last year, we fully expect to achieve record results again for 2006.

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.

## Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by a resolution of the Audit and Compliance Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit and compliance committee to ensure they do not impact the integrity and objectivity of the auditor.
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is included in the directors' report.

## Directors' Report

For the year ended 30 June 2005. Hills Industries Limited and its Controlled Entities

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

	<b>Consolidated</b>	
	<b>2005</b>	2004
	<b>\$</b>	\$
<b>Statutory audit</b>		
Auditors of the Company		
- audit and review of financial reports (KPMG Australia)	<b>199,348</b>	185,940
- audit and review of financial reports (KPMG Overseas)	<b>98,850</b>	91,631
	<b>298,198</b>	277,571
Other auditors	<b>79,687</b>	52,500
	<b>377,885</b>	330,071
<b>Services other than statutory audit</b>		
- taxation compliance services (KPMG Australia)	<b>79,979</b>	263,196
- taxation compliance services (KPMG Overseas)	<b>57,038</b>	61,781
- taxation compliance services other auditors	<b>55,985</b>	-
	<b>193,002</b>	324,977

### Lead Auditor's independence declaration under Section 307C of the Corporations Act 2001

To the directors of Hills Industries Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005 there have been:

- No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- No contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

**Gary Savage**

Partner

Dated at Adelaide, 13 September 2005



# Directors' Report

For the year ended 30 June 2005. Hills Industries Limited and its Controlled Entities

## Remuneration Report

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 that remuneration packaging properly reflects the person's duties and responsibilities, level of performance and 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 agreed outcomes relating to the performance of the consolidated entity (including operational results). Bonuses earned are measured on a number of factors, the most common of which is based on the achievement of the EBIT results of the relevant business. EBIT is the chosen determinant upon which to measure bonus payments, as it is indicative of the businesses financial achievement, which has a direct correlation to shareholder value and successful operational business performance.

Shares issued to executive directors and senior executives are a result of the Employee Share Bonus Plan under which shares are issued to all employees with more than a nominated period of service. Options issued to executive directors and senior executives are a result of the Executive Share Plan. Non-executive directors do not receive any performance related remuneration.

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

The remuneration structures take into account:

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

The executive directors and specified executives receive performance-based remuneration, other than MI Canny, AR Oliver and PJ Mellino who receive bonus incentives based on a percentage of divisional EBIT. SP Pradella received a bonus based on achieving certain performance outcomes, including both financial and operational targets. The bonuses received by DJ Simmons and GL Twartz are discretionary, decided by the Remuneration Committee annually and based on a wide range of factors including the financial performance of the Company.

The executive directors and specified executives are not currently entitled to contractual termination payments other than those generally applicable to all staff.

Options are issued under the Executive Share Plan, to executive directors, made in accordance with thresholds approved by shareholders at the AGM. The plan provides for 17 executives (14 executives in 2004) to receive options over ordinary shares for no consideration. The ability to exercise the options is conditional on the Company achieving certain performance outcomes. Non-executive directors do not receive any options.

Executive directors and specified executives who acquire shares through the exercise of options are provided with interest free loans by the Company in accordance with the rules of the Executive Share Plan approved by the Shareholders.

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

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

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



# Directors' Report

For the year ended 30 June 2005. Hills Industries Limited and its Controlled Entities

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:

Directors			PRIMARY			Post-employment		Equity compensation		Other	Total	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
			Salary and fees	STI cash bonuses	Non-monetary benefits	Super-annuation benefits		Value of options	Shares	Termination benefits			
			\$	\$	\$	\$		\$	\$	\$	\$		
<i>Non-executive</i>													
<b>RD Hill-Ling</b> (Chairperson)	2005		88,334	0	0	7,950		0	0	0	96,284	0.00%	0.00%
	2004		81,250	0	0	7,200		0	0	0	88,450	0.00%	0.00%
<b>JH Hill-Ling</b>	2005		66,666	0	0	6,000		0	0	0	72,666	0.00%	0.00%
	2004		56,050	0	0	4,500		0	0	0	60,550	0.00%	0.00%
<b>I Elliot</b>	2005		58,332	0	0	5,250		0	0	0	63,582	0.00%	0.00%
	2004		50,000	0	0	4,500		0	0	0	54,500	0.00%	0.00%
<b>RB Flynn</b>	2005		64,491	0	0	0		0	0	0	64,491	0.00%	0.00%
	2004		59,950	0	0	0		0	0	0	59,950	0.00%	0.00%
<b>GG Hill</b>	2005		58,332	0	0	5,250		0	0	0	63,582	0.00%	0.00%
	2004		50,000	0	0	4,500		0	0	0	54,500	0.00%	0.00%
<b>PW Stancliffe</b>	2005		64,583	0	0	5,812		0	0	0	70,395	0.00%	0.00%
	2004		50,000	0	0	4,500		0	0	0	54,500	0.00%	0.00%
<i>Executive</i>													
<b>DJ Simmons</b> (Managing Director)	2005		278,950	173,800	17,447	31,312		18,968	1,000	0	521,477	33.33%	3.64%
	2004		248,537	110,750	30,961	19,866		16,688	1,000	0	427,802	25.89%	3.90%
<b>GL Twartz</b> (Finance Director)	2005		262,665	26,000	32,895	29,977		14,226	1,000	0	366,763	7.09%	3.88%
	2004		250,555	14,400	39,371	22,550		12,516	1,000	0	340,392	4.23%	3.68%
<b>Total all specified directors</b>	2005		942,353	199,800	50,342	91,551		33,194	2,000	0	1,319,240		
	2004		846,342	125,150	70,332	67,616		29,204	2,000	0	1,140,644		
<b>Executives</b>													
<i>The Company - Hills Industries Limited</i>													
<b>MI Canny</b> Group General Manager - Home & Hardware Products	2005		165,602	67,824	10,800	20,794		14,226	1,000	0	280,246	24.20%	5.08%
	2004		158,686	146,200	15,038	14,282		12,516	1,000	0	347,722	42.05%	3.60%
<b>AR Oliver</b> Group General Manager - Antenna & TV Systems	2005		174,462	151,568	21,500	25,663		10,670	1,000	0	384,863	39.38%	2.77%
	2004		174,462	118,234	27,976	15,702		9,387	1,000	0	346,761	34.10%	2.71%
<b>PJ Mellino</b> Group General Manager - Hills Electronic Security	2005		123,902	127,130	0	11,151		4,742	1,000	0	267,925	47.45%	1.77%
	2004		131,902	129,662	2,252	11,871		4,172	1,000	0	280,859	46.17%	1.49%
<b>R Meachem</b> General Manager - DAS	2005		140,375	74,273	0	9,437		2,371	1,000	0	227,456	32.65%	1.04%
	2004		137,863	80,620	0	9,287		2,086	1,000	0	230,856	34.92%	0.90%
<b>A Colicchia</b> General Manager - Pacific Communications	2005		137,442	68,140	0	18,503		2,371	1,000	0	227,456	29.96%	1.04%
	2004		135,000	73,091	0	18,703		2,086	1,000	0	229,880	31.80%	0.91%
<b>Total Company specified executives</b>	2005		741,783	488,935	32,300	85,548		34,380	5,000	0	1,387,946		
	2004		737,913	547,807	45,266	69,845		30,247	5,000	0	1,436,078		
<b>Consolidated</b>													
<b>MI Canny</b> Group General Manager - Home & Hardware Products	2005		165,602	67,824	10,800	20,794		14,226	1,000	0	280,246	24.20%	5.08%
	2004		158,686	146,200	15,038	14,282		12,516	1,000	0	347,722	42.05%	3.60%
<b>AR Oliver</b> Group General Manager - Antenna & TV Systems	2005		174,462	151,568	21,500	25,663		10,670	1,000	0	384,863	39.38%	2.77%
	2004		174,462	118,234	27,976	15,702		9,387	1,000	0	346,761	34.10%	2.71%
<b>DM Salvaterra</b> General Manager - Ezy Strut	2005		110,105	257,519	0	25,121		0	1,000	0	393,745	65.40%	0.00%
	2004		103,408	191,526	19,250	26,544		0	1,000	0	341,728	56.05%	0.00%
<b>SP Pradella</b> Managing Director - Oricon Holdings Pty Ltd	2005		192,195	17,452	25,510	18,868		0	0	109,391	363,416	4.80%	0.00%
	2004		193,318	41,380	22,903	17,399		0	0	0	275,000	15.05%	0.00%
<b>Former</b>													
<b>P Brodribb</b> Executive - Korvest Ltd	2005		97,924	31,910	9,625	8,813		0	500	253,225	401,997	7.94%	0.00%
	2004		146,003	74,273	19,250	9,354		0	1,000	0	249,880	29.72%	0.00%
<b>Total Consolidated specified executives</b>	2005		740,288	526,273	67,435	99,259		24,896	3,500	362,616	1,824,267		
	2004		775,877	571,613	104,417	83,281		21,903	4,000	0	1,561,091		

# Directors' Report

For the year ended 30 June 2005. Hills Industries Limited and its Controlled Entities

The options granted during the year expire on 31 January 2007 and each option entitles the holder to purchase one ordinary share in the Company. The ability to exercise the options is conditional on the consolidated entity achieving certain performance hurdles. Once exercised, the holder is restricted from selling the shares for a period of three years.

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

## Options

During or since the end of the financial year, the Company granted a total of 460,000 options over unissued ordinary shares to the following directors and to the following most highly remunerated officers of the Company as part of their remuneration:

Director	Number of Options Granted		
	Issued During Current Period	Outstanding From Prior Period	Total on Issue
DJ Simmons	80,000	80,000	160,000
GL Twartz	60,000	60,000	120,000
<b>Officer</b>			
MI Canny	60,000	60,000	120,000
AR Oliver	45,000	45,000	90,000
PJ Mellino	20,000	20,000	40,000
R Meachem	10,000	10,000	20,000
A Colicchia	10,000	10,000	20,000
Other officers	175,000	65,000	240,000
Total number of options	460,000	350,000	810,000
Exercise price	\$4.16	\$3.66	
Exercise date	31/12/2006	31/12/2005	
Expiry date	31/01/2007	31/01/2006	

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

All options expire on the earlier of their expiry date or termination of the employee's employment. In addition, the ability to exercise the options is conditional on the consolidated entity achieving certain performance hurdles. The performance hurdle requires the total of the growth in the Company share price plus the dividends paid over the two-year period before the exercise date must exceed 10% plus CPI per annum compounded.

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

## Shares Issued on Exercise of Options

During or since the end of the previous financial year, the Company issued 280,000 ordinary shares as a result of the exercise of options. The amount paid on each share was \$3.23. There are no unpaid amounts on the shares issued.

## Directors' Interests

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

Director	Hills Industries Limited		Korvest Ltd
	Ordinary Shares	Options over Ordinary Shares	Ordinary Shares
RD Hill-Ling	#16,687,151	-	73,329
JH Hill-Ling	^*13,753,078	-	-
DJ Simmons	249,288	160,000	500
I Elliot	1,000	-	-
RB Flynn	21,865	-	-
GG Hill	63,147	-	-
PW Stancliffe	9,138	-	-
GL Twartz	112,191	120,000	10,000

\* Includes 11,010,676 shares owned by Hills Associates Limited

^ Includes 893,584 shares owned by Hills Associates Limited and Poplar Pty Limited

# Includes 446,792 shares owned by Hills Associates Limited and Poplar Pty Limited

## Insurance of Directors and Officers

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

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

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

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

## Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Edwardstown this 13th day of September 2005.

Signed in accordance with a resolution of the directors:

**JH Hill-Ling**  
Director

**DJ Simmons**  
Director

# Corporate Governance Statement

Hills Industries Limited and its Controlled Entities

## Introduction

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

## ASX Principles of Good Corporate Governance

The Board has undertaken a detailed review of the ASX recommendations and determined that Hills already complied with the majority of them. Those recommendations deemed appropriate by Hills were additionally implemented during the 2005 financial year.

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

## Hills' commitment to ethical business practices

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

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

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

## Hills' commitment to good corporate governance

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

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

## Board composition

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

## Board independence

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

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

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

## The role of Chairman

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

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

The Board believes that the role of Chairman should be filled by the person most suited to the role, with the most relevant skills and experience and who adds the greatest value to the Board and to Hills. The current Chairman has announced his intention to retire from the position at the completion of the AGM in October 2005. The Board have announced that Jennifer Hill-Ling will fill the vacant position.

## Nomination Committee

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

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

# Corporate Governance Statement

Hills Industries Limited and its Controlled Entities

## Board operations

During 2005 the Board met 13 times and the directors' attendance at those meetings is set out in this Annual Report. The directors receive a comprehensive Board pack before each meeting. The Chairman and the Group Managing Director meet regularly between Board meetings. Senior executives regularly attend and present to Board and committee meetings on particular issues.

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

## Board committees

The Board reviews its governance structures, including Board committees, regularly to assess their effectiveness and efficiency.

Each committee operates in accordance with a Board approved charter. Details of committee membership and details of meetings and attendance at those meetings are set out in this Annual Report.

## Board performance

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

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

## Directors' remuneration

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

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

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

## Retirement benefits

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

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

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

The value of the directors' retirement benefits at 30 June 2005 are set out below:

- RD Hill-Ling	\$180,000
- JH Hill-Ling	\$140,000
- GG Hill	\$76,800

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

## Contracts with directors

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

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

## Indemnity and insurance of directors

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

## Hills' commitment to financial integrity

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

## Audit and Compliance Committee

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

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

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



# Corporate Governance Statement

Hills Industries Limited and its Controlled Entities

## Audit process

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

## Auditor independence

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

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

## Risk management and oversight

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

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

Hills' internal audit function is responsible for reviewing compliance with the internal control systems and operates under a Board approved charter. The Internal Audit function was outsourced during the year and has access to both the Chairman of the Audit and Compliance Committee and Chairman of the Board as and if required. The Audit and Compliance Committee oversees the operation of the internal audit function, approves its plans and reviews its work program and activities.

## Remuneration Committee

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

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

## Remuneration Report

The remuneration report is set out on pages 22 to 24 and forms part of the directors' report for the financial year ended 30 June 2005.

## Hills' commitment to its shareholders

### Market disclosure

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

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

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

### Share dealings by directors and officers

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

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

## Hills' commitment to its other stakeholders

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

### Hills' commitment to its staff

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

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

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

### Hills' commitment to the environment

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

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

### Hills' commitment to the community

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

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

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005**

		<b>Consolidated</b>		<b>The Company</b>	
	Note	<b>2005 \$'000</b>	2004 \$'000	<b>2005 \$'000</b>	2004 \$'000
Revenues from ordinary activities	2	<b>828,184</b>	725,184	<b>325,306</b>	271,795
Expenses from ordinary activities, excluding borrowing costs	2	<b>763,165</b>	665,943	<b>279,665</b>	240,253
Borrowing costs		<u><b>4,345</b></u>	<u>5,282</u>	<u><b>3,176</b></u>	<u>2,043</u>
<b>Profit from ordinary activities before related income tax expense</b>		<b>60,674</b>	53,959	<b>42,465</b>	29,499
Income tax expense relating to ordinary activities	3	<u><b>18,211</b></u>	<u>15,970</u>	<u><b>7,593</b></u>	<u>6,820</u>
<b>Profit from ordinary activities after related income tax expense</b>		<b>42,463</b>	37,989	<b>34,872</b>	22,679
Net profit attributable to outside equity interests		<u><b>6,246</b></u>	<u>6,875</u>	<u>-</u>	<u>-</u>
<b>Net profit attributable to members of the Company</b>		<u><b>36,217</b></u>	<u>31,114</u>	<u><b>34,872</b></u>	<u>22,679</u>
Non-owner transaction changes in equity:					
- Increase in asset revaluation reserve	13	-	7,064	-	3,018
- Net exchange differences relating to self-sustaining foreign operations	13	<u><b>(503)</b></u>	<u>804</u>	<u>-</u>	<u>-</u>
Total revenues, expenses and valuation adjustments attributable to members of the Company recognised directly in equity		<u><b>(503)</b></u>	<u>7,868</u>	<u>-</u>	<u>3,018</u>
<b>Total changes in equity from non-owner related transactions attributable to members of the Company</b>		<u><b>35,714</b></u>	<u>38,982</u>	<u><b>34,872</b></u>	<u>25,697</u>
Basic earnings per share	24	<b>23.5¢</b>	22.5¢		
Diluted earnings per share	24	<b>23.5¢</b>	22.5¢		
Basic earnings per share excluding individually significant items	24	<b>23.5¢</b>	22.6¢		
Diluted earnings per share excluding individually significant items	24	<b>23.5¢</b>	22.6¢		
Dividends per share in respect of the current reporting period		<b>24.0¢</b>	22.5¢		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 31 to 86.

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2005**

		<b>Consolidated</b>		<b>The Company</b>	
	Note	<b>2005</b>	2004	<b>2005</b>	2004
		<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>CURRENT ASSETS</b>					
Cash assets		<b>21,287</b>	21,835	<b>15,593</b>	6,969
Receivables	4	<b>154,188</b>	118,884	<b>152,128</b>	80,762
Inventories	5	<b>133,986</b>	89,610	<b>28,006</b>	25,154
Total current assets		<b><u>309,461</u></b>	<u>230,329</u>	<b><u>195,727</u></b>	<u>112,885</u>
<b>NON-CURRENT ASSETS</b>					
Receivables	4	<b>1,222</b>	6,399	-	6,399
Investments	6	<b>102</b>	104	<b>144,198</b>	52,964
Property, plant and equipment	7	<b>154,940</b>	155,821	<b>50,189</b>	52,341
Intangible assets	8	<b>90,760</b>	15,388	<b>17</b>	3,306
Deferred tax assets		<b>25,980</b>	20,042	<b>19,712</b>	14,617
Total non-current assets		<b><u>273,004</u></b>	<u>197,754</u>	<b><u>214,116</u></b>	<u>129,627</u>
<b>Total assets</b>		<b><u>582,465</u></b>	<u>428,083</u>	<b><u>409,843</u></b>	<u>242,512</u>
<b>CURRENT LIABILITIES</b>					
Payables	9	<b>117,495</b>	69,369	<b>63,691</b>	50,517
Interest-bearing liabilities	10	<b>10,528</b>	10,501	<b>2,695</b>	17,171
Current tax liabilities		<b>8,599</b>	9,286	<b>4,899</b>	6,917
Provisions	11	<b>29,787</b>	24,866	<b>15,780</b>	12,467
Total current liabilities		<b><u>166,409</u></b>	<u>114,022</u>	<b><u>87,065</u></b>	<u>87,072</u>
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing liabilities	10	<b>95,405</b>	74,336	<b>94,498</b>	26,498
Deferred tax liabilities		<b>1,540</b>	1,002	<b>1,302</b>	-
Provisions	11	<b>6,721</b>	4,390	<b>5,749</b>	3,700
Total non-current liabilities		<b><u>103,666</u></b>	<u>79,728</u>	<b><u>101,549</u></b>	<u>30,198</u>
<b>Total liabilities</b>		<b><u>270,075</u></b>	<u>193,750</u>	<b><u>188,614</u></b>	<u>117,270</u>
<b>Net assets</b>		<b><u>312,390</u></b>	<u>234,333</u>	<b><u>221,229</u></b>	<u>125,242</u>
<b>EQUITY</b>					
Contributed equity	12	<b>158,544</b>	68,300	<b>158,544</b>	68,300
Reserves	13	<b>31,622</b>	33,876	<b>14,344</b>	14,344
Retained profits	14	<b>106,179</b>	97,340	<b>48,341</b>	42,598
Total Company interest		<b><u>296,345</u></b>	<u>199,516</u>	<b><u>221,229</u></b>	<u>125,242</u>
Outside equity interests	16	<b>16,045</b>	34,817	-	-
<b>Total equity</b>	17	<b><u>312,390</u></b>	<u>234,333</u>	<b><u>221,229</u></b>	<u>125,242</u>

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 31 to 86.

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005**

		<b>Consolidated</b>		<b>The Company</b>	
	Note	<b>2005</b>	2004	<b>2005</b>	2004
		<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>Cash Flows from Operating Activities</b>					
Cash receipts in the course of operations		<b>894,812</b>	791,616	<b>325,792</b>	282,238
Cash payments in the course of operations		<b>(834,405)</b>	(731,275)	<b>(290,734)</b>	(257,105)
Interest received		<b>1,037</b>	791	<b>3,306</b>	2,243
Dividends received		<b>15</b>	-	<b>16,875</b>	2,525
Borrowing costs paid		<b>(3,723)</b>	(5,211)	<b>(2,692)</b>	(2,076)
Income taxes paid		<b>(25,142)</b>	(19,118)	<b>(12,853)</b>	(7,051)
<b>Net cash provided by operating activities</b>	18(b)	<b><u>32,594</u></b>	<u>36,803</u>	<b><u>39,694</u></b>	<u>20,774</u>
<b>Cash Flows from Investing Activities</b>					
Proceeds on disposal of property, plant and equipment		<b>3,024</b>	917	<b>3,160</b>	332
Payments for property, plant and equipment		<b>(20,514)</b>	(23,432)	<b>(8,794)</b>	(9,948)
Payments for investments		-	(94)	-	(94)
Payments for intangible assets		-	(370)	-	(370)
Proceeds on disposal of business operations (net of cash disposed)	18(d)	<b>10,400</b>	6,518	<b>5,000</b>	-
Payments for controlled entities (net of cash acquired)	18(c)	<b>(87,020)</b>	(3,091)	<b>(89,485)</b>	(3,091)
Payments for business operations (net of cash acquired)	18(d)	-	-	<b>(4,704)</b>	-
Loans repaid by other entities		<b>8,741</b>	492	<b>8,741</b>	-
Loans provided to other entities		-	(5,142)	<b>(65,416)</b>	(28,166)
Rent received		<b>526</b>	878	<b>1,603</b>	1,586
<b>Net cash used in investing activities</b>		<b><u>(84,843)</u></b>	<u>(23,324)</u>	<b><u>(149,895)</u></b>	<u>(39,751)</u>
<b>Cash Flows from Financing Activities</b>					
Proceeds from borrowings		<b>64,799</b>	61,539	<b>72,690</b>	30,194
Repayment of borrowings		<b>(59,645)</b>	(42,771)	-	(10,121)
Finance lease payments		<b>(624)</b>	(658)	-	-
Proceeds from issue of shares by the Company		<b>91,064</b>	8,191	<b>91,064</b>	8,191
Payments for share issue costs by the Company		<b>(820)</b>	-	<b>(820)</b>	-
Proceeds from equity contributed by outside equity interests		-	77	-	-
Dividends paid by the Company		<b>(29,129)</b>	(23,526)	<b>(29,129)</b>	(23,526)
Dividends paid to outside equity interests		<b>(18,934)</b>	(3,263)	-	-
<b>Net cash provided by / (used in) financing activities</b>		<b><u>46,711</u></b>	<u>(411)</u>	<b><u>133,805</u></b>	<u>4,738</u>
<b>Net increase / (decrease) in cash held</b>		<b>(5,538)</b>	13,068	<b>23,604</b>	(14,239)
<b>Cash at the beginning of the year</b>		<b>19,282</b>	6,297	<b>(8,011)</b>	6,228
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		<b>253</b>	(83)	-	-
<b>Cash at the end of the year</b>	18(a)	<b><u>13,997</u></b>	<u>19,282</u>	<b><u>15,593</u></b>	<u>(8,011)</u>

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 31 to 86.



**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**1 Statement of Significant Accounting Policies**

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

**(a) Basis of Preparation**

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

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

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

**(b) Principles of Consolidation**

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

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

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

**(c) Goodwill – Note 8**

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

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

**(d) Foreign Currency – Note 28(b)**

*Transactions*

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

*Translation of Controlled Foreign Entities*

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

**(e) Taxation – Note 3**

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

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

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

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

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**1 Statement of Significant Accounting Policies (continued)**

*Tax Consolidation*

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

**(f) Investments – Note 6**

*Controlled Entities*

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

*Other Entities*

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

**(g) Inventories – Note 5**

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

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

*Manufacturing Activities*

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

*Net Realisable Value*

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

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

*Acquisition*

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

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

*Revaluation*

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

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

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

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**1 Statement of Significant Accounting Policies (continued)**

*Depreciation and Amortisation*

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

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

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

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

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

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

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

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

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

**(j) Leased Assets – Note 19**

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

*Finance Leases*

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

*Operating Leases*

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

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

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

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

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**1 Statement of Significant Accounting Policies (continued)**

**(l) Provisions – Note 11**

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

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

*Provision for Outstanding Claims*

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

*Provision for Deferred Consideration*

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

*Provision for Dividends*

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

**(m) Employee Benefits**

*Wages, Salaries and Annual Leave*

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

Non-accumulating non-monetary benefits, such as interest free loans, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

*Long Service Leave*

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

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

*Employee Share and Option Plans*

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

*Superannuation Plans*

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

**(n) Derivatives – Note 28**

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

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**1 Statement of Significant Accounting Policies (continued)**

*Interest Rate Swaps*

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

*Forward Foreign Exchange Contracts*

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

**(o) Borrowing Costs**

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

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

**(p) Receivables – Note 4**

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

**(q) Payables – Note 9**

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

**(r) Bank Loans – Note 10**

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

**(s) Revenue Recognition – Note 2**

*Sales Revenue*

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

*Interest Income*

Interest income is recognised as it accrues.

*Dividend Income*

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

*Sale of Non-Current Assets*

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

**(t) Goods and Services Tax**

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

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

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**1 Statement of Significant Accounting Policies (continued)**

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

**(u) Earnings per Share – Note 24**

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

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

**(v) Use and Revision of Accounting Estimates**

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

		<b>Consolidated</b>		<b>The Company</b>	
		<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>2</b>	<b>Revenues, Expenses and Profit from Ordinary Activities</b>				
<b>(a)</b>	<b>Revenues from Ordinary Activities</b>				
	<b>Revenues from operating activities</b>				
	Sales of goods and services	<b>810,156</b>	713,643	<b>290,179</b>	259,153
	Interest received or receivable from:				
	- other entities	<b>1,037</b>	743	<b>1,279</b>	583
	- controlled entities	-	-	<b>2,027</b>	1,659
	Dividends received or receivable from:				
	- other entities	-	-	-	-
	- controlled entities	-	-	<b>16,875</b>	2,525
	Property rentals	<b>890</b>	868	<b>1,603</b>	1,586
	Other income	<b>2,677</b>	2,495	<b>5,183</b>	5,957
		<b>814,760</b>	717,749	<b>317,146</b>	271,463
	<b>Revenues from outside operating activities</b>				
	Proceeds on disposal of non-current assets	<b>3,024</b>	7,435	<b>3,160</b>	332
		<b>817,784</b>	725,184	<b>320,306</b>	271,795
	Proceeds on disposal of business	<b>10,400</b>	-	<b>5,000</b>	-
	Total revenues from ordinary activities	<b>828,184</b>	725,184	<b>325,306</b>	271,795
<b>(b)</b>	<b>Expenses from Ordinary Activities</b>				
	Costs of goods and services sold	<b>537,883</b>	465,371	<b>177,441</b>	154,829
	Sales and marketing expenses	<b>102,143</b>	92,258	<b>57,426</b>	52,806
	Distribution expenses	<b>54,908</b>	49,480	<b>18,908</b>	16,019
	Administration expenses	<b>39,083</b>	38,169	<b>14,861</b>	13,845
	Occupancy expenses	<b>13,715</b>	12,844	<b>3,027</b>	2,439
	Other expenses	<b>15,433</b>	7,821	<b>8,002</b>	315
	Expenses from ordinary activities, excluding borrowing costs	<b>763,165</b>	665,943	<b>279,665</b>	240,253
	Borrowing costs	<b>4,345</b>	5,282	<b>3,176</b>	2,043
	Total expenses from ordinary activities	<b>767,510</b>	671,225	<b>282,841</b>	242,296
<b>(c)</b>	<b>Individually Significant Items</b>				
	Individually significant expenses / (revenues) included in profit from ordinary activities before income tax expense:				
	Proceeds on sale of business	<b>(10,400)</b>	(6,518)	<b>(5,000)</b>	-
	Carrying amount of assets and liabilities sold	<b>8,094</b>	5,200	<b>2,694</b>	-
	Net gain on sale of business	<b>(2,306)</b>	(1,318)	<b>(2,306)</b>	-
	Resulting from the sale of the Triton business (2004 - sale of the Elite Built business by Korvest Ltd.)				
	Recoverable amount write down	<b>2,300</b>	1,000	<b>2,300</b>	-
	Provision for Restructuring of the Edwardstown Plant. Includes \$1,1 million write down of Plant and Equipment. (2004 - Resulting from the write down in the value of plant and equipment due to continuing losses in Hills Industries Limited (UK).)				

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>2 Revenues, Expenses and Profit from Ordinary Activities (continued)</b>				
<b>(d) Profit from Ordinary Activities</b>				
Profit from ordinary activities before income tax expense has been arrived at after charging / (crediting) the following items:				
Depreciation of buildings	681	684	277	259
Depreciation of plant and equipment	<u>18,082</u>	<u>16,743</u>	<u>8,758</u>	<u>7,334</u>
Total depreciation of property, plant and equipment	<u>18,763</u>	<u>17,427</u>	<u>9,035</u>	<u>7,593</u>
Amortisation of goodwill	587	672	268	320
Amortisation of patents and trademarks	<u>1,554</u>	<u>1,624</u>	<u>595</u>	<u>630</u>
Total amortisation of intangibles	<u>2,141</u>	<u>2,296</u>	<u>863</u>	<u>950</u>
Total depreciation and amortisation	<u>20,904</u>	<u>19,723</u>	<u>9,898</u>	<u>8,543</u>
Write down in value of plant and equipment to recoverable amount	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>-</u>
Write down in value of intangibles to recoverable amount	<u>1,060</u>	<u>225</u>	<u>(268)</u>	<u>-</u>
Interest paid or payable – other entities	4,320	5,219	936	1,563
Interest paid or payable – controlled entities	-	-	2,240	480
Finance charges on capitalised leases	<u>25</u>	<u>63</u>	<u>-</u>	<u>-</u>
Total borrowing costs	<u>4,345</u>	<u>5,282</u>	<u>3,176</u>	<u>2,043</u>
Interest received or receivable – other entities	(1,037)	(743)	(1,279)	(583)
Interest received or receivable – controlled entities	<u>-</u>	<u>-</u>	<u>(2,027)</u>	<u>(1,659)</u>
Net interest payable/(receivable)	<u>3,308</u>	<u>4,539</u>	<u>(130)</u>	<u>(199)</u>
Write-down in value of inventories	2,524	854	2,450	200
Reversal of write-down in inventories	<u>(167)</u>	<u>(88)</u>	<u>-</u>	<u>-</u>

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



**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

		<b>Consolidated</b>		<b>The Company</b>	
		<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>2</b>	<b>Revenues, Expenses and Profit from Ordinary Activities (continued)</b>				
<b>(d)</b>	<b>Profit from Ordinary Activities (continued)</b>				
	Profit from ordinary activities before income tax expense has been arrived at after charging / (crediting) the following items:				
	Net bad and doubtful debts expense including movements in provision for doubtful debts	<u>(3,180)</u>	<u>4,015</u>	<u>(4,700)</u>	<u>2,258</u>
	Net bad and doubtful loans expense including movements in provision for doubtful loans	<u>(2,250)</u>	<u>-</u>	<u>(2,250)</u>	<u>-</u>
	(Profit) / loss on disposal of non-current assets:				
	- property, plant and equipment	(154)	(260)	(152)	(92)
	- investments	-	-	-	-
	- business operations	<u>(2,306)</u>	<u>(1,318)</u>	<u>(2,306)</u>	<u>-</u>
		<u>(2,460)</u>	<u>(1,578)</u>	<u>(2,458)</u>	<u>(92)</u>
	Lease rental expense – operating leases	<u>13,102</u>	<u>9,062</u>	<u>1,276</u>	<u>870</u>
	Auditors' remuneration:				
	Audit services				
	- KPMG Australia	199	186	130	126
	- overseas KPMG firms	99	92	-	-
	- other auditors	<u>80</u>	<u>53</u>	<u>-</u>	<u>-</u>
		<u>378</u>	<u>331</u>	<u>130</u>	<u>126</u>
	Other services				
	- KPMG Australia *	80	263	72	259
	- overseas KPMG firms *	57	62	-	-
	- other firms *	<u>56</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>193</u>	<u>325</u>	<u>72</u>	<u>259</u>

\* Primarily taxation and other assurance services

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

		<b>Consolidated</b>		<b>The Company</b>	
		<b>2005</b>	2004	<b>2005</b>	2004
		<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>3</b>	<b>Taxation</b>				
<b>(a)</b>	<b>Income Tax Expense</b>				
	Prima facie income tax expense calculated at 30% (2004: 30%) on the profit from ordinary activities	<b>18,202</b>	16,188	<b>12,740</b>	8,850
	Tax losses of controlled entities not carried forward as future income tax benefits	-	496	-	-
	Capital gains tax adjustment on sale of land and buildings	-	165		-
	Imputation gross-up on dividends received		-	<b>2,169</b>	324
	Franking credits on dividends received		-	<b>(7,232)</b>	(1,082)
	Employee share plan	<b>(605)</b>	(569)	<b>(566)</b>	(510)
	Income tax expense related to current and deferred tax transactions of the wholly-owned subsidiaries in the tax-consolidated group		-	<b>360</b>	(492)
	Income tax over-provided in prior year	<b>(196)</b>	(141)	<b>(300)</b>	-
	Other items	<u><b>810</b></u>	<u>(169)</u>	<u><b>422</b></u>	<u>(270)</u>
	Income tax expense relating to ordinary activities	<u><b>18,211</b></u>	<u>15,970</u>	<u><b>7,593</b></u>	<u>6,820</u>
<b>(b)</b>	<b>Individually significant items included in income tax expense relating to ordinary activities</b>				
	Income tax expense relating to sale of business	<u><b>692</b></u>	<u>561</u>	<u><b>692</b></u>	<u>-</u>
	Resulting from the sale of the Triton business by Hills Industries Ltd (2004 - sale of the Elite Built business by Korvest Ltd.)				
	Recoverable amount write down	<u><b>(690)</b></u>	<u>-</u>	<u><b>(690)</b></u>	<u>-</u>
	Provision for Restructuring of the Edwardstown Plant. Includes \$1.1 million write down of Plant and Equipment. (2004 - Resulting from the write down in the value of plant and equipment due to continuing losses in Hills Industries Limited (UK).)				

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	<b>Consolidated</b>		<b>The Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>3 Taxation (continued)</b>				
<b>(c) Future Income Tax Benefits Not Taken to Account</b>				
The potential future income tax benefits in controlled entities arising from tax losses that have not been recognised as an asset because recovery is not virtually certain	<u><b>1,183</b></u>	<u>1,691</u>	<u><b>-</b></u>	<u>-</u>

The potential future income tax benefits will only be obtained if:

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

	<b>Consolidated</b>		<b>The Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>4 Receivables</b>				
<b>Current</b>				
Trade debtors	<b>153,245</b>	125,081	<b>49,102</b>	48,049
Less provision for doubtful debts	<u><b>5,208</b></u>	<u>9,277</u>	<u><b>1,600</b></u>	<u>6,300</u>
	<u><b>148,037</b></u>	<u>115,804</u>	<u><b>47,502</b></u>	<u>41,749</u>
Other debtors	<u><b>4,279</b></u>	<u>1,566</u>	<u><b>34</b></u>	<u>12</u>
Loans – other entities	<b>1,872</b>	3,764	<b>1,688</b>	3,762
Loans – controlled entities	-	-	<b>106,964</b>	41,549
Less provision for doubtful loans				
- other entities	-	2,250	-	2,250
- controlled entities	<u>-</u>	<u>-</u>	<u><b>4,060</b></u>	<u>4,060</u>
	<u><b>1,872</b></u>	<u>1,514</u>	<u><b>104,592</b></u>	<u>39,001</u>
	<u><b>154,188</b></u>	<u>118,884</u>	<u><b>152,128</b></u>	<u>80,762</u>
<b>Non-current</b>				
Loans – other entities	<u><b>1,222</b></u>	<u>6,399</u>	<u><b>-</b></u>	<u>6,399</u>
Loans paid to controlled entities during the year	<u><b>-</b></u>	<u>-</u>	<u><b>65,415</b></u>	<u>23,024</u>
<b>5 Inventories</b>				
<b>Current</b>				
Raw materials at cost	<u><b>48,308</b></u>	<u>26,263</u>	<u><b>5,859</b></u>	<u>5,137</u>
Work in progress at cost	<u><b>4,446</b></u>	<u>3,870</u>	<u><b>25</b></u>	<u>46</u>
Finished goods at cost	<b>87,089</b>	64,960	<b>25,922</b>	22,671
Less provision for stock obsolescence	<u><b>5,857</b></u>	<u>5,483</u>	<u><b>3,800</b></u>	<u>2,700</u>
	<u><b>81,232</b></u>	<u>59,477</u>	<u><b>22,122</b></u>	<u>19,971</u>
	<u><b>133,986</b></u>	<u>89,610</u>	<u><b>28,006</b></u>	<u>25,154</u>

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

		<b>Consolidated</b>		<b>The Company</b>	
		<b>2005</b>	2004	<b>2005</b>	2004
		<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>6</b>	<b>Investments</b>				
	<b>Non-current</b>				
	Shares in controlled entities				
	- unlisted companies at cost – refer Note 26	-	-	<b>144,096</b>	52,862
	Shares in other entities				
	- listed companies at cost	<u>102</u>	104	<u>102</u>	102
		<u><b>102</b></u>	<u>104</u>	<u><b>144,198</b></u>	<u>52,964</u>
<b>7</b>	<b>Property, Plant and Equipment</b>				
	<b>Freehold Land</b>				
	At fair value *	<u>27,347</u>	29,067	<u>13,016</u>	14,560
	<b>Freehold Buildings</b>				
	At fair value *	<u>46,297</u>	46,342	<u>22,239</u>	22,499
	<b>Plant and Equipment</b>				
	At cost	183,037	174,020	69,656	69,300
	Less accumulated depreciation	<u>101,741</u>	93,608	<u>54,722</u>	54,018
		<u><b>81,296</b></u>	<u>80,412</u>	<u><b>14,934</b></u>	<u>15,282</u>
	<b>Total property, plant and equipment at net book value</b>	<u><b>154,940</b></u>	<u>155,821</u>	<u><b>50,189</b></u>	<u>52,341</u>
	<b>Reconciliations</b>				
	Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:				
	<b>Freehold Land</b>				
	Carrying amount at the beginning of the year	29,067	21,599	14,560	10,754
	Additions	6	248	1	-
	Revaluations	-	8,349	-	3,806
	Disposals	(1,545)	-	(1,545)	-
	Disposals through sale of business operations	-	(1,300)	-	-
	Differences on translation of foreign operations	<u>(181)</u>	171	-	-
	Carrying amount at the end of the year	<u><b>27,347</b></u>	<u>29,067</u>	<u><b>13,016</b></u>	<u>14,560</u>
	<b>Freehold Buildings</b>				
	Carrying amount at the beginning of the year	46,342	44,669	22,499	21,536
	Additions	1,089	4,705	349	2,010
	Additions through acquisition of entities	233	-	-	-
	Revaluations	-	(784)	-	(788)
	Disposals	(342)	-	(332)	-
	Disposals through sale of business operations	-	(1,880)	-	-
	Depreciation	(681)	(684)	(277)	(259)
	Differences on translation of foreign operations	<u>(344)</u>	316	-	-
	Carrying amount at the end of the year	<u><b>46,297</b></u>	<u>46,342</u>	<u><b>22,239</b></u>	<u>22,499</u>

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	<b>Consolidated</b>		<b>The Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>7 Property, Plant and Equipment (continued)</b>				
<b>Plant and Equipment</b>				
Carrying amount at the beginning of the year	<b>80,412</b>	81,011	<b>15,282</b>	14,918
Additions	<b>19,419</b>	18,479	<b>8,444</b>	7,938
Additions through acquisition of businesses/entities	<b>2,075</b>	-	<b>1,097</b>	-
Disposals	<b>(982)</b>	(657)	<b>(131)</b>	(240)
Disposals through sale of business operations	<b>(1,000)</b>	(1,067)	<b>(1,000)</b>	-
Depreciation	<b>(18,082)</b>	(16,743)	<b>(8,758)</b>	(7,334)
Write down to recoverable amount	-	(1,000)	-	-
Differences on translation of foreign operations	<b>(546)</b>	389	-	-
Carrying amount at the end of the year	<b><u>81,296</u></b>	<u>80,412</u>	<b><u>14,934</u></b>	<u>15,282</u>

\* Fair value at 30 June 2005 is a director's valuation based on an independent valuation of all freehold land and buildings carried out during August and September 2003 and dated 15 September 2003. Fair value at 30 June 2004 is a directors' valuation as at that date based on an independent valuation of all freehold land and buildings carried out during August and September 2003 and dated 15 September 2003. The valuation process was managed by AON Risk Services Australia Limited with the individual valuations being performed by various certified valuers. The valuations were determined having regard to the highest and best use of the assets for which market participants would be prepared to pay.

The surplus on revaluation of the consolidated entity's freehold land (2004: increase of \$8,349,000) and buildings (2004: decrease of \$784,000) is recognised in the value of property, plant and equipment in accordance with AASB 1041 "Revaluation of Non-Current Assets". The net surplus on revaluation is recognised in the asset revaluation reserve to the extent that it is attributable to the members of the Company (2004: \$7,064,000) and recognised in outside equity interests to the extent that the revaluation is attributable to those interests (2004: \$501,000).

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

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

	<b>Consolidated</b>		<b>The Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>8 Intangibles</b>				
<b>Goodwill</b>				
Goodwill on consolidation	<b>90,288</b>	10,081	-	-
Less accumulated amortisation	<b><u>4,633</u></b>	<u>4,314</u>	-	-
	<b><u>85,655</u></b>	<u>5,767</u>	-	-
Goodwill purchased	<b>3,223</b>	3,873	<b>3,149</b>	3,149
Less accumulated amortisation	<b><u>3,223</u></b>	<u>3,605</u>	<b><u>3,149</u></b>	<u>3,149</u>
	<b>-</b>	<u>268</u>	-	-
<b>Patents and Trademarks</b>				
Patents and trademarks – at cost	<b>8,051</b>	14,604	<b>50</b>	6,265
Less accumulated amortisation	<b><u>2,946</u></b>	<u>5,251</u>	<b><u>33</u></b>	<u>2,959</u>
	<b><u>5,105</u></b>	<u>9,353</u>	<b><u>17</u></b>	<u>3,306</u>
	<b><u>90,760</u></b>	<u>15,388</u>	<b><u>17</u></b>	<u>3,306</u>

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

		<b>Consolidated</b>		<b>The Company</b>	
		<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>9</b>	<b>Payables</b>				
	<b>Current</b>				
	Trade creditors	88,461	45,779	23,263	15,421
	Sundry creditors and accruals	28,746	23,430	11,087	9,941
	Other loans – unsecured	288	160	123	-
	Loans – controlled entities	<u>-</u>	<u>-</u>	<u>29,218</u>	<u>25,155</u>
		<u><b>117,495</b></u>	<u><b>69,369</b></u>	<u><b>63,691</b></u>	<u><b>50,517</b></u>
	Loans received from controlled entities during the year	<u>-</u>	<u>-</u>	<u><b>4,063</b></u>	<u><b>2,943</b></u>
<b>10</b>	<b>Interest-Bearing Liabilities</b>				
	<b>Current</b>				
	Bank overdrafts – secured	7,290	2,553	-	14,980
	Bank loans – secured	3,235	6,495	-	-
	Other loans – unsecured	-	940	-	940
	Loans – controlled entities	-	-	<b>2,695</b>	1,251
	Lease liabilities	<u>3</u>	<u>513</u>	<u>-</u>	<u>-</u>
		<u><b>10,528</b></u>	<u><b>10,501</b></u>	<u><b>2,695</b></u>	<u><b>17,171</b></u>
	Loans received from controlled entities during the year	<u>-</u>	<u>-</u>	<u><b>1,444</b></u>	<u><b>1,251</b></u>
	<b>Non-current</b>				
	Bank loans – secured	94,867	73,710	<b>68,000</b>	-
	Other loans – unsecured	538	538	<b>498</b>	498
	Loans – controlled entities	-	-	<b>26,000</b>	26,000
	Lease liabilities	<u>-</u>	<u>88</u>	<u>-</u>	<u>-</u>
		<u><b>95,405</b></u>	<u><b>74,336</b></u>	<u><b>94,498</b></u>	<u><b>26,498</b></u>
	Loans received from controlled entities during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>26,000</b></u>
	The consolidated entity has access to the following lines of credit:				
	Total facilities available:				
	- bank overdrafts	8,842	5,455	<b>1,000</b>	1,000
	- bank loans	120,000	102,840	<b>75,000</b>	40,000
	- short term money market	<u>22,000</u>	<u>12,000</u>	<u><b>21,000</b></u>	<u>11,000</u>
		<u><b>150,842</b></u>	<u><b>120,295</b></u>	<u><b>97,000</b></u>	<u><b>52,000</b></u>
	Facilities utilised at reporting date:				
	- bank overdrafts	7,290	2,553	-	14,980
	- bank loans	98,102	80,205	<b>68,000</b>	-
	- short term money market	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u><b>105,392</b></u>	<u><b>82,758</b></u>	<u><b>68,000</b></u>	<u><b>14,980</b></u>
	Facilities not utilised at reporting date:				
	- bank overdrafts	1,552	2,902	<b>1,000</b>	(13,980)
	- bank loans	21,898	22,635	<b>7,000</b>	40,000
	- short term money market	<u>22,000</u>	<u>12,000</u>	<u><b>21,000</b></u>	<u>11,000</u>
		<u><b>45,450</b></u>	<u><b>37,537</b></u>	<u><b>29,000</b></u>	<u><b>37,020</b></u>
<b>10</b>	<b>Interest-Bearing Liabilities (continued)</b>				

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**Bank Facilities**

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

**Bank Overdrafts**

Bank overdrafts are denominated in \$A, \$NZ and £UK. Interest on bank overdrafts is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 30 June 2005 is 7.36% (2004: 4.75%).

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

At 30 June 2005, the Company's overdraft exceeded the net facility but this was offset by cash balances held by the other entities. The Company's overdraft was within its gross limit and the net of the overdraft and other cash balances held was within the net limit.

**Bank Loans**

Bank loans are denominated in \$A, \$NZ and £UK. Interest on bank loans is charged at prevailing market rates. The weighted average interest rate for all bank loans as at 30 June 2005 is 5.82% (2004: 5.84%).

**Short Term Money Market**

Borrowings on the short term money market are denominated in \$A. Interest on the borrowings is charged at the prevailing market rates. The weighted average interest rate for all borrowings on the short term money market as at 30 June 2005 is nil as there were no borrowings at that date (2004: nil).

		<b>Consolidated</b>		<b>The Company</b>	
		<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>11</b>	<b>Provisions</b>				
	<b>Current</b>				
	Employee benefits	<b>20,329</b>	17,569	<b>8,365</b>	7,791
	Outstanding claims	<b>5,522</b>	5,597	<b>3,965</b>	2,976
	Other	<b>486</b>	-	-	-
	Deferred consideration and acquisition costs	<b>3,450</b>	1,700	<b>3,450</b>	1,700
		<b><u>29,787</u></b>	<u>24,866</u>	<b><u>15,780</u></b>	<u>12,467</u>
	<b>Non-current</b>				
	Employee benefits	<b><u>6,721</u></b>	<u>4,390</u>	<b><u>5,749</u></b>	<u>3,700</u>
	<b>Aggregate liability for employee benefits, including on-costs</b>				
	Employee benefits provision – current	<b>20,329</b>	17,569	<b>8,365</b>	7,791
	Employee benefits provision – non-current	<b><u>6,721</u></b>	<u>4,390</u>	<b><u>5,749</u></b>	<u>3,700</u>
		<b><u>27,050</u></b>	<u>21,959</u>	<b><u>14,114</u></b>	<u>11,491</u>

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>11 Provisions (continued)</b>				
<b>Reconciliations</b>				
Reconciliations of the carrying amounts of each class of provision, except for employee benefits which are not required, are set out below:				
<b>Dividends</b>				
Provisions made during the year:				
- final dividend	16,105	14,234	16,105	14,234
- interim dividend	19,577	15,194	19,577	15,194
Payments made during the year	(29,129)	(23,526)	(29,129)	(23,526)
Dividends forgone during the year	<u>(6,553)</u>	<u>(5,902)</u>	<u>(6,553)</u>	<u>(5,902)</u>
Carrying amount at the end of the year	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
<b>Outstanding Claims</b>				
Carrying amount at the beginning of the year	5,597	5,678	2,976	2,700
Provisions made during the year	(646)	(70)	989	276
Increases through acquisition of entities/businesses	500	-	-	-
Payments made during the year	71	(9)	-	-
Differences on translation of foreign operations	<u>-</u>	<u>(2)</u>	<u>-</u>	<u>-</u>
Carrying amount at the end of the year	<u>5,522</u>	<u>5,597</u>	<u>3,965</u>	<u>2,976</u>
<b>Other</b>				
Carrying amount at the beginning of the year	-	-	-	-
Provision	<u>486</u>	<u>-</u>	<u>-</u>	<u>-</u>
Carrying amount at the end of the year	<u>486</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Guaranteed Borrowings</b>				
Carrying amount at the beginning of the year	-	-	-	3,135
Provisions made during the year	-	-	-	-
Transfer to provision for doubtful loans (in current receivables)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,135)</u>
Carrying amount at the end of the year	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
Provision for guaranteed borrowings was in respect of the borrowings of a controlled entity. During the year the Company advanced funds to the controlled entity to allow it to repay its external borrowings. The loan to the controlled entity is provided for within the current receivables section of the statement of financial position.				
<b>Deferred Consideration – Current</b>				
Carrying amount at the beginning of the year	1,700	-	1,700	-
Payments made during the year	(1,700)	-	(1,700)	-
Transfer from provision for deferred consideration				
– non-current	-	1,700	-	1,700
Increase on acquisition of controlled entity	3,250	-	3,250	-
Acquisition costs accrued	<u>200</u>	<u>-</u>	<u>200</u>	<u>-</u>
Carrying amount at the end of the year	<u>3,450</u>	<u>1,700</u>	<u>3,450</u>	<u>1,700</u>



**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	<b>Consolidated</b>		<b>The Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>11 Provisions (continued)</b>				
<b>Deferred Consideration – Non-current</b>				
Carrying amount at the beginning of the year	-	4,791	-	4,791
Increase on acquisition of controlled entity				
- gross consideration	-	-	-	-
- discount (unexpired interest)	-	-	-	-
Payments made during the year	-	(3,400)	-	(3,400)
Expiration of unexpired interest	-	309	-	309
Transfer to provision for deferred consideration – current	-	(1,700)	-	(1,700)
Carrying amount at the end of the year	-	-	-	-

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

<b>12 Contributed Equity</b>				
<b>Issued Capital</b>				
165,189,961 ordinary shares fully paid (2004: 140,047,007 ordinary shares fully paid)	<u>158,544</u>	<u>68,300</u>	<u>158,544</u>	<u>68,300</u>
<b>Movements in Ordinary Shares</b>				
Balance at the beginning of the year	68,300	60,109	68,300	60,109
Shares issued	<u>90,244</u>	<u>8,191</u>	<u>90,244</u>	<u>8,191</u>
Balance at the end of the year	<u>158,544</u>	<u>68,300</u>	<u>158,544</u>	<u>68,300</u>

The Company made two issues of ordinary shares under the Employee Share Bonus Plan during the year. All employees with more than one year of service were eligible to participate in the issues (1,891 eligible employees for the first issue and 1,909 eligible employees for the second issue). The shares are issued at market value. Details of the issues in the current year are as follows:

<u>Date of Issue</u>	<u>Total No of Shares Issued</u>	<u>Market Value of Shares Issued</u>	<u>Shares Issued per Participating Employee</u>	<u>Number of Participating Executive Directors</u>
17/09/04	276,368	1,124,818	148	2
29/03/05	180,106	763,505	95	2

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

<u>Date of Issue</u>	<u>Plan Issued Under</u>	<u>Total No of Shares Issued</u>	<u>Issue Price per Share</u>
08/02/05	Executive Share Plan	280,000	\$3.23

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**12 Contributed Equity (continued)**  
**Issued Capital (continued)**

The Company issued ordinary shares under a Dividend Investment Plan and a Share Investment Plan during the year. Under the Dividend Investment Plan, participating shareholders elected to apply dividends in whole or in part to the purchase of ordinary shares at an issue price. Under the Share Investment Plan, participating shareholders elected to forgo dividends in whole or in part and to substitute shares issued out of the capital account. The issue price was at a 5% discount on the market price for the issues dated 27 September 2004 and at a 5% discount on the market price for the issues dated 29 March 2005.

<u>Date of Issue</u>	<u>Plan Issued Under</u>	<u>Total No of Shares Issued</u>	<u>Issue Price per Share</u>
27/09/04	Dividend Investment	908,119	\$3.91
27/09/04	Share Investment	884,761	\$3.91
29/03/05	Dividend Investment	1,163,064	\$3.94
29/03/05	Share Investment	786,795	\$3.94

Shares issued under the Dividend Investment Plan are recognised in equity at the value of the dividends applied to purchase those shares. The value of shares issued slightly exceeds the value of dividends applied due to the rounding up of shares issued to the nearest whole share. Shares issued under the Share Investment Plan are recognised in equity at nil value as the dividends are forgone and substituted for shares issued for no consideration.

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

	<b>Consolidated</b>		<b>The Company</b>	
	<b>2005 \$'000</b>	<b>2004 \$'000</b>	<b>2005 \$'000</b>	<b>2004 \$'000</b>
<b>13 Reserves</b>				
Asset revaluation reserve	<b>26,414</b>	27,435	<b>12,490</b>	13,511
Asset realisation reserve	<b>3,371</b>	4,101	<b>1,854</b>	833
Foreign currency translation reserve	<b>1,837</b>	2,340	-	-
	<b><u>31,622</u></b>	<u>33,876</u>	<b><u>14,344</u></b>	<u>14,344</u>
<b>Movements in Reserves</b>				
<b>Asset Revaluation Reserve</b>				
Balance at the beginning of the year	<b>27,435</b>	22,024	<b>13,511</b>	10,493
Revaluation increment on freehold land *	-	7,054	-	3,806
Revaluation increment on freehold buildings *	-	10	-	(788)
Disposal of revalued land and buildings	<b>(1,021)</b>	(1,653)	<b>(1,021)</b>	-
Balance at the end of the year	<b><u>26,414</u></b>	<u>27,435</u>	<b><u>12,490</u></b>	<u>13,511</u>
<b>Asset Realisation Reserve</b>				
Balance at the beginning of the year	<b>4,101</b>	2,448	<b>833</b>	833
Disposal of revalued land and buildings	<b>(730)</b>	1,653	<b>1,021</b>	-
Balance at the end of the year	<b><u>3,371</u></b>	<u>4,101</u>	<b><u>1,854</u></b>	<u>833</u>
<b>Foreign Currency Translation Reserve</b>				
Balance at the beginning of the year	<b>2,340</b>	1,536	-	-
Net exchange differences on translation of financial statements of self-sustaining foreign operations	<b>(503)</b>	804	-	-
Balance at the end of the year	<b><u>1,837</u></b>	<u>2,340</u>	<b><u>-</u></b>	<u>-</u>

\* Excludes amounts attributable to outside equity interests

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**13 Reserves (continued)**

**Nature and Purpose of Reserves**

**Asset Revaluation Reserve**

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

**Asset Realisation Reserve**

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

**Foreign Currency Translation Reserve**

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

	<b>Consolidated</b>		<b>The Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>14 Retained Profits</b>				
Balance at the beginning of the year	<b>97,340</b>	89,752	<b>42,598</b>	43,445
Net profit attributable to members of the Company	<b>36,217</b>	31,114	<b>34,872</b>	22,679
Transfer from reserves	<b>1,751</b>	-	-	-
Dividends recognised during year – refer Note 15	<b><u>(29,129)</u></b>	<u>(23,526)</u>	<b><u>(29,129)</u></b>	<u>(23,526)</u>
Balance at the end of the year	<b><u>106,179</u></b>	<u>97,340</u>	<b><u>48,341</u></b>	<u>42,598</u>

**15 Dividends**

Dividends recognised in the current year by the Company are:

	<b><u>Cents per Share</u></b>	<b><u>Amount \$'000</u></b>	<b><u>Date of Payment</u></b>
<b>2005</b>			
Interim – ordinary	12.0	19,577	29 March 2005
Interim dividend forgone for Share Investment Plan		(3,097)	
Final – ordinary	11.5	16,105	27 September 2004
Final dividend forgone for Share Investment Plan		<u>(3,456)</u>	
Total amount		<u>29,129</u>	
<b>2004</b>			
Interim – ordinary	11.0	15,194	29 March 2004
Interim dividend forgone for Share Investment Plan		(2,862)	
Final – ordinary	10.5	14,234	29 September 2003
Final dividend forgone for Share Investment Plan		<u>(3,040)</u>	
Total amount		<u>23,526</u>	

**Subsequent events**

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

- final – ordinary	12.0	19,823	26 September 2005
--------------------	------	--------	-------------------

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2005. It will be recognised in the next financial year.

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

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

		<b>The Company</b>	
		<b>2005</b>	<b>2004</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>15</b>	<b>Dividends (continued)</b>		
	<b>Dividend franking account</b>		
	30% franking credits available to shareholders of the Company for subsequent financial years	<u><b>39,628</b></u>	<u><b>35,248</b></u>

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

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

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

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

**72,467**      **66,145**

		<b>Consolidated</b>		<b>The Company</b>	
		<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>16</b>	<b>Outside equity interests in controlled entities comprise:</b>				
	Interest in retained profits at the beginning of the year	<b>18,632</b>	15,020	-	-
	Interest in retained profits of controlled entity partly disposed during the year	-	-	-	-
	Interest in retained profits of controlled entity partly acquired during the year	<b>1,454</b>	-	-	-
	Disposal of retained loss by outside equity interests in entity wholly acquired during the year	<b>3,776</b>	-	-	-
	Interest in profit from ordinary activities after income tax before individually significant items	<b>6,246</b>	6,972	-	-
	Individually significant items:				
	- share of net gain on sale of business after income tax expense (a)	-	403	-	-
	- share of recoverable amount write down (b)	-	(500)	-	-
	Interest in dividends paid or payable	<u><b>(18,934)</b></u>	<u>(3,263)</u>	<u>-</u>	<u>-</u>
	Interest in retained profits at the end of the year	<b>11,174</b>	18,632	-	-
	Interest in share capital	<b>4,381</b>	14,951	-	-
	Interest in reserves	<u><b>490</b></u>	<u>1,234</u>	<u>-</u>	<u>-</u>
	Total outside equity interests	<u><b>16,045</b></u>	<u>34,817</u>	<u>-</u>	<u>-</u>

(2004: (a) Resulting from the sale of the Elite Built business by Korvest Ltd.)

(2004: (b) Resulting from the write down in the value of plant and equipment due to continuing losses in Hills Industries Limited (UK).)

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

		<b>Consolidated</b>		<b>The Company</b>	
		<b>2005</b>	2004	<b>2005</b>	2004
		<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>17</b>	<b>Total Equity Reconciliation</b>				
	Balance at the beginning of the year	<b>234,333</b>	206,113	<b>125,242</b>	114,880
	Total changes in parent entity interest in equity recognised in the statements of financial performance	<b>35,714</b>	38,982	<b>34,872</b>	25,697
	Transactions with owners as owners:				
	- contributions of equity	12 <b>90,244</b>	8,191	<b>90,244</b>	8,191
	- dividends paid or payable	15 <b>(29,129)</b>	(23,526)	<b>(29,129)</b>	(23,526)
	Total changes in outside equity interests	16 <u><b>(18,772)</b></u>	<u>4,573</u>	<u>-</u>	<u>-</u>
	Balance at the end of the year	<u><b>312,390</b></u>	<u>234,333</u>	<u><b>221,229</b></u>	<u>125,242</u>

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

18	Notes to the Statements of Cash Flows	Consolidated		The Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
(a)	<b>Reconciliation of Cash</b> For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:				
	Cash	21,287	21,835	15,593	6,969
	Bank overdrafts	<u>(7,290)</u>	<u>(2,553)</u>	<u>-</u>	<u>(14,980)</u>
		<u>13,997</u>	<u>19,282</u>	<u>15,593</u>	<u>(8,011)</u>
(b)	<b>Reconciliation of Profit from Ordinary Activities after Related Income Tax Expense to Net Cash Provided by Operating Activities</b> Profit from ordinary activities after related income tax expense	42,463	37,989	34,872	22,679
	Add / (less) items classified as investing / financing activities:				
	- (profit) / loss on sale of property, plant and equipment	(154)	(260)	(152)	(92)
	- (profit) / loss on sale of business operations	(2,306)	(1,318)	(2,306)	-
	- rent received	(890)	(868)	(1,603)	(1,586)
	- finance charges on capitalised leases	25	63	-	-
	Add / (less) non-cash items:				
	- depreciation	18,763	17,427	9,035	7,593
	- amortisation	2,141	2,296	863	950
	- net bad and doubtful debts expense including movement in provision for doubtful debts	(3,180)	4,015	(4,700)	2,258
	- write down in value of inventories expense including movement in provision for inventories	2,357	766	2,450	200
	- write down in value of loans expense including movement in provision for doubtful loans	(2,250)	-	(2,250)	-
	- write down in value of property, plant and equipment	-	1,000	-	-
	- write down in value of intangible assets	1,060	225	(268)	-
	- unrealised exchange rate (gain) / loss	-	(1)	-	-
	- dilution of interest in controlled entity	24	169	-	-
	Add / (less) amounts set aside to provisions:				
	- employee benefits	14,423	8,423	6,209	4,347
	- outstanding claims	(647)	(70)	989	276
	- other	<u>486</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Net cash provided by operating activities before changes in assets and liabilities – carried forward	<u>72,315</u>	<u>69,856</u>	<u>43,139</u>	<u>36,625</u>

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

18	Notes to the Statements of Cash Flows (continued)	Consolidated		The Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
	Net cash provided by operating activities before changes in assets and liabilities – brought forward	<u>72,315</u>	<u>69,856</u>	<u>43,139</u>	<u>36,625</u>
	Changes in assets and liabilities adjusted for effects of acquisition and disposal of businesses during the year:				
	(Increase) / decrease in:				
	- trade and other debtors	(20,872)	(13,319)	788	(8,474)
	- inventories	(41,528)	(7,566)	(2,447)	27
	- deferred tax assets	(5,124)	(3,819)	(5,095)	(4,188)
	(Decrease) / increase in:				
	- payables	40,745	(2,739)	7,456	(3,497)
	- provisions	(10,828)	(6,260)	(3,981)	(3,676)
	- income taxes payable	(2,653)	1,108	(1,468)	3,957
	- deferred taxes payable	<u>539</u>	<u>(458)</u>	<u>1,302</u>	<u>-</u>
	Net cash provided by operating activities	<u>32,594</u>	<u>36,803</u>	<u>39,694</u>	<u>20,774</u>

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

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

**Acquisition of controlled entities**

The consolidated entity acquired three entities and increased control in one other entity during the course of the year. The consolidated entity paid \$1,700,000 deferred payment in respect of the acquisition of the K-Care Group acquired in 2003. The details of the acquisitions and increased control are noted in the table below.

<u>Company Name</u>	<u>Date of Control</u>	<u>Consideration Net of Cash \$,000</u>	<u>Nature of Business</u>	<u>% Acquired</u>
Access Television Services Group (Formerly UCG Group)	301/11/2004	(588)	Provision of installation services for Austar's subscription television network	100%
Team Poly Pty Ltd	01/04/2005	16,646	Manufacture of rotationally moulded water tanks	75%
Audio Telex Group	01/06/2005	20,680 *	Distributor of professional audio and domestic and commercial control systems	100%
Orrcon Group	#	48,582	Manufacturer and distributor of steel tubing	Additional 50% Total 100%
K-Care – Deferred payment		<u>1,700</u>		
Net cash paid		<u>87,020</u>		

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

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

**Acquisition of controlled entities (continued)**

\* Excludes a deferred payment of \$3,250,000 and stamp duty and other accrued costs of \$200,000. The deferred consideration is payable only if the Audio Telex Group meets certain performance criteria over a period of six months from 30 June 2005 to 31 December 2005. The directors of the Company are of the opinion that it is probable that the Audio Telex Group will meet these criteria and, as such, the deferred consideration has been recognised as a provision in the financial report.

# Remaining 50% was acquired on 1<sup>st</sup> March 2005, however Orrcon was a controlled entity before this acquisition of shares.

**Aggregated details of the acquisitions are as follows:**

	<b>Consolidated</b>		<b>The Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Consideration paid for new and increased control entities	87,785	-	87,785	-
Cash acquired	(2,465)	-	-	-
Outflow of cash for new and increased control entities	85,320	-	-	-
Deferred consideration paid	1,700	-	1,700	-
Total outflow of cash	87,020	-	89,485	-
Deferred consideration and expenses payable	3,450	-	3,450	-
Consideration paid and payable	90,470	-	92,935	-
<b>Fair value of assets acquired:</b>				
- cash assets	2,465	-	-	-
- receivables	88,878	-	-	-
- inventories	43,435	-	-	-
- plant and equipment	45,825	-	-	-
- future income tax benefits	2,661	-	-	-
- payables	(28,464)	-	-	-
- net tax receivable	799	-	-	-
- provisions	(12,049)	-	-	-
- interest bearing liabilities	(2,265)	-	-	-
- borrowings	(122,913)	-	-	-
	18,372	-	-	-
Outside equity interest at acquisition	(8,672)	-	-	-
	9,700	-	-	-
Goodwill on acquisition	81,535	-	-	-
Consideration	91,235	-	-	-
Deferred consideration and accrued expenses	(3,450)	-	-	-
Consideration paid for new and increased control entities	87,785	-	-	-

The acquisition price for the K-Care Group (acquired 1<sup>st</sup> October 2002) included a component of deferred consideration, payable only if the Group met certain performance criteria over a three year period. Those criteria were met and, as such, the deferred consideration has been paid to an amount of \$1,700,000. (2004: \$3,091,000)

**Disposals of controlled entities**

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



**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	<b>Consolidated</b>		<b>The Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>

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

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

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

**Acquisitions of business operations**

The consolidated entity did not acquire any business operations during the financial year or in the previous financial year. The Company acquired the Triton business during the current financial year. (2004: The Company did not acquire any business operations.) Details of the acquisition are noted below:

Fair value of assets acquired:

- receivables	-	-	<b>1,863</b>	-
- inventories	-	-	<b>2,853</b>	-
- plant and equipment	-	-	<b>814</b>	-
- capital WIP	-	-	<b>283</b>	-
- payables	-	-	<b>(1,532)</b>	-
- deferred tax asset	-	-	<b>550</b>	-
- provisions	-	-	<b>(395)</b>	-
- goodwill	-	-	<b>268</b>	-
	<u>-</u>	<u>-</u>	<u><b>4,704</b></u>	<u>-</u>

**Disposals of business operations**

The Triton business was sold during the year. (2004: During 2004, Korvest Ltd, a controlled entity, disposed of its Elite Built business operations.) Details of the disposal are as follows:

Consideration (cash)	<b>10,400</b>	6,518	<b>5,000</b>	-
Carrying amount of disposal	<u><b>(8,094)</b></u>	<u>(5,200)</u>	<u><b>(2,694)</b></u>	-
Profit on disposal	<u><b>2,306</b></u>	<u>1,318</u>	<u><b>2,306</b></u>	-
Net assets and liabilities disposed of:				
- inventories	<b>4,335</b>	1,300	-	-
- property	-	3,180	-	-
- plant and equipment	<b>1,065</b>	1,067	-	-
- patents	<b>2,694</b>	-	<b>2,694</b>	-
- deferred tax assets	-	124	-	-
- employee benefits	<u>-</u>	<u>(471)</u>	<u>-</u>	<u>-</u>
	<u><b>8,094</b></u>	<u>5,200</u>	<u><b>2,694</b></u>	<u>-</u>

The Triton business was sold during the year as its performance had deteriorated over recent years and it had become a loss making operation. (2004: The business was sold due to the lack of synergy with the other operations of Korvest Ltd and continued poor financial performance.)

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	<b>Consolidated</b>		<b>The Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>19 Commitments</b>				
<b>(a) Capital Expenditure Commitments</b>				
Capital expenditure projects contracted but not provided for and payable:				
- not later than one year	<u>11,756</u>	<u>8,949</u>	<u>3,830</u>	<u>4,984</u>
<b>(b) Operating Lease Commitments</b>				
Operating leases payable:				
- not later than one year	10,457	7,532	927	860
- later than one year but not later than five years	26,467	22,016	1,850	4,490
- later than five years	<u>5,624</u>	<u>5,504</u>	<u>-</u>	<u>12</u>
	<u>42,548</u>	<u>35,052</u>	<u>2,777</u>	<u>5,362</u>

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.

<b>(c) Finance Lease Commitments</b>				
Finance leases payable:				
- not later than one year	3	537	-	-
- later than one year but not later than five years	-	90	-	-
- later than five years	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	3	627	-	-
Less future finance charges	<u>-</u>	<u>26</u>	<u>-</u>	<u>-</u>
	<u>3</u>	<u>601</u>	<u>-</u>	<u>-</u>
Lease liabilities provided for in the statements of financial position				
- current	3	513	-	-
- non-current	<u>-</u>	<u>88</u>	<u>-</u>	<u>-</u>
Total lease liabilities	<u>3</u>	<u>601</u>	<u>-</u>	<u>-</u>

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

**20 Contingent Liabilities and Contingent Assets**

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

**Guarantees**

Letters of credit established in favour of suppliers	<u>12,761</u>	<u>11,431</u>	<u>7,055</u>	<u>9,522</u>
--	---------------	---------------	--------------	--------------

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**21 Segment Reporting**

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

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year. Inter-segment pricing is determined on a cost basis for wholly-owned entities and on an arm's length basis for non-wholly-owned entities.

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

**Business segments**

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

Electronic Security and Entertainment	Communications related products and services, domestic and commercial antennas, master antenna television systems, communications antennas, amplifiers, electronic security systems, closed circuit television systems, home automation systems and fibre optic transmission solutions.
Home and Hardware	Outdoor clothes driers, ladders, ironing boards, laundry trolleys, security doors, playtime equipment, garden sprayers, wheelbarrows, Do-It-Yourself woodworking equipment and rehabilitation and mobility products.
Building and Industrial	Structural, precision and large steel tubing, galvanising, precision metal cabinets, office storage systems, stainless steel products, steel door frames, roll-formed metal building products, carports and shed systems.

**Geographical segments**

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

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

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

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**Primary reporting by business segments**

	<b>Electronic Security and Entertainment</b>		<b>Home and Hardware</b>		<b>Building and Industrial</b>		<b>Eliminations</b>		<b>Consolidated</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>										
External segment revenue	<b>206,311</b>	170,262	<b>164,928</b>	161,774	<b>440,358</b>	385,281	<b>0</b>	0	<b>811,597</b>	717,317
Inter-segment revenue	<b>0</b>	0	<b>0</b>	0	<b>9,948</b>	10,665	<b>-9,948</b>	-10,665	<b>0</b>	0
Total segment revenue	<b>206,311</b>	170,262	<b>164,928</b>	161,774	<b>450,306</b>	395,946	<b>-9,948</b>	-10,665	<b>811,597</b>	717,317
Unallocated / corporate revenue									<b>16,587</b>	7,867
<b>Total revenue</b>									<b>828,184</b>	725,184
<b>Result</b>										
Segment result (before interest and tax)	<b>23,544</b>	18,618	<b>9,560</b>	13,392	<b>31,028</b>	26,599	<b>0</b>	0	<b>64,132</b>	58,609
Unallocated / corporate result									<b>-150</b>	-111
									<b>63,982</b>	58,498
Net interest expense									<b>3,308</b>	4,539
Profit from ordinary activities before income tax									<b>60,674</b>	53,959
Income tax expense									<b>18,211</b>	15,970
<b>Net profit</b>									<b>42,463</b>	37,989
Depreciation and amortisation	<b>4,520</b>	3,368	<b>8,272</b>	7,997	<b>7,096</b>	6,602	<b>0</b>	0	<b>19,888</b>	17,967
Unallocated / corporate depreciation and amortisation									<b>1,016</b>	1,756
									<b>20,904</b>	19,723
Other non-cash expenses	<b>2,907</b>	1,673	<b>3,408</b>	2,081	<b>9,389</b>	6,117	<b>0</b>	0	<b>15,704</b>	9,871
Unallocated / corporate other non-cash expenses									<b>-3,455</b>	4,487
									<b>12,249</b>	14,358
<b>Assets</b>										
Segment assets	<b>110,390</b>	75,052	<b>105,522</b>	106,156	<b>232,168</b>	181,456	<b>0</b>	-1,364	<b>448,080</b>	361,300
Unallocated / corporate assets									<b>134,385</b>	66,783
<b>Consolidated total assets</b>									<b>582,465</b>	428,083
<b>Liabilities</b>										
Segment liabilities	<b>29,670</b>	14,503	<b>26,268</b>	14,657	<b>70,131</b>	43,901	<b>0</b>	-1,364	<b>126,069</b>	71,697
Unallocated / corporate liabilities									<b>144,006</b>	122,053
<b>Consolidated total liabilities</b>									<b>270,075</b>	193,750
Acquisitions of non-current assets	<b>21,863</b>	4,677	<b>19,377</b>	10,855	<b>61,936</b>	9,804	<b>0</b>	0	<b>103,176</b>	25,336
Unallocated / corporate assets									<b>1,180</b>	1,557
									<b>104,356</b>	26,893

**Secondary reporting by geographical segments**

	<b>Australia</b>		<b>Overseas</b>		<b>Eliminations</b>		<b>Consolidated</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>								
External segment revenue by location of customers	<b>753,987</b>	677,747	<b>68,584</b>	49,797	<b>-10,974</b>	-10,227	<b>811,597</b>	717,317
Unallocated / corporate revenue							<b>16,587</b>	7,867
<b>Total revenue</b>							<b>828,184</b>	725,184
<b>Assets</b>								
Segment assets by location of assets	<b>415,952</b>	334,043	<b>32,128</b>	29,347	<b>0</b>	-2,090	<b>448,080</b>	361,300
Unallocated / corporate assets							<b>134,385</b>	66,783
<b>Consolidated total assets</b>							<b>582,465</b>	428,083
Acquisitions of non-current assets	<b>102,641</b>	23,354	<b>535</b>	1,982	<b>0</b>	0	<b>103,176</b>	25,336
Unallocated / corporate assets							<b>1,180</b>	1,557
							<b>104,356</b>	26,893

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**22 Director and Executive Disclosures**

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

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 that remuneration packaging properly reflects the person's duties and responsibilities, level of performance and 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 agreed outcomes relating to the performance of the consolidated entity (including operational results). Bonuses earned are measured on a number of factors, the most common of which is based on the achievement of the EBIT results of the relevant business. EBIT is the chosen determinant upon which to measure bonus payments, as it is indicative of the businesses financial achievement, which has a direct correlation to shareholder value and successful operational business performance.

Shares issued to executive directors and senior executives are a result of the Employee Share Bonus Plan under which shares are issued to all employees with more than a nominated period of service. Options issued to executive directors and senior executives are a result of the Executive Share Plan. Non-executive directors do not receive any performance related remuneration.

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

The remuneration structures take into account:

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

The executive directors and specified executives receive performance-based remuneration, other than MI Canny, AR Oliver and PJ Mellino who receive bonus incentives based on a percentage of divisional EBIT. SP Pradella received a bonus based on achieving certain performance outcomes, including both financial and operational targets. The bonuses received by DJ Simmons and GL Twartz are discretionary, decided by the Remuneration Committee annually and based on a wide range of factors including the financial performance of the Company.

The executive directors and specified executives are not currently entitled to contractual termination payments other than those generally applicable to all staff.

Options are issued under the Executive Share Plan, to executive directors, made in accordance with thresholds approved by shareholders at the AGM. The plan provides for 17 executives (14 executives in 2004) to receive options over ordinary shares for no consideration. The ability to exercise the options is conditional on the Company achieving certain performance outcomes. Non-executive directors do not receive any options.

Executive directors and specified executives who acquire shares through the exercise of options are provided with interest free loans by the Company in accordance with the rules of the Executive Share Plan approved by the Shareholders

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**22 Director and Executive Disclosures (continued)**

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

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

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

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**22 Director and Executive Disclosures (continued)**

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

The following table provides the details of all directors of the Company ("specified directors") and the five executives of the consolidated entity with the greatest authority ("specified executives") and the nature and amount of the elements of their remuneration for the year ended 30 June 2005.

		PRIMARY			Post-employment	Equity compensation		Other	Total	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
		Salary and fees	STI cash bonuses	Non-monetary benefits	Super-annuation benefits	Value of options	Shares	Termination benefits			
		\$	\$	\$	\$	\$	\$	\$	\$		
<b>Directors</b>											
<i>Non-executive</i>											
<b>RD Hill-Ling</b> (Chairperson)	2005	88,334	0	0	7,950	0	0	0	96,284	0.00%	0.00%
	2004	81,250	0	0	7,200	0	0	0	88,450	0.00%	0.00%
<b>JH Hill-Ling</b>	2005	66,666	0	0	6,000	0	0	0	72,666	0.00%	0.00%
	2004	56,050	0	0	4,500	0	0	0	60,550	0.00%	0.00%
<b>I Elliot</b>	2005	58,332	0	0	5,250	0	0	0	63,582	0.00%	0.00%
	2004	50,000	0	0	4,500	0	0	0	54,500	0.00%	0.00%
<b>RB Flynn</b>	2005	64,491	0	0	0	0	0	0	64,491	0.00%	0.00%
	2004	59,950	0	0	0	0	0	0	59,950	0.00%	0.00%
<b>GG Hill</b>	2005	58,332	0	0	5,250	0	0	0	63,582	0.00%	0.00%
	2004	50,000	0	0	4,500	0	0	0	54,500	0.00%	0.00%
<b>PW Stancliffe</b>	2005	64,583	0	0	5,812	0	0	0	70,395	0.00%	0.00%
	2004	50,000	0	0	4,500	0	0	0	54,500	0.00%	0.00%
<i>Executive</i>											
<b>DJ Simmons</b> (Managing Director)	2005	278,950	173,800	17,447	31,312	18,968	1,000	0	521,477	33.33%	3.64%
	2004	248,537	110,750	30,961	19,866	16,688	1,000	0	427,802	25.89%	3.90%
<b>GL Twartz</b> (Finance Director)	2005	262,665	26,000	32,895	29,977	14,226	1,000	0	366,763	7.09%	3.88%
	2004	250,555	14,400	39,371	22,550	12,516	1,000	0	340,392	4.23%	3.68%
<b>Total all specified directors</b>	2005	942,353	199,800	50,342	91,551	33,194	2,000	0	1,319,240		
	2004	846,342	125,150	70,332	67,616	29,204	2,000	0	1,140,644		
<b>Executives</b>											
<i>The Company - Hills Industries Limited</i>											
<b>MI Canny</b> Group General Manager - Home & Hardware Products	2005	165,602	67,824	10,800	20,794	14,226	1,000	0	280,246	24.20%	5.08%
	2004	158,686	146,200	15,038	14,282	12,516	1,000	0	347,722	42.05%	3.60%
<b>AR Oliver</b> Group General Manager - Antenna & TV Systems	2005	174,462	151,568	21,500	25,663	10,670	1,000	0	384,863	39.38%	2.77%
	2004	174,462	118,234	27,976	15,702	9,387	1,000	0	346,761	34.10%	2.71%
<b>PJ Mellino</b> Group General Manager - Hills Electronic Security	2005	123,902	127,130	0	11,151	4,742	1,000	0	267,925	47.45%	1.77%
	2004	131,902	129,662	2,252	11,871	4,172	1,000	0	280,859	46.17%	1.49%
<b>R Meachem</b> General Manager - DAS	2005	140,375	74,273	0	9,437	2,371	1,000	0	227,456	32.65%	1.04%
	2004	137,863	80,620	0	9,287	2,086	1,000	0	230,856	34.92%	0.90%
<b>A Colicchia</b> General Manager - Pacific Communications	2005	137,442	68,140	0	18,503	2,371	1,000	0	227,456	29.96%	1.04%
	2004	135,000	73,091	0	18,703	2,086	1,000	0	229,880	31.80%	0.91%
<b>Total Company specified executives</b>	2005	741,783	488,935	32,300	85,548	34,380	5,000	0	1,387,946		
	2004	737,913	547,807	45,266	69,845	30,247	5,000	0	1,436,078		
<i>Consolidated</i>											
<b>MI Canny</b> Group General Manager - Home & Hardware Products	2005	165,602	67,824	10,800	20,794	14,226	1,000	0	280,246	24.20%	5.08%
	2004	158,686	146,200	15,038	14,282	12,516	1,000	0	347,722	42.05%	3.60%
<b>AR Oliver</b> Group General Manager - Antenna & TV Systems	2005	174,462	151,568	21,500	25,663	10,670	1,000	0	384,863	39.38%	2.77%
	2004	174,462	118,234	27,976	15,702	9,387	1,000	0	346,761	34.10%	2.71%
<b>DM Salvaterra</b> General Manager - Ezy Strut	2005	110,105	257,519	0	25,121	0	1,000	0	393,745	65.40%	0.00%
	2004	103,408	191,526	19,250	26,544	0	1,000	0	341,728	56.05%	0.00%
<b>SP Pradella</b> Managing Director - Orrcon Holdings Pty Ltd	2005	192,195	17,452	25,510	18,868	0	0	109,391	363,416	4.80%	0.00%
	2004	193,318	41,380	22,903	17,399	0	0	0	275,000	15.05%	0.00%
<i>Former</i>											
<b>P Brodribb</b> Executive - Korvest Ltd	2005	97,924	31,910	9,625	8,813	0	500	253,225	401,997	7.94%	0.00%
	2004	146,003	74,273	19,250	9,354	0	1,000	0	249,880	29.72%	0.00%
<b>Total Consolidated specified executives</b>	2005	740,288	526,273	67,435	99,259	24,896	3,500	362,616	1,824,267		
	2004	775,877	571,613	104,417	83,281	21,903	4,000	0	1,561,091		

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**22 Director and Executive Disclosures (continued)**

The fair value of the shares issued at their issue date is the weighted average market price of the shares of the Company on the Australian Stock Exchange over the five business days preceding their issue.

The options granted during the year expire on 31 January 2007 and each option entitles the holder to purchase one ordinary share in the Company. The ability to exercise the options is conditional on the consolidated entity achieving certain performance hurdles. Once exercised, the holder is restricted from selling the shares for a period of three years.

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

**Equity instruments**

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

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

During or since the end of the previous financial year, the Company granted a total of 460,000 options over unissued ordinary shares to the following directors and to the following of the five most highly remunerated officers of the Company as part of their remuneration:

	<b>Issued During Current Period</b>	<b>Outstanding From Prior Period</b>	<b>Total on Issue</b>
<b>Director</b>			
DJ Simmons	80,000	80,000	160,000
GL Twartz	60,000	60,000	120,000
<b>Officer</b>			
MI Canny	60,000	60,000	120,000
AR Oliver	45,000	45,000	90,000
PJ Mellino	20,000	20,000	40,000
R Meachem	10,000	10,000	20,000
A Colicchia	10,000	10,000	20,000
Other officers	<u>175,000</u>	<u>65,000</u>	<u>240,000</u>
Total number of options	<u>460,000</u>	<u>350,000</u>	<u>810,000</u>
Exercise price	\$4.16	\$3.66	
Exercise date	31/12/2006	31/12/2005	
Expiry date	31/01/2007	31/01/2006	

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

All options granted in the current year were granted on 28 February 2005, have an expiration date of 31 January 2007, an exercise price of \$4.16 per option and a fair value of \$0.24 per option at grant date. The options were provided at no cost to the recipients. No options have been granted since the end of the financial year.

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

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



**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**22 Director and Executive Disclosures (continued)**

***Exercise of options granted as remuneration***

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

	<u>Number of shares</u>	<u>Amount paid per share</u>
<b>Specified directors</b>		
DJ Simmons	80,000	\$3.23
GL Twartz	40,000	\$3.23
<b>Specified executives</b>		
MI Canny	40,000	\$3.23
AR Oliver	40,000	\$3.23
PJ Mellino	20,000	\$3.23

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

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

***Option holdings***

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

	<b>Held at 1 July 2004</b>	<b>Granted as remuneration</b>	<b>Exercised</b>	<b>Held at 30 June 2005</b>	<b>Vested and exercisable at 30 June 2005</b>
<b>Specified directors</b>					
DJ Simmons	160,000	80,000	(80,000)	160,000	-
GL Twartz	100,000	60,000	(40,000)	120,000	-
<b>Specified executives</b>					
MI Canny	100,000	60,000	(40,000)	120,000	-
AR Oliver	85,000	45,000	(40,000)	90,000	-
PJ Mellino	40,000	20,000	(20,000)	40,000	-
R Meachem	10,000	10,000	-	20,000	-
A Collicchia	10,000	10,000	-	20,000	-

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

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**22 Director and Executive Disclosures (continued)**

*Equity holdings and transactions*

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

	<b>Held at 1 July 2004</b>	<b>Purchases (including dividend re- investment)</b>	<b>Received on exercise of options</b>	<b>Received as remuneration</b>	<b>Sales/ loss of control</b>	<b>Held at 30 June 2005</b>
<b>Specified directors</b>						
RD Hill-Ling	35,505,048	1,168,030	-	-	(100,000)	36,573,078
JH Hill-Ling	35,505,048	1,168,030	-	-	(100,000)	36,573,078
DJ Simmons	167,469	1,576	80,000	243	-	249,288
I Elliot	1,000	-	-	-	-	1,000
RB Flynn	18,926	6,617	-	-	(3,678)	21,865
GG Hill	57,098	6,049	-	-	-	63,147
PW Stancliffe	6,184	2,954	-	-	-	9,138
GL Twartz	70,698	1,250	40,000	243	-	112,191
<b>Specified executives</b>						
MI Canny	88,521	-	40,000	243	-	128,764
AR Oliver	93,404	2,035	40,000	243	-	135,682
PJ Mellino	24,851	-	20,000	243	-	45,094
R Meachem	4,728	293	-	243	-	5,264
P Brodribb	6,665	1,695	-	-	-	8,360
A Collicchia	1,941	124	-	243	-	2,308
SP Pradella	-	3,000	-	-	-	3,000

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**22 Director and Executive Disclosures (continued)**

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

***Loans***

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

	<b>Balance at 1 July 2004 \$</b>	<b>Balance at 30 June 2005 \$</b>	<b>Interest paid and payable during year \$</b>	<b>Difference between arm's length interest \$</b>	<b>Highest balance during year \$</b>
<b>Specified directors</b>					
DJ Simmons					
- options loan	305,109	535,608	-	25,219	553,265
GL Twartz					
- options loan	155,282	270,577	-	12,776	279,406
<b>Specified executives</b>					
MI Canny					
- options loan	155,282	270,577	-	12,776	279,406
AR Oliver					
- options loan	155,282	270,577	-	12,776	279,406
PJ Mellino					
- options loan	50,837	110,213	-	4,832	113,744
SP Pradella					
- loan	5,000,000	-	228,967	-	5,000,000

*Terms and conditions of loans*

**Options loans**

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

The arm's length market interest rate for the options loans is considered to be 6.0% per annum. The amount of arm's length interest has not been included in the remuneration of executive directors and specified executives.

**SP Pradella loan**

The loan was repaid in full during the year. (2004: The loan is interest only and due to be repaid by August 2008. The loan is secured by registered mortgage and personal guarantees and accrues interest at the rate of 1.4% per annum above the 180 day bank bill swap reference rate calculated daily and paid six monthly in arrears).

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**22 Director and Executive Disclosures (continued)**

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

	Opening balance \$	Closing balance \$	Interest paid and payable during year \$	Difference between arm's length interest \$	Number in group at 30 June
<b>Specified directors</b>					
- 2005	460,391	806,185	-	37,995	2
- 2004	205,934	460,391	-	19,990	2
<b>Specified executives</b>					
- 2005	6,975,883	651,367	228,967	30,384	3
- 2004	2,278,395	6,975,883	514,974	15,204	5

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

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

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

Details of the transactions are as follows:

	Transaction	Note	2005 \$	2004 \$
<b>Specified directors</b>				
- RD Hill-Ling	Interest expense	(i)	19,971	56,928
- JH Hill-Ling	Legal fees	(ii)	9,536	93,674
	Interest expense	(i)	-	56,928
- DJ Simmons	Interest expense	(i)	19,022	-
<b>Specified executives</b>				
- SP Pradella	Inventory purchases	(iii)	2,340,902	1,314,086
	Sales	(iii)	19,250,689	-

- (i) Two directors and a number of their personally-related entities hold cash on deposit with the Company. The Company pays interest on the deposits at rates no more favourable than market rates.
- (ii) JH Hill-Ling is a consultant to Blessington Judd, a firm of solicitors that rendered legal services to the consolidated entity in the ordinary course of business. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**22 Director and Executive Disclosures (continued)**

- (iii) Fielders Australia Pty Ltd purchased steel supplies from Australian Colour Coaters Pty Ltd, a company related to SP Pradella. Amounts were billed based on normal market rates for such supplies and were due and payable under normal payment terms. Colour Coaters also purchased supplies from the Hills Group based on normal market rates for such services and were due and payable under normal payment terms.

The aggregate amounts recognised during the year relating to specified directors, specified executives and their personally related entities were total expenses of \$2,389,431 (of which \$2,340,902 related to inventory) and total revenues of \$19,250,689.

The assets and liabilities arising from the above transactions are:

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Current assets		
- trade debtors	3,182,679	10,491
- inventories	<u>326,227</u>	<u>217,852</u>
Total current assets	<u><u>3,508,906</u></u>	<u><u>228,343</u></u>
Current liabilities		
- trade creditors	-	92,365
- interest-bearing liabilities	<u>-</u>	<u>940,965</u>
Total current liabilities	<u><u>-</u></u>	<u><u>1,033,330</u></u>

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

**23 Non-Director Related Parties**

The classes of non-director related parties are:

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

***Transactions***

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

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

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

- interest and dividends received or receivable from controlled entities Note 2(a)
- interest paid or payable to controlled entities Note 2(d)
- amounts receivable from controlled entities Note 4
- provision for amounts receivable from controlled entities Note 4
- investments in controlled entities Note 6
- amounts payable to controlled entities Note 9
- interest-bearing loans to controlled entities Note 10
- provisions in respect of controlled entities Note 11
- purchases from controlled entities Note 22
- loans paid to controlled entities Note 4
- loans received from controlled entities Notes 9 and 10

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**24 Earnings per Share**

**Classification of securities as ordinary shares**

The following securities have been classified as ordinary shares and included in basic earnings per share:  
- ordinary shares

**Classification of securities as potential ordinary shares**

The following securities have been classified as potential ordinary shares and included in diluted earnings per share only:  
- options outstanding under the Executive Share Plan

	<b>Consolidated</b>	
	<b>2005</b>	2004
	<b>\$'000</b>	\$'000
<b>Earnings reconciliation</b>		
Net profit	<b>42,463</b>	37,989
Net profit attributable to outside equity interests	<b><u>6,246</u></b>	<u>6,875</u>
Basic earnings / diluted earnings	<b>36,217</b>	31,114
Adjusted for individually significant items (after income tax and outside equity interests)		
- net gain on sale of business	<b>(1,614)</b>	(354)
- recoverable amount write down	-	500
- restructuring charge for Edwardstown plant	<b>1,610</b>	-
	<b><u>-</u></b>	<u>146</u>
Basic earnings / diluted earnings excluding individually significant items	<b><u><u>36,213</u></u></b>	<u><u>31,260</u></u>

	<b>Number of Shares</b>	
	<b>2005</b>	2004
<b>Weighted average number of shares used as the denominator</b>		
Ordinary shares	<b><u>154,117,136</u></b>	<u>138,203,255</u>
Number for basic earnings per share	<b>154,117,136</b>	138,203,255
Effect of Executive Share Plan options on issue	<b><u>31,036</u></b>	<u>61,769</u>
Number for diluted earnings per share	<b><u><u>154,148,172</u></u></b>	<u><u>138,265,024</u></u>

**25 Equity Based Remuneration**

**Executive Share Plan**

The Company has an executive share option plan approved at annual general meeting. The plan provides for 17 (2004: 14) executives to receive options over ordinary shares each year for no consideration.

Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the Rules of the plan, is based on the weighted average price of the Company's shares traded during the five business days preceding the date of granting the options.

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

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**25 Equity Based Remuneration (continued)**

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

*Summary of options over unissued ordinary shares*

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

Grant Date	Exercise Date	Expiry Date	Exercise Price	Number of Options at Beginning of Year	Options Granted	Options Lapsed	Options Exercised	Number of Options at End of Year On Issue
<b>Consolidated and Company - 2005</b>								
26/02/03	31/12/04	31/01/05	3.23	280,000	-	-	(280,000)	-
23/02/04	31/12/05	31/01/06	3.66	370,000	-	(20,000)	-	350,000
28/02/05	31/12/06	31/01/07	4.16	-	460,000	-	-	460,000
				650,000	460,000	(20,000)	(280,000)	810,000

**Consolidated and Company - 2004**

26/02/02	31/12/03	31/01/04	2.90	195,000	-	-	(195,000)	-
26/02/03	31/12/04	31/01/05	3.23	280,000	-	-	-	280,000
23/02/04	31/12/05	31/01/06	3.66	-	370,000	-	-	370,000
				475,000	370,000	0	(195,000)	650,000

Grant Date	Exercise Date	Number of Options at End of Year Vested	Proceeds Received \$	Date Issued	Number of Shares Issued	Fair Value per Share \$	Fair Value Aggregate \$
<b>Consolidated and Company - 2005</b>							
26/02/03	31/12/04	-	904,400	08/02/05	280,000	4.16	1,164,800
23/02/04	31/12/05	-	-	-	-	-	-
28/02/05	31/12/06	-	-	-	-	-	-

**Consolidated and Company - 2004**

26/02/02	31/12/03	-	565,500	04/02/04	195,000	3.94	768,300
26/02/03	31/12/04	-	-	-	-	-	-
23/02/04	31/12/05	-	-	-	-	-	-

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

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	<b>Consolidated</b>		<b>The Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**25 Equity Based Remuneration (continued)**

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

Issued ordinary share capital	<u><b>904,400</b></u>	<u><b>565,500</b></u>	<u><b>904,400</b></u>	<u><b>565,500</b></u>
-------------------------------	-----------------------	-----------------------	-----------------------	-----------------------

**Employee Share Bonus Plan**

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

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

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

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

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

<b>Grant Date</b>	<b>Number of Shares</b>	<b>Fair Value of Consideration Received \$</b>	<b>Fair Value per Share \$</b>	<b>Fair Value Aggregate \$</b>
<b>Consolidated and Company - 2005</b>				
27/09/04	276,368	-	4.07	1,124,818
29/03/05	<u>180,106</u>	<u>-</u>	4.21	<u>758,246</u>
	<u><u>456,474</u></u>	<u><u>-</u></u>		<u><u>1,883,064</u></u>
<b>Consolidated and Company – 2004</b>				
29/09/03	287,983	-	3.79	1,091,456
24/03/04	<u>176,366</u>	<u>-</u>	3.83	<u>675,482</u>
	<u><u>464,349</u></u>	<u><u>-</u></u>		<u><u>1,766,938</u></u>



**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**26 Particulars in Relation to Controlled Entities**

**Percentage Held**

<b>Parent Entity</b>				<b>2005</b>	<b>2004</b>
Hills Industries Limited			(e)		
<b>Controlled Entities</b>					
Hills Finance Pty Ltd			(e)	<b>100</b>	100
Hills Industries Limited	(1)		(c)	<b>100</b>	100
Hills Industries Limited	(2)	(b)	(c)	<b>50</b>	50
Pacific Communications Limited	(2)		(c)	<b>100</b>	100
Korvest Ltd		(b)		<b>46.6</b>	46.7
Korvest NZ Limited	(1)	(b)	(c)	<b>46.6</b>	46.7
Hills Hoists Pty Ltd			(e)	<b>100</b>	100
Bailey Aluminium Products Pty Ltd			(e)	<b>100</b>	100
Triton Manufacturing & Design Co Pty Ltd			(e)	<b>100</b>	100
Triton Workshop Systems (UK) Pty Ltd	(3)			<b>100</b>	100
Woodroffe Industries Pty Ltd			(e)	<b>100</b>	100
Fielders Australia Pty Ltd				<b>60</b>	60
Zen 99 Pty Ltd	(a)			<b>100</b>	-
Orrcon Limited			(d)	<b>100</b>	50
Orrcon Operations Pty Ltd			(d)	<b>100</b>	50
Orrcon Tubing Pty Ltd			(d)	<b>100</b>	50
Precision Tube Company Pty Ltd			(d)	<b>100</b>	50
Tube Specialist Pty Ltd			(d)	<b>100</b>	50
Access Television Services Pty Ltd	(a)			<b>100</b>	-
ATS 2004 Pty Ltd	(a)			<b>100</b>	-
Universal Communications Corp Pty Ltd	(a)			<b>100</b>	-
ACN 089 140 134 Pty Ltd	(a)			<b>100</b>	-
Audio Telex Communications Pty Ltd	(a)			<b>100</b>	-
Crestron Control Solutions Pty Ltd	(a)			<b>100</b>	-
Team Poly Pty Ltd	(a)			<b>75</b>	-
KDB Engineering Pty Ltd			(e)	<b>100</b>	100
Kerry Equipment (Aust) Pty Ltd			(e)	<b>100</b>	100
CCTV Security Solutions Australia Pty Ltd (formerly ePic Australia Pty Ltd)		(b)		<b>50</b>	50
Pathfinder Insurance Pte Ltd	(4)		(d)	<b>100</b>	100
Pacom SE Asia Pte Ltd	(4)		(d)	<b>100</b>	100
Pacific Communications Services Snd Bhd	(5)		(d)	<b>100</b>	100
Hills Nominees Pty Ltd				<b>100</b>	100
DAS Security Wholesalers Pty Ltd				<b>100</b>	100
Pacific Communications Pty Ltd				<b>100</b>	100
Pacom Security Pty Ltd			(e)	<b>100</b>	100
CBS Hardware Pty Ltd (formerly ePic@Home Security Pty Ltd)				<b>100</b>	100
Step Electronics Pty Ltd				<b>100</b>	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 29,768 (2004: 68,422) ordinary shares pursuant to its Employee Share Bonus Plan for no consideration. Hills Industries Limited does not participate in this plan. Korvest Ltd did not issue any ordinary shares pursuant to its Dividend Investment and Share Investment Plans during the current year (2004: 234,662 -\$629,120).

As a result of the above transactions, Hills Industries Limited decreased its interest in Korvest Ltd while suffering a loss of \$23,993 (2003: \$169,224) due to the dilution of its interest. The outside equity interests received a gain for the same amount.

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

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

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

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

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

**27 Deed of Cross Guarantee**

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

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

The subsidiaries subject to the Deed are:

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

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

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

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**27 Deed of Cross Guarantee (continued)**

A consolidated statement of financial performance and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed, at 30 June 2005, is set out below.

	<b>Consolidated</b>	
	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Summarised statement of financial performance and retained profits</b>		
Profit from ordinary activities before related income tax expense	<b>41,005</b>	33,927
Income tax expense relating to ordinary activities	<b>5,582</b>	7,716
<b>Net profit</b>	<b>35,423</b>	26,211
Retained profits at the beginning of the year	<b>76,946</b>	44,123
Adjustment to retained profits at the beginning of the year on inclusion of additional companies in the Class Order	-	30,138
Dividends recognised during the year	<b>(29,129)</b>	(23,526)
<b>Retained profits at the end of the year</b>	<b>83,240</b>	76,946
<b>Statement of financial position</b>		
Cash assets	<b>20,374</b>	20,222
Receivables	<b>158,701</b>	79,447
Inventories	<b>32,932</b>	32,693
<b>Total current assets</b>	<b>212,007</b>	132,362
Receivables	-	6,399
Investments	<b>118,199</b>	26,965
Property, plant and equipment	<b>69,929</b>	73,826
Intangible assets	<b>10,552</b>	15,388
Deferred tax assets	<b>19,712</b>	14,617
<b>Total non-current assets</b>	<b>218,392</b>	137,195
<b>Total assets</b>	<b>430,399</b>	269,557
Payables	<b>38,977</b>	30,807
Interest-bearing liabilities	<b>2,696</b>	17,171
Current tax liabilities	<b>1,716</b>	5,214
Provisions	<b>17,067</b>	14,228
<b>Total current liabilities</b>	<b>60,456</b>	67,420
Interest-bearing liabilities	<b>94,498</b>	26,498
Deferred tax liability	<b>1,302</b>	-
Provisions	<b>5,749</b>	3,783
<b>Total non-current liabilities</b>	<b>101,549</b>	30,281
<b>Total liabilities</b>	<b>162,005</b>	97,701
<b>Net assets</b>	<b>268,394</b>	171,856
Contributed equity	<b>158,544</b>	68,300
Reserves	<b>26,610</b>	26,610
Retained profits	<b>83,240</b>	76,946
<b>Total equity</b>	<b>268,394</b>	171,856

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**28 Additional Financial Instruments Disclosure**

**(a) Interest Rate Risk**

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

Each contract involves the quarterly payment or receipt of the net amount of interest. At 30 June 2005, the fixed rates varied from 4.60% to 6.67% (2004: 4.79% to 5.69%) and the floating rates were prevailing market rates. The weighted average effective floating interest rate at 30 June 2005 was 4.66% (2004: 4.83%).

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:

2005	Floating interest rate \$'000	Fixed interest maturing in:			Non- interest bearing \$'000	Total \$'000
		1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000		
<b>Financial assets</b>						
Cash assets	12,724	8,439	-	-	124	21,287
Receivables	-	-	-	-	155,410	155,410
Investments	-	-	-	-	102	102
	<u>12,724</u>	<u>8,439</u>	<u>-</u>	<u>-</u>	<u>155,636</u>	<u>176,799</u>
Weighted average interest rate	4.66	5.61				
<b>Financial liabilities</b>						
Payables	-	-	-	-	117,495	117,495
Bank overdrafts	7,290	-	-	-	-	7,290
Bank and other loans	3,235	94,867	-	-	538	98,640
Lease liabilities	3	-	-	-	-	3
Employee benefits	<u>27,050</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,050</u>
	<u>37,578</u>	<u>94,867</u>	<u>-</u>	<u>-</u>	<u>118,033</u>	<u>250,478</u>
Interest rate swaps *		(56,000)	56,000			
Weighted average interest rate	6.00	5.84				

\* notional principal amounts

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**28 Additional Financial Instruments Disclosure (continued)**

**(a) Interest Rate Risk (continued)**

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

\* notional principal amounts

**(b) Foreign Exchange Risk**

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

	<b>Consolidated</b>		<b>Consolidated</b>	
	<b>2005 Exchange rate</b>	<b>2004 Exchange rate</b>	<b>2005 \$'000</b>	<b>2004 \$'000</b>
Buy US dollars				
Not longer than one year	<b>0.76</b>	0.70	<b>9,576</b>	4,781
Sell US dollars				
Not longer than one year	-	0.71	-	4,499
Buy Japanese yen				
Not longer than one year	-	76.73	-	379

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**28 Additional Financial Instruments Disclosure (continued)**

**(c) Credit Risk Exposures**

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

**Recognised Financial Instruments**

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

**Unrecognised Financial Instruments**

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

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

**Valuation Approach**

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

*Recognised Financial Instruments*

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

*Unrecognised Financial Instruments*

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

	<b>Consolidated</b>	
	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
Net fair value of interest rate swaps as at the reporting date	<u><b>(173)</b></u>	<u><b>(586)</b></u>

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**29 Impact of adopting Australian equivalents to International Financial Reporting Standards**

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

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

**Transition management**

The board has established a formal implementation project, monitored by a steering committee, to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

**Assessment and planning phase**

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. This phase included:

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

The assessment and planning phase is completed as at 30 June 2005.

**Design phase**

The design phase formulated the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS. The design phase included various project teams working on areas such as treasury operations, application of impairment requirements and transitional elections.

The design phase incorporated:

formulation of revised accounting policies and procedures for compliance with AIFRS requirements  
identification of potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of AIFRS  
development of revised AIFRS disclosures  
formulation of accounting and business processes to support AIFRS reporting obligations  
identification of required changes to financial reporting and business source systems, and  
development of training programs for staff.

The design phase is completed as at 30 June 2005.

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**29 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont')**

**Implementation phase**

The implementation phase includes implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff and enables the consolidated entity to generate the required reconciliations and disclosures of AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*.

This phase is substantially complete as at 30 June 2005.

**Impact of transition to AIFRS**

The impact of transition to AIFRS, including the transitional adjustments disclosed are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report. Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

There is a significant amount of judgment involved in the preparation of the reconciliations from current Australian GAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this Note.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

Changes in financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to preparation of the 30 June 2005 financial report;  
Additional guidance on the application of AIFRS in a particular industry or to a particular transaction;  
Changes to the Company's and consolidated entity's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations. The uncertainty relating to the accounting guidance is disclosed in the relevant accounting policy note and where practicable, the expected impact of the alternative interpretation is also disclosed.

The rules for the first time adoption of AIFRS are set out in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. The accounting policies note includes details of the AASB 1 elections adopted.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below:

**(a) Reclassifications**

AASB 101 prohibits the presentation of items of income or expense as extraordinary, either on the face of the income statement or in the notes. The nature and amount of material items will be disclosed separately in the notes to the financial statements.



**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**29 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont')**

Non-current assets classified as held for sale and the assets and liabilities of a disposal group classified as held for sale will be presented separately from other assets and liabilities on the balance sheet. A non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use, the asset (or disposal group) is available for immediate sale in its current condition, and its sale is highly probable.

No adjustment is expected for the consolidated entity or for the Company.

**(b) Equity-based compensation benefits**

**Share Options – Executive Share Plan**

Under AASB 2 *Share-based Payment*, from 1 July 2004 the group is required to recognise an expense for those options that were issued to employees as part of the Executive Share Plan after 7 November 2002 but that had not vested by 1 January 2005. The fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in the share based payment reserve. The fair value will be measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employee becomes unconditionally entitled to the options. The fair value of options granted will be measured using the valuation method set out in Division 13A of the Income Tax Assessment Act, 1936. This method has been adopted as the Black-Scholes method does not reflect the number of conditions that must be met under the plan, including those applying after the shares have been allocated. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

This will result in a change to the current accounting policy under which no expense is recognised for equity-compensated compensation. The amount remaining unvested at 1 January 2004 will be recognised in the opening balance sheet through retained earnings.

For the financial year ended 30 June 2005, employee benefits expense are expected to be increased, and retained earnings decreased, by \$66,000 in the consolidated entity and \$66,000 in the company representing the options expense for the period. The Share Based Payment Reserve is expected to increase by \$85,000, comprising \$66,000 in relation to the 2005 year and \$19,000 in relation to the 2004 year.

**Shares – Employee Share Bonus Plan**

Under AASB 2 *Share-based Payment*, from 1 July 2004 the group is required to recognise an expense for those shares that were issued to employees as part of the Executive Share Plan after 7 November 2002 but that had not vested by 1 January 2005. Under AIFRS, the fair value of shares granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date using a discounted valuation method that takes into account the terms and conditions upon which the shares are granted. The discounted method is used as the shares cannot be traded for a period of seven years after vesting.

This will result in a change to the current accounting policy under which no expense is recognised for equity-compensated compensation. The amount remaining unvested at 1 January 2004 will be recognised in the opening balance sheet through retained earnings.

For the financial year ended 30 June 2005, employee benefits expense are expected to be increased, and retained earnings decreased, by \$601,000 in the consolidated entity and \$527,000 in the company representing the shares expense for the period. Share Capital is expected to increase in the consolidated entity by \$601,000 and in the Company by \$527,000.

**(c) Business combinations**

As permitted by the election available under AASB 1, the classification and accounting treatment of business combinations that occurred prior to transition date have not been restated in preparing the opening AIFRS balance sheet. The assets and liabilities are then subject to the other requirements of AASB 1, as discussed.

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**29 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont')**

Post acquisition adjustments recognised in the year ended 30 June 2005 under Australian GAAP relating to acquisitions that occurred more than 12 months earlier will be recognised through profit and loss under AIFRS, unless the adjustment relates to the correction of an error. No adjustments are expected for the consolidated entity or the Company.

**Comparative period**

Business combinations that occurred on or after 1 July 2004 will be restated to comply with AIFRS. All business combinations will be accounted for by applying the purchase method. No adjustments are expected for the consolidated entity or the Company.

**(d) Intangible assets**

**Goodwill**

Goodwill represents the difference between the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

In respect of acquisitions prior to transition date, goodwill is expected to be included on the basis of its deemed cost, which represents the amount recorded under Australian GAAP, adjusted for reclassifications of other intangible assets not meeting the AIFRS recognition criteria. No reclassifications are expected.

Goodwill will be stated at cost less any accumulated impairment losses. Goodwill will be allocated to cash generating units and tested annually for impairment.

Negative goodwill on acquisition will be recognised directly in profit and loss unless it is deemed to be a transaction with owners. Under current Australian GAAP negative goodwill is allocated to the non-monetary assets acquired. As business combinations have not been restated there is no expected impact of this change in treatment on transition.

**Research and development**

Under AIFRS expenditure on research activities will be expensed as incurred whereas under current Australian GAAP certain research costs are included within development projects and therefore capitalised.

Under AIFRS, expenditure on development activities must be capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete the development. Capitalised development expenditure will be stated at cost less accumulated amortisation and impairment losses.

On transition and as at 30 June 2005, no research expenditure had been previously capitalised and therefore no derecognition or adjustment is required.

**Other intangible assets**

Other intangible assets acquired will be stated at cost less accumulated amortisation and impairment losses. On transition other intangible assets are being reviewed to ensure they are capable of recognition under AASB 138 *Intangible Assets* and tested for impairment. No reclassifications or impairment losses are expected.

**Amortisation**

Amortisation will be recognised on a straight-line basis over the estimated useful lives of the intangible assets, unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life will not be subject to amortisation but tested for impairment annually. Other intangible assets, such as Patents, which are regarded as definite life assets will be amortised from the date they are available for use. Changes in useful life on transition to AIFRS will be accounted for prospectively.

The impact on the results for the year ended 30 June 2005 is expected to be an increase of \$587,000 from the reversal of the goodwill amortisation for the consolidated entity and \$268,000 for the Company.

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**29 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont')**

**(e) Property, plant and equipment**

Plant and equipment will be measured at cost, and land and buildings at valuation under AIFRS.

No reclassifications are expected to arise for the consolidated entity or the Company.

As carrying amounts, depreciation rates and useful economic lives are not expected to change there is no effect on the income statement for the financial year ended 30 June 2005. No adjustments are expected for the Company.

Under AIFRS the gain or loss on the disposal of property, plant and equipment will be recognised on a net basis as a gain or loss rather than separately recognising the consideration received as revenue. For the consolidated entity an amount of \$2,870,000 is expected to be reclassified from other expenses to revenue for the financial year ended 30 June 2005. For the Company an amount of \$3,008,000 is expected to be reclassified from other expenses to revenue for the financial year ended 30 June 2005.

**(f) Impairment**

Under current Australian GAAP the carrying amounts of non-current assets valued on a cost basis are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under current Australian GAAP the collectibility of receivables is assessed at each reporting date and a provision is raised based on the age and underlying quality of the outstanding overdue balance to allow for doubtful accounts.

Under AIFRS, the carrying amount of the consolidated entity's non-current assets, excluding investment property, defined benefit assets, deferred tax assets, goodwill and indefinite life intangible assets will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

Goodwill, which is not amortised under AIFRS, intangible assets that have an indefinite useful life and intangible assets not yet ready for use are tested for impairment annually.

If there is any indication that an asset is impaired (or for those tested annually), the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs will be determined.

A cash generating unit will be the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets, each cash-generating unit must be no larger than a segment.

An impairment loss will be recognised whenever the carrying amount of an asset, or its cash generating unit exceeds its recoverable amount. Impairment losses will be recognised in the income statement unless they relate to a revalued asset, where the impairment loss will be treated in the same way as a revaluation decrease.

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**29 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont')**

Impairment losses recognised in respect of a cash generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts.

Goodwill and indefinite life intangible assets will be tested for impairment as at transition date. No adjustments are expected for the consolidated entity or the Company.

**Calculation of recoverable amount**

Under current Australian GAAP, the recoverable amount of non-current assets was assessed at an entity level using undiscounted cash flows.

Under AIFRS the recoverable amount of the consolidated entity's held-to-maturity securities and receivables carried at amortised cost will be calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets will be the greater of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows will be discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or cash generating unit. Cash flows will be estimated for the asset or cash generating unit in its current condition and therefore will not include cash inflows and outflows improving or enhancing the asset's performance or expected to arise from future restructuring not yet committed to at testing date.

The impact of the change in the basis of impairment testing for trade receivables is expected to result in a nil adjustment to the doubtful debts provision for the consolidated entity as at 1 July 2005 and as at 30 June 2004. No adjustment is expected for the Company.

**Reversals of impairment**

Under current Australian GAAP impairment losses have not been reversed.

Under AIFRS an impairment loss in respect of goodwill must not be reversed. In respect of other assets, an impairment loss will be reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss will be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

There is no expected impact of this change in treatment on transition.

**(g) Taxation**

On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

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

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**29 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont')**

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences will not be provided for: goodwill for which amortisation is not tax deductible, the initial recognition of assets and liabilities that affect neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

The expected impact on the consolidated entity at 1 July 2004, of the change in basis and the transition adjustments on the deferred tax balances, the previously reported tax expense and the asset revaluation reserve, is an increase in deferred tax liabilities of \$1,258,000, an increase in retained earnings of \$35,000 and a decrease in the asset revaluation reserve of \$1,293,000. The adjustments in respect of the Company are expected to be an increase of \$1,246,000, an increase of \$35,000 and a decrease of \$1,281,000 respectively.

The expected impact of the change in basis on the tax expense for the financial year ended 30 June 2005 is an increase in tax expense by \$460,000 for the consolidated entity and \$477,000 for the Company. Deferred tax assets and deferred tax liabilities of the consolidated entity are expected to increase by \$150,000 and \$1,868,000 respectively as at 30 June 2005. For the Company the expected impact at 30 June 2005 is an increase in deferred tax assets of \$72,000 and an increase in deferred tax liabilities of \$1,795,000.

**Tax consolidation**

UIG Interpretation 1052 *Tax Consolidation Accounting* ("UIG 1052") was approved by the AASB at its meeting on 8-9 June 2005 and will need to be applied as part of the adoption of AIFRS. UIG 1052 addresses the tax effect accounting by the members of a tax-consolidated group and significantly changes the accounting under previous Australian GAAP.

Under previous Australian GAAP (UIG 52), the allocation of tax amounts to subsidiaries in a tax-consolidated group was based only on the terms of a tax funding arrangement and accordingly entities had significant discretion in determining the amount to be allocated. UIG 1052 requires subsidiaries to record tax effect accounting entries regardless of whether there is a tax funding arrangement in place. This change is because the transactions, events and balances generating tax effects at the tax-consolidated group level *occur in the subsidiary*.

UIG 1052 requires the consolidated current and deferred tax amounts for a tax-consolidated group to be allocated among the entities in the group, including the parent entity. UIG 1052 does not require a single initial income tax allocation method. However, the method adopted shall be systematic, rational and consistent with the broad principles established in AASB 112.

UIG 1052 will impact on the separate financial statements of the members of a tax-consolidated group including the head entity.

As UIG 1052 was approved by the AASB at its meeting on 8-9 June 2005, there was only a short time available between the release of the interpretation and the preparation of the 30 June 2005 annual financial report. Accordingly, it has not been possible for the consolidated entity to quantify the impact of UIG 1052 in the 30 June 2005 AASB 1047 disclosure.

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**29 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont')**

**(h) Foreign currency**

**Financial statements of foreign operations**

Under current Australian GAAP, the assets and liabilities of self-sustaining foreign operations are translated at the rates of exchange ruling at reporting date. Equity items and goodwill are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are recognised directly in the foreign currency translation reserve until disposal of the operation, when it is transferred directly to retained earnings.

The assets and liabilities of operations that are integrated are translated using the temporal method. Monetary assets and liabilities are translated at rates of exchange at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

Under AIFRS each entity in the consolidated entity determines its functional currency, the currency of the primary economic environment in which the entity operates reflecting the underlying transactions, events and conditions that are relevant to the entity. The entity maintains its books and records in its functional currency.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at the exchange rates approximating the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

There are no expected changes in functional currency for the Company or its subsidiaries.

All foreign operations are translated into Australian dollars using the method described above, the concepts of 'self-sustaining' and 'integrated' operations do not exist in the AIFRS framework.

On disposal of a foreign operation, the amount recognised in the foreign currency translation reserve attributable to the foreign operation is included in the calculation of gain or loss on disposal and recycled through the current year income statement.

The AASB 1 election to reset existing foreign currency translation reserve balance to nil is not expected to be adopted. Foreign currency translation differences that have arisen prior to the date of transition are expected to continue to be presented as a separate component of equity.

Goodwill and fair value adjustments arising on acquisition of foreign operations prior to transition date continue to be translated at historical rates as permitted by AASB 1, therefore there is no impact on transition in respect of this change.

There is no expected impact of this change in policy on the consolidated results for the year ended 30 June 2005.

**(i) Borrowing costs**

Current Australian GAAP requires borrowing costs relating to qualifying assets to be capitalised as part of the cost of the asset.

Under AIFRS borrowing costs may either be recognised as an expense in the period in which they are incurred, or where they are directly attributable to the acquisition, construction or production of a qualifying asset they may be capitalised as part of the cost of the asset.

The Company expects to apply the allowed alternative treatment under AASB 123 and therefore will continue to capitalise borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset.

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**29 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont')**

There is no expected impact on either the Company or the consolidated entity in relation to this choice of AIFRS accounting policy as there is no expected change from the current policy under Australian GAAP.

**(j) Financial instruments**

The Company expects to take advantage of the election in AASB 1 to not restate comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. There are no expected adjustments in relation to these standards for 1 July 2004 or the financial year ended 30 June 2005 as current Australian GAAP is expected to continue to apply.

The entity has followed Australian GAAP in accounting for financial instruments within the scope of AASB 132 and AASB 139 as described in Note 1 Statement of significant accounting policies. There are no expected adjustments for the consolidated entity or for the Company.

Under current Australian GAAP available-for-sale equity securities were recognised at cost. These will be recognised at fair value when AASB 139 is applied. Under current Australian GAAP not all derivatives were recognised on the balance sheet. On adoption of AASB 139 all derivatives will be recognised at fair value on the balance sheet.

***Reconciliation of net profit for the financial year ended 30 June 2005***

The following table sets out the expected adjustments to the net profit of the Company and the consolidated entity for the year ended 30 June 2005.

	Note	Consolidated \$'000	Company \$'000
Net profit as reported under AGAAP		36,217	34,872
Non amortisation of goodwill	29 (d)	587	268
Recognition of share based payment expense	29 (b)	(667)	(593)
Adjustments to income tax expense	29 (g)	(460)	(477)
Minority interest		48	0
Net profit under AIFRS		35,725	34,070
Basic earnings per share		23.2¢	22.1¢
Diluted earnings per share		23.2¢	22.1¢

***Summary of impact of transition to AIFRS on retained earnings***

The impact of the transition to AIFRS on retained earnings as at 1 July 2004 is summarised below:

	Note	Consolidated \$'000	Company \$'000
Retained earnings as at 1 July 2004 under AGAAP		97,340	42,598
Recognition of share based payment expense	29 (b)	( 19)	(19)
Adjustments to income tax expense	29 (g)	35	35
Minority interest		0	0
Retained earnings as at 1 July 2004 under AIFRS		97,356	42,614

**HILLS INDUSTRIES LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**29 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont')**

***Reconciliation of net assets***

The impact of AIFRS on net assets as at 30 June 2005 is summarised below:

	Note	Consolidated \$'000	Company \$'000
Net assets under AGAAP		312,390	221,229
Goodwill	29 (d)	587	268
Deferred tax asset	29 (g)	150	72
Deferred tax liability	29 (g)	(1,868)	(1,795)
		<hr/>	<hr/>
Net assets under AIFRS		<u>311,259</u>	<u>219,774</u>

***Reconciliation of equity***

The impact of AIFRS on equity as at 30 June 2005 is summarised below:

	Note	Consolidated \$'000	Company \$'000
Total equity under AGAAP		312,390	221,229
Contributed equity	29 (b)	601	527
Asset Revaluation Reserve	29 (g)	(1,293)	(1,281)
Share Based Payment Reserve	29 (b)	85	85
Retained profit	29(b),(d),(g)	(476)	(786)
Minority interest		(48)	0
		<hr/>	<hr/>
Total equity under AIFRS		<u>311,259</u>	<u>219,774</u>

**30 Events Subsequent to Reporting Date**

**(a) Dividends**

For dividends declared after 30 June 2005 see Note 15.

**(b) International Financial Reporting Standards**

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Financial Reporting Standards ("IFRS") as issued by the Australian Accounting Standards Board. The implementation plan and expected impact of adopting AIFRS are detailed in Note 29.



## **HILLS INDUSTRIES LIMITED**

### **DIRECTORS' DECLARATION**

- 1 In the opinion of the directors of Hills Industries Limited ("the Company"):
  - (a) the financial statements and notes, set out on pages 28 to 86, 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 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
    - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the controlled entities identified in Note 27 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.
- 3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the year ended 30 June 2005.

Dated at Edwardstown this 13th day of September 2005.

Signed in accordance with a resolution of the directors:

**JH Hill-Ling**  
Director

**DJ Simmons**  
Director

# **INDEPENDENT AUDIT REPORT TO THE MEMBERS OF HILLS INDUSTRIES LIMITED**

## **Scope**

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

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements and the directors' declaration set out on pages 28 to 87 for both Hills Industries Limited (the "Company") and Hills Industries Limited and its Controlled Entities (the "Consolidated Entity") for the year ended 30 June 2005. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

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

### *Audit approach*

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

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

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

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

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

## **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 2005 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

## **KPMG**

**Gary Savage**

Partner

Dated at Adelaide, 13 September 2005

# ASX Additional Information

Hills Industries Limited



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

## Distribution of Equity Security Holders as at 19th August 2005

Category	Number of equity security holders	
	Ordinary shares	Options
1 – 1,000	3,712	-
1,001 – 5,000	10,576	-
5,001 – 10,000	3,809	2
10,001 – 100,000	2,181	11
100,001 – and over	59	3

The number of shareholders holding less than a marketable parcel of ordinary shares at 19th August 2005 was 400.

## Twenty Largest Shareholders as at 19th August 2005

	Number of shares held	Percentage
Poplar Pty Limited	16,046,735	9.7
Hills Associates Limited	11,010,676	6.7
Jacaranda Pastoral Pty Ltd	5,665,250	3.4
Argo Investments Limited	4,298,470	2.6
JP Morgan Nominees Australia Limited	4,169,488	2.5
Australian Foundation Investment Company Limited	3,946,385	2.4
National Nominees Limited	3,705,514	2.2
Donald Cant Pty Ltd	1,723,375	1.0
Colleen Sims Nominees Pty Ltd	1,692,362	1.0
Bond Street Custodians Limited	1,359,060	0.8
Milton Corporation Limited	1,291,672	0.8
Hills Associates Limited & Poplar Pty Limited	893,584	0.5
Citicorp Nominees Pty Limited	890,424	0.5
Invia Custodian Pty Limited	870,611	0.5
ANZ Nominees Limited	795,588	0.5
Gowing Bros Limited	525,060	0.3
Tamarisk Pty Limited	500,632	0.3
Choiseul Investments Limited	468,000	0.3
RBC Global Services Australia Nominees Pty Limited	411,979	0.3
Queensland Investment Corporation	358,501	0.2

The twenty largest shareholders held 60,623,366 shares equal to 36.7% of the total issued 165,189,961 shares.

## Substantial Shareholders

The number of shares held by substantial shareholders and their associates as listed in the Company's register of substantial shareholders as at 19th August 2004 were:

	Number of shares held
Argo Investments Limited	20,992,871
Poplar Pty Limited	16,940,319
Hills Associates Limited	11,904,260

## On-Market Buy-Back

There is no current on-market buy-back.

## Offices and Officers

### Share Registry

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

### Registered Office

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

### Company Secretary

Mr Graham L Twartz

### Voting Rights

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

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

### Stock Exchange

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

### Direct Payment to Shareholders' Accounts

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

### Shareholder Enquiries / Change of Address

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

### Other Information

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

# Shareholder Information

Hills Industries Limited

## Financial Calendar

### Final Dividend

Books close 12 September 2005  
Dividend paid 26 September 2005  
Annual General Meeting 28 October 2005  
Half Year Result announced February 2006

### Interim Dividend

Books close late March 2006  
Dividend paid April 2006

### Annual General Meeting

The 48th Annual General Meeting of Hills Industries Limited will be held at the Grainger Studio  
91 Hindley Street, Adelaide SA 5000  
on Friday 28 October 2005 at 2.30pm

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

## Auditors

KPMG

## Bankers

ANZ Banking Group Limited  
National Australia Bank Limited  
Westpac Banking Corporation

## Dividends Paid

	Cents per share	Franked / unfranked	Date of payment
<b>2005</b>			
Final dividend	12.0	franked	26 September 2005
Interim dividend	12.0	franked	29 March 2005
Total dividend	24.0		

### 2004

Final dividend	11.5	franked	27 September 2004
Interim dividend	11.0	franked	29 March 2004
Total dividend	22.5		

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



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