2003 Annual Report

Progress lies not in enhancing what is, but in advancing toward what will be.

Kahil Gibram (1903-1987)

Gary Reynolds from Hills maintenance installing Hills signage using a Bailey Galaxy 10 ladder.

Contents

Happiness lies, first of all, in health.

George William Curtis (1824-1892)

An occupational therapist pushing a Kerry Equipment Quik Stand.

Overview

RECORD GROUP PROFIT AND CASH FLOW

The Hills Industries Group achieved a group profit after tax attributable to Hills shareholders of $27.3 million.
This was an increase of 14.2% over the previous year and represents the 11th consecutive year of record profits for the Group.
Our businesses continued to generate good cash flows as evidenced by the record cash flow from operations of $47.7 million for the year.

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 45% taking into account the funding needed to finance growth.
- No changes in the law in connection with the distribution of accumulated franking credits.
- Continued profitability at an acceptable level.

As a result of this policy shareholders have received a total of 21 cents per share fully franked dividends in respect of the year ended June 2003. Earnings per share for the same period were 20.7 cents. At balance date the debt to equity ratio stood at 27.9%.

Group Strategy

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

Where appropriate we will achieve geographic diversification through the establishment of off shore operations. Overall our clear objective is to grow revenue and earnings by a combination of organic growth and acquisitions. We aim to be good corporate citizens in all aspects of our business dealings and place a high regard on good corporate governance.

Trading Conditions

Trading conditions in the year under review were favourable in Australia and New Zealand. Building activity and consumer confidence returned to the economy after the uncertainty surrounding the previous year.

Both commercial and residential building activity was strong and combined with low interest rates, saw consumer demand at reasonable levels throughout the year.

Likely Developments

The domestic building cycle in Australia has enjoyed a long period of sustained high activity. Most forecasters are now predicting that this is drawing to an end. The Australian dollar has moved to levels which are less attractive for Australian manufacturers.

Despite these factors, your Directors believe that strength in the commercial building cycle and the diversification of our businesses combined with our organic growth strategies, will result in acceptable profitability for the year ending June 2004.

Hills People

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

Shareholders

During the year the number of shareholders in the Company grew by approximately 5,000 to 15,000.

In January 2003 the Company's shares were readmitted to the ASX 300 and in April 2003 to the ASX 200.

The Hills share price has remained relatively strong underpinned by consistent profitability and an attractive dividend yield. During the year shareholders had the opportunity to purchase shares in the Company under our share purchase plan at a discount of 10% to the then market price.

We continue to offer our Dividend Reinvestment Plans to shareholders at a discount level that the Directors feel is attractive for reinvestment.

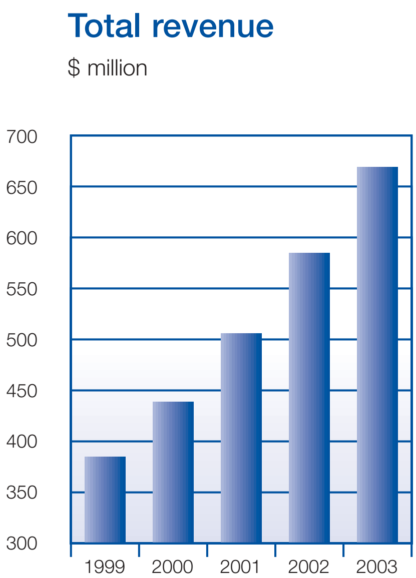
We also continued our practice of ensuring that the maximum number of employees participate in our Employee Share Plan as possible. There are now approximately 2,000 employee shareholders. We believe that widespread ownership of the Company shares by our employees has many positive benefits for both employees and the Company.

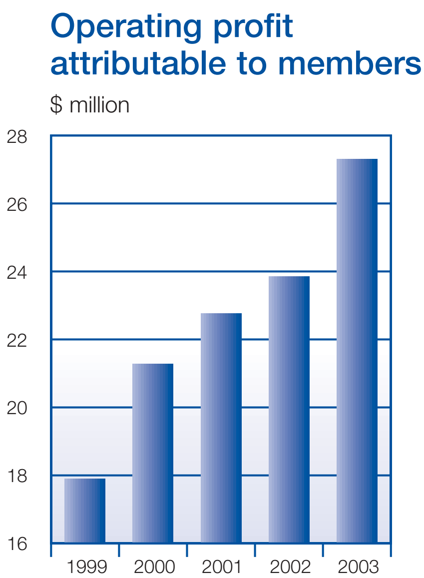
5 Year Summary

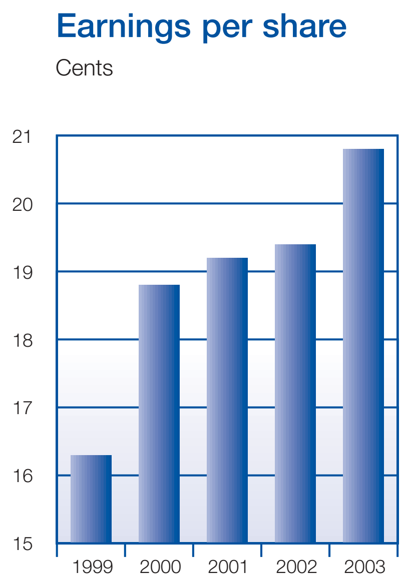
	1999	2000	2001	2002	2003
Total revenue ($'000)	382,012	439,081	506,151	585,308	**669,410** •
Operating profit attributable to members ($'000)	17,904	21,278 •	22,770	23,864	**27,315** •
Depreciation and amortisation ($'000)	9,404	11,579	10,735	13,727	**18,042**
Net borrowing costs ($'000)	1,722	1,654	3,315	4,291	**4,348**
Shareholders' equity ($'000)	104,000	113,605	123,426	136,100	**175,869**
Operating profit attributable to members					
- as a % of shareholders' equity	17.2%	18.7% •	18.4%	17.5%	**15.5 %** •
- as a % of total revenue	4.7%	4.8% •	4.5%	4.1%	**4.1 %** •
Earnings per share (cents)	16.3	18.8 •	19.2	19.4	**20.8** •
Dividends per share (cents) ◆	17.0	19.0	19.4	20.0	**21.0**
Employees at year end	2,012	2,155	2,338	2,314	**2,420**
Shareholders at year end	5,535	5,962	7,073	9,915	**14,263**

• Before individually significant and non-recurring items

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







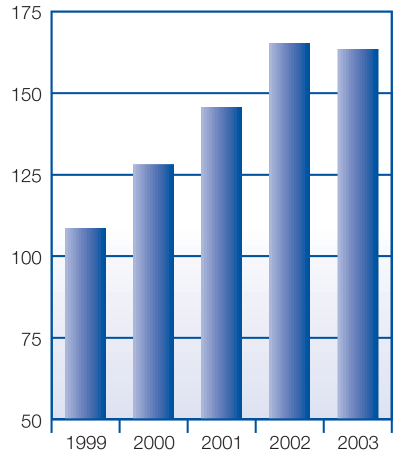
Group Profile

Electronics

Domestic and commercial alarm systems
Closed circuit television systems
Master antenna television systems
Domestic television antenna
Satellite dishes
Amplifiers
Fibre optic transmission solutions
Video and data systems
Home automation systems

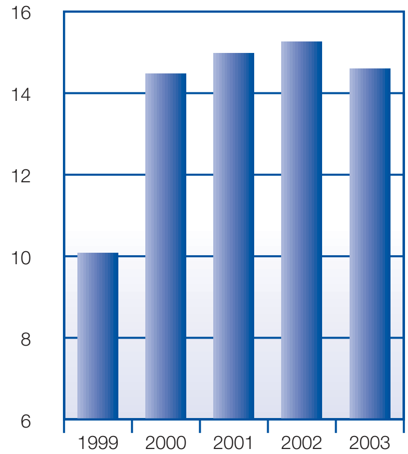
Revenue

$ million



EBIT*

$ million

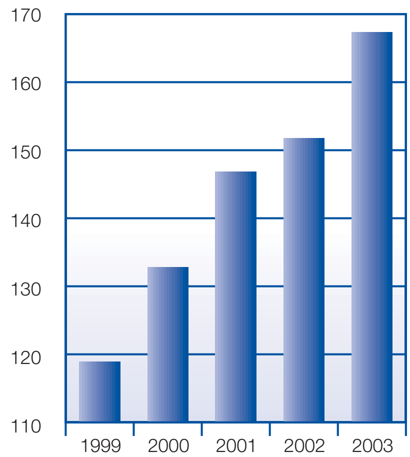


Home and Hardware

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

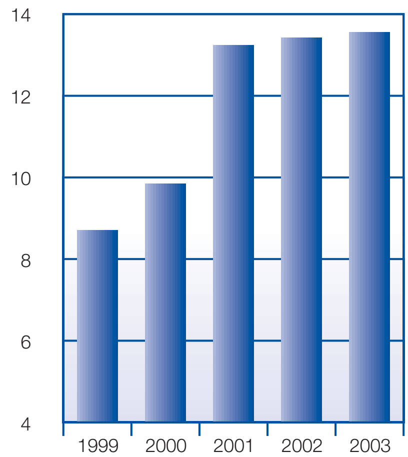
Revenue

$ million



EBIT*

$ million

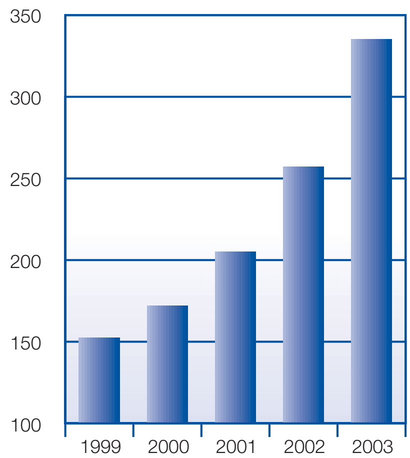


Building and Industrial

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

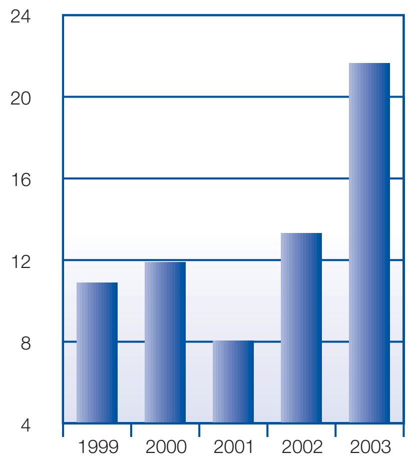
Revenue

$ million



EBIT*

$ million



*EBIT - Earnings before interest and tax


Ian Elliot


Roger Baden Flynn


Geoffrey Guild Hill


Robert Donald Hill-Ling

Ian Elliot

GAICD

Independent Non-Executive Director

Age 49

Appointed Director in August 2003.
Chairman of Zenith Media Pty Ltd and Penfold Buscombe Pty Ltd.

Geoffrey Guild Hill

FCPA FAICD ASIA BEcon(Syd) MBA(NSW)

Independent Non-Executive Director

Age 57

Appointed Director in February 1999.
Member of the Audit and Remuneration 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.

Roger Baden Flynn

BEng(Hons) MBA FIE(Aust)

Independent Non-Executive Director

Age 53

Appointed Director in November 1999.
Chairman of the Audit Committee.
Non-Executive Director of Wattyl Limited, Hartec Limited and Coventry Group Ltd.

Robert Donald Hill-Ling

AO FIE(Aust) CPEng

Chairman - Non-Executive Director

Age 70

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 Committee and member of the Audit Committee.
Director of Argo Investments Limited and Deputy Chairman of the Carrick Hill Trust.

Directors

David James Simmons

Jennifer Helen Hill-Ling

Peter William Stancliffe

Graham Lloyd Twartz

David James Simmons

BA(Accountancy) FCPA

Managing Director

Age 49

Joined the Company in 1984.
Appointed Finance Director in July 1987.
Appointed Managing Director in December 1992.
Member of the Remuneration Committee.
Director of Korvest Ltd,
Fielders Australia Pty Ltd and Orrcon Limited.

Jennifer Helen Hill-Ling

LLB(Adel)

Non-Executive Director

Age 41

Appointed Director in August 1985.
Member of the Remuneration Committee.
Consultant to Blessington Judd, solicitors.

Peter William Stancliffe

BE(Civil) MAICD

Independent Non-Executive Director

Age 55

Appointed Director in August 2003.
Chairman of Victorian Regional Executives Group.

Graham Lloyd Twartz

BA(Adel) DipAcc(Flinders)

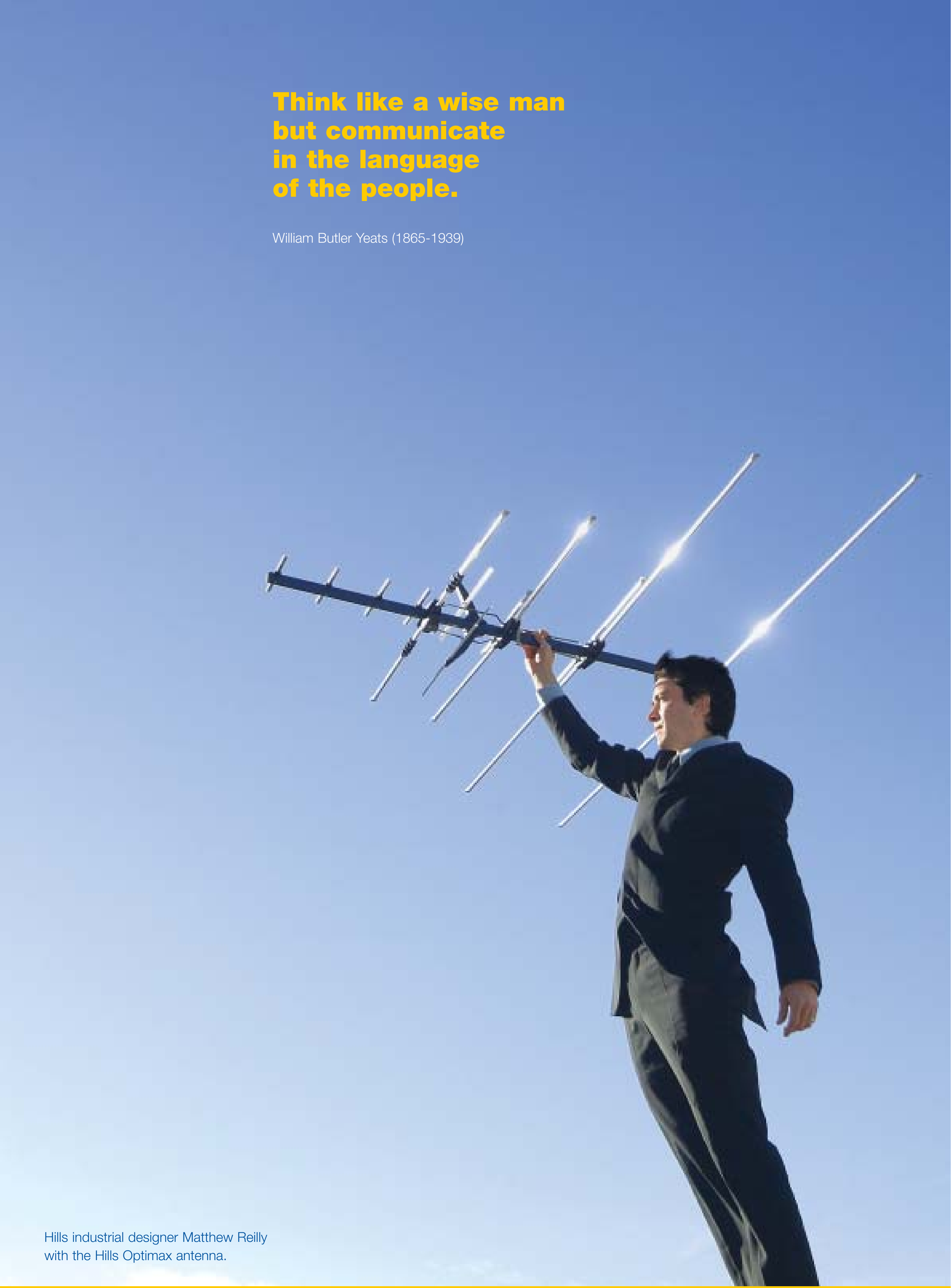
Finance Director

Age 46

Joined the Company in 1993.
Appointed Director in July 1993.
Director of Korvest Ltd,
Fielders Australia Pty Ltd and Orrcon Limited.

Think like a wise man but communicate in the language of the people.

William Butler Yeats (1865-1939)



Hills industrial designer Matthew Reilly with the Hills Optimax antenna.

Electronics

The Electronics segment comprises Hills Antenna & TV Systems and Hills Electronic Security, including Direct Alarm Supplies and Pacific Communications. Revenue of $163.6M and EBIT of $14.6M were maintained at similar levels to the previous year.

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 leading market position on the base of comprehensive customer service. As has been the trend over recent years, the profile of security throughout our community has continued to increase resulting in the greater penetration of domestic security, upgrades to commercial security applications and an increase in Government security surveillance.

Security revenues were maintained during the year, notwithstanding a major restructure in the Australian and New Zealand security industries. The slow down in a number of major dealer programmes (where alarms are installed at heavily subsidised prices if customers sign long term monitoring contracts) impacted revenues during the period. New product launch initiatives enabled us to maintain revenues in the face of this declining market.

By collaborating with a number of Australia's major home builders we were able to increase the market penetration of the Hills Home Hub system, which enables new home buyers to access our modular range of home security, lighting and other control systems by installing cost effective structured cabling systems.

Hills Antenna & TV Systems

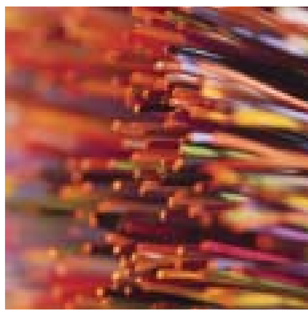
This business unit provides a full range of reception and distribution equipment for the PayTV, free to air television and wireless voice and data markets.

Hills Antenna & TV Systems increased its market share in the free to air antenna range due to the ready acceptance of the new range of Engineered For Digital antenna products. In addition, sales of equipment to PayTV providers continued at a similar level to the previous year.

During the year we closed and sold a number of small parts of this business, including our investment in Radio Frequency Systems, our antenna installation business, ePic Australia and our transport surveillance business in Australia and Europe.

Our acquisition of Signal Master in New Zealand has given this business critical mass and enabled us to become a major installer for the New Zealand PayTV operator Sky Television.

Further product range diversification is planned within this segment in the coming 12 months. There will be an increased focus on supplying integrated electronic solutions to developers of multiple dwelling units such as high rise apartment blocks, gated communities and the like.



Hills Antenna & TV Systems

DIRECT ALARM SUPPLIES

Pacific Communications CLOSED CIRCUIT VIDEO SYSTEMS

Hills Signal Master

Everything that is really great and inspiring is created by the individual who can labour in freedom.

Albert Einstein (1879-1955)

Hills employee Michael Hayward's daughter Carli with a Hills Original Supa Hoist 6 clothesline.

Home and Hardware

The Home and Hardware segment is made up of our Consumer Products operations in Australia, New Zealand and the United Kingdom, Triton and our newly acquired investment in K-Care and Kerry Equipment. During the year revenue improved by 10.2% to $167.3M and EBIT improved by 1.0% to $13.6M.

Consumer Products – Australia and New Zealand

This business unit manufactures and distributes a range of predominantly metal based branded products to consumers, trade customers and Government utilities. The new range of Oldfields branded domestic and industrial ladders were released to the market in the second half of the financial year. Marketed as 'Australia's strongest ladders' we are confident that this new range will enable us to continue to grow this important product segment.

We remain committed to a strong new product innovation programme for all product segments. This will include enhancements on our current products and additional product ranges such as the ClosetMaid by Hills range of storage products.

The increased value of the Australian dollar reduces the competitive position of this business unit, however, the coming year should see continuing improvement as housing completions remain at high levels and our new product initiatives take hold.

Triton

This business unit manufactures and distributes a range of products for the Do-It-Yourself home woodworking market.

Triton released a number of new woodworking products during the year including a powered respirator. The world leading and patented Triton Router was successful in winning the power tool of the year award in the United States.

We are confident we can receive increased export success in the coming year notwithstanding the current level of the Australian dollar.

Hills United Kingdom

This business unit based in Wales in the United Kingdom manufactures a range of outdoor drying products for sale in the UK and Europe. On 1 July 2002 we sold 50% of this subsidiary to form a joint venture with Freudenberg Household Products. Using their market leading Vileda brand, we believe that this business now has the potential to grow significantly.

The year under review was something of a transition year unfortunately marked by a number of manufacturing and other difficulties experienced during the peak selling season. Corrective action has been taken to enable productivity improvements and rapid expansion of our sales into continental Europe.

K-Care and Kerry Equipment

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

The K-Care Group was acquired on 1 October 2002 and has performed in line with expectations. We see the products of this business unit as providing significant growth opportunities for Hills due to the ageing population and the emerging trend for rehabilitation and aged care at home.

The best and safest thing to keep a balance in your life, acknowledge the great powers around us and in us.

Euripedes (484-406BC)

Fielders contractors installing a new steel floor in Melbourne.

Building and Industrial

The Building and Industrial segment consists of Orrcon, Fielders, Korvest and Woodroffe Equipment. Revenue improved by 26.0% to $331.9M and EBIT improved by 62.4% to $21.7M.

Orrcon

This business unit manufactures and distributes a complete range of steel tubing and piping. During the year our Pipe & Large Tube business commenced operations in Wollongong. This operation has allowed us to expand our structural section range. The plant is now refining its production processes as we move to achieve American Petroleum Institute (API) accreditation for Gas Pipeline products towards the end of this calendar year.

The traditional Precision and Structural tubing business of Orrcon continued to increase its market share and profitability.

Given the continuing strength in the Australian economy, further growth in this business is expected this year.

Fielders

This business unit manufactures and distributes a range of rollformed metal building products (roof and gutter material, downpipes, steel flooring systems and purlins) for the commercial and building industries throughout Australia.

Sales and profitability grew as a result of the strength in the building market and perhaps more importantly as a result of the introduction of new products.

A number of new contracts have recently been won by Fielders, including supplying products to the high profile redevelopment of the Melbourne Cricket Ground. Our unique roofing systems, including WideKlip® 760 (which is rollformed on site by our mobile rigs) and our flooring systems, including KF70®, have enabled us to distinguish ourselves in the rollforming market.

Further improvement is expected due to the strength of the commercial building market, further new product introductions, and improvements in our Eastern state operations.

Korvest

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

Korvest had an excellent result for the year with the strength of the commercial and industrial building market being the major influence.

Corporate Governance Statement

Hills Industries Limited and its Controlled Entities

Responsibilities

The Board of Directors' primary role is the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the effective corporate governance of the consolidated entity through:

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

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

Board of Directors

The Board consists of six non-executive directors of which four are independent non-executive directors, the Managing Director and one other executive director. The composition of the Board is monitored to ensure that the Board has an appropriate mix of experience, qualifications and expertise. Profiles of the directors are set out in the Directors' Report, along with details of their attendances at Board and Board Committee meetings.

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

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

Committees

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

The Audit Committee has a documented Charter, approved by the Board. All members are non-executive directors with a majority being independent. The Chairman is not the Chairman of the Board. The Committee advises on the establishment and maintenance of internal controls and appropriate ethical standards for the management of the consolidated entity.

The members of the Audit Committee during the year were:

RB Flynn (Chairman, appointed 5 February 2003) – Independent Non-Executive

RD Hill-Ling – Non-Executive

GG Hill – Independent Non-Executive

JH Hill-Ling (resigned 26 May 2003) – Non-Executive

The Audit Committee has such members of management attend its meetings as it deems appropriate and has access to both the internal and external auditors and senior management of the consolidated entity. The Committee meets at least four times a year and its primary responsibilities are:

- oversees compliance with statutory responsibilities relating to financial disclosure and other external reporting requirements;
- reviews the Company's policies and procedures for convergence with International Financial Reporting Standards for reporting periods beginning on 1 July 2005;
- monitors corporate risk assessment, systems and the internal controls instituted;
- reviews the Company's corporate governance processes and ensures that they are consistent with current best practice, including the Australian Stock Exchange Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations;
- reviews and directs the consolidated entity's internal audit department, its activities and work program;
- reviews the annual audit strategy with the external auditors;
- reviews the findings and reports of the external auditors;
- considers whether non-audit services provided by the external auditors are consistent with maintaining the external auditors' independence;
- reviews the nomination and performance of the external auditors. The current auditors of the Company and its antecedent firms were appointed at incorporation on 27 June 1957. The lead engagement partner was last rotated in 1998 and will be rotated off in 2005;
- reviews the half-yearly and annual Australian Stock Exchange releases and financial statements with management and the external auditors immediately before their submission to the Board;
- reviews the nature and impact of any changes in accounting policies during the year and provides a recommendation to the Board on their adoption; and
- examines any other matters referred to it by the Board.

Corporate Governance Statement

Committees (continued)

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Group Managing Director, senior executives and directors themselves. It is also responsible for the allocation of share options.

The members of the remuneration committee during the year were:

RD Hill-Ling (Chairman) – Non-Executive

DJ Simmons – Group Managing Director

GG Hill – Independent Non-Executive

JH Hill Ling – Non-Executive

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

Risk Management

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

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

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

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

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

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

Continuous Disclosure

The Board has established continuous disclosure controls throughout the consolidated entity that are designed to protect the Company's and shareholders' interests. The Board is aware of all material issues and ensures that legislative disclosure obligations are met and that risks in the business are identified and action taken to minimise those risks. GL Twartz (Finance Director) is responsible for communications with the Australian Stock Exchange.

Share Trading

The Board has in place a share trading policy specifying that directors and officers of the consolidated entity are precluded from buying or selling securities in the Company:

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

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

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

This subject is considered at each board meeting being a standing agenda item.

Principles of Good Corporate Governance

The Board has reviewed the Australian Stock Exchange Corporate Governance Council's Principles of Good Corporate Governance and incorporated them into the Company's own corporate governance policies. The Board has also undertaken a detailed review of the Best Practice Recommendations and determined that the consolidated entity currently complies with the vast majority of them. The Board has developed a program to consider each of the recommendations that the consolidated entity does not currently comply with in order to determine their appropriateness to the future of the consolidated entity. All of the recommendations deemed appropriate will be implemented during the current year. Those not adopted will be reported in the 2004 annual report in accordance with the Australian Stock Exchange Listing Rules.

Directors' Report

Hills Industries Limited and its Controlled Entities

The directors present their report together with the financial report of Hills Industries Limited ('the Company') and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2003 and the auditor's report thereon.

Directors

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

Robert Donald Hill-Ling AO FIE(Aust) CPEng

Chairman - Non-Executive Director

Age 70. 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 Committee and member of the Audit Committee.
Director of Argo Investments Limited and Deputy Chairman of the Carrick Hill Trust.

David James Simmons BA(Accountancy) FCPA

Managing Director

Age 49. Joined the Company in 1984. Appointed Finance Director in July 1987. Appointed Managing Director in December 1992.
Member of the Remuneration Committee.
Director of Korvest Ltd, Fielders Australia Pty Ltd and Orrcon Limited.

Ian Elliot GAICD

Independent Non-Executive Director

Age 49. Appointed Director in August 2003.

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

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

Independent Non-Executive Director

Age 53. Appointed Director in November 1999.

Chairman of the Audit Committee.
Non-Executive Director of Wattyl Limited, Hartec Limited and Coventry Group Ltd.

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

Independent Non-Executive Director

Age 57. Appointed Director in February 1999.

Member of the Audit and Remuneration 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.

Jennifer Helen Hill-Ling LLB(Adel)

Non-Executive Director

Age 41. Appointed Director in August 1985.

Member of the Remuneration Committee.
Consultant to Blessington Judd, solicitors.

Peter William Stancliffe BE(Civil) MAICD

Independent Non-Executive Director

Age 55. Appointed Director in August 2003.

Chairman of Victorian Regional Executives Group.

Graham Lloyd Twartz BA(Adel) DipAcc(Flinders)

Finance Director

Age 46. Joined the Company in 1993. Appointed Director in July 1993.

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

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 Committee Meetings		Remuneration Committee Meetings	
Director	Attended	Held	Attended	Held	Attended	Held
RD Hill-Ling	13	14	4	4	2	2
DJ Simmons	14	14			2	2
RB Flynn	14	14	2	2		
GG Hill	14	14	3	4	2	2
JH Hill-Ling	13	14	3	4	2	2
GL Twartz	14	14				

I Elliot and PW Stancliffe were appointed as directors after the end of the financial year.

Directors' Report

Hills Industries Limited and its Controlled Entities

Consolidated Result

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

	2003 $'000	2002 $'000
Profit from ordinary activities after related income tax expense	**33,926**	26,433
Net profit attributable to outside equity interests	**6,678**	2,569
Net profit attributable to members of the Company	**27,248**	23,864

Principal Activities

The principal activities of the consolidated entity during the financial year were the manufacture and distribution of outdoor drying products, laundry aids, ladders, children's play equipment, wheelbarrows, garden sprayers, security doors, Do-It-Yourself woodworking equipment, rehabilitation and mobility equipment, television antenna, satellite dishes, closed circuit television systems, master antenna television systems, electronic security products, fibre optic transmission solutions, video and data systems, home automation systems, precision and structural steel tubing, roll formed building products, steel flooring systems, steel door frames, carport and shed systems, hot dip galvanising, cable and pipe support systems, office storage systems, stainless steel products and precision metal enclosures.

The consolidated entity's involvement in the manufacture and distribution of rehabilitation and mobility equipment is a result of the acquisition of 100% of the K-Care Group effective 1 October 2002.

Review and Results of Operations

The Hills Industries Group achieved a group profit after tax attributable to Hills' shareholders of $27.248 million. This was an increase of 14.2% over the previous year and represents the 11th consecutive year of record profits for the Group. The Group's three main industry segments continued to generate good cash flows as evidenced by the record cash flows from operations of $47.656 million for the year.

Trading conditions in the year under review were favourable in Australia and New Zealand. Building activity and consumer confidence returned to the economy after the uncertainty surrounding the previous year. Both commercial and residential building activity was strong and, combined with low interest rates, saw consumer demand at reasonable levels throughout the year.

The results for the individual business units were as follows:

Electronics

	2003 $'000	2002 $'000	% Change
Total Revenue	**163,572**	165,412	- 1.1
Operating profit before interest and tax	**14,610**	15,269	- 4.3

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 leading market position on the base of comprehensive customer service. As has been the trend over recent years, the profile of security throughout our community has continued to increase resulting in greater penetration of domestic security, upgrades to commercial security applications and an increase in Government security surveillance.

Security revenues were maintained during the year, notwithstanding a major restructure in the Australian and New Zealand security industries. The slow down in a number of major dealer programmes (where alarms are installed at heavily subsidised prices if customers sign long term monitoring contracts) impacted revenues during the period. New product launch initiatives enabled us to maintain revenues in the face of this declining market.

By collaborating with a number of Australia's major home builders we were able to increase the market penetration of the Hills Home Hub system, which enables new home buyers to access our modular range of home security, lighting and other control systems by installing cost effective structured cabling systems.

Hills Antenna & TV Systems

This business unit provides a full range of reception and distribution equipment for the PayTV, free to air television, wireless voice and data markets. It increased its market share in the free to air antenna range due to the ready acceptance of the new range of Engineered For Digital antenna products. In addition, sales of equipment to PayTV providers continued at a similar level to the previous year.

During the year we closed and sold a number of small parts of this business, including our investment in Radio Frequency Systems, our Antenna installation business, ePic Australia and our Transport Surveillance business in Australia and Europe.

Our acquisition of Signal Master in New Zealand has given this business critical mass and enabled us to become a major installer for the New Zealand PayTV operator Sky Television.

Further product range diversification is planned within this segment in the coming 12 months. There will be an increased focus on supplying integrated electronic solutions to developers of multiple dwelling units such as high rise apartment blocks, gated communities and the like.

Directors' Report

Hills Industries Limited and its Controlled Entities

Review and Results of Operations (cont.)

Home and Hardware

	2003 $'000	2002 $'000	% Change
Total Revenue	**167,335**	151,812	+ 10.2
Operating profit before interest and tax	**13,562**	13,423	+ 1.0

Consumer Products – Australia and New Zealand

This business unit manufactures and distributes a range of predominantly metal based branded products to consumers, trade customers and Government utilities. The new range of Oldfield branded domestic and industrial ladders was released to the market in the second half of the financial year. Marketed as 'Australia's strongest ladders' we are confident that this new range will enable us to continue to grow this important product segment.

We remain committed to a strong new product innovation programme for all product segments. This will include enhancements on our current products and additional product ranges such as the 'ClosetMaid by Hills' range of storage products.

The increased value of the Australian dollar reduces the competitive position of this business unit, however, the coming year should see continuing improvement as housing completions remain at high levels and our new product initiatives take hold.

Triton

This business unit manufactures and distributes a range of products for the Do-It-Yourself home woodworking market.

Triton released a number of new woodworking products during the year including a powered respirator. The world leading and patented Triton Router was successful in winning the Power Tool of the Year award in the United States.

We are confident we can receive increased export success in the coming year notwithstanding the current level of the Australian dollar.

Hills United Kingdom (50% owned)

This business unit based in Wales in the United Kingdom manufactures a range of outdoor drying products for sale in the UK and Europe. On the 1 July 2002 we sold 50% of this subsidiary to form a joint venture with Freudenberg Household Products. Using their market leading Vileda brand, we believe that this business now has the potential to grow significantly.

The year under review was something of a transition year unfortunately marked by a number of manufacturing and other difficulties experienced during the peak selling season. Corrective action has been taken to enable productivity improvements and rapid expansion of our sales into continental Europe.

K-Care and Kerry Equipment

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

The K-Care Group was acquired on 1 October 2002 and has performed in line with expectations. We see the products of this business unit as providing significant growth opportunities for Hills due to the ageing population and the emerging trend for rehabilitation and aged care at home.

Building and Industrial

	2003 $'000	2002 $'000	% Change
Total Revenue	**331,902**	263,436	+ 26.0
Operating profit before interest and tax	**21,654**	13,332	+ 62.4

Orrcon (50% owned)

This business unit manufactures and distributes a complete range of steel tubing and piping. During the year our Pipe & Large Tube business commenced operations in Wollongong. This operation has allowed us to expand our structural section range. The plant is now refining its production processes as we move to achieve American Petroleum Institute (API) accreditation for Gas Pipeline products towards the end of this calendar year.

The traditional Precision and Structural tubing business of Orrcon continued to increase its market share and profitability. Given the continuing strength in the Australian economy, further growth in this business is expected this year.

Fielders (60% owned)

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

Sales and profitability grew as a result of the strength in the building market and perhaps, more importantly, as a result of the introduction of new products. A number of new contracts have recently been won by Fielders, including supplying products to the high profile redevelopment of the Melbourne Cricket Ground. Our unique roofing systems, including WideKlip® 760 (which is rollformed on site by our mobile rigs) and our flooring systems, including KF70®, have enabled us to distinguish ourselves in the roll-forming market.

Further improvement is expected due to the strength of the commercial building market, further new product introductions and improvements in our Eastern state operations.

Korvest (46% owned)

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

Korvest had an excellent result for the year with the strength of the commercial and industrial building market being the major influence.

Directors' Report

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 and provided for in last year's report:			
– final – ordinary	10.0	12,600	30 September 2002
In respect of the current financial year:			
Relating to previous year			
– over provision of final dividend		(14)	
– final dividend forgone for Share Investment Plan		(2,700)	
Paid or declared during the year			
– interim – ordinary	10.5	13,949	24 March 2003
– interim dividend forgone for Share Investment Plan		(3,043)	
Paid or declared after end of year			
– final – ordinary	10.5	14,200	29 September 2003
		22,392	

	Note		
Dealt with in the financial report as:			
– dividends	16	20,792	
– adjusted against opening retained earnings on adoption of AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets'	2	(12,600)	
		8,192	
– Noted as a subsequent event	16	14,200	
		22,392	

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 45% taking into account the funding needed for growth;

– no changes in the law in connection with the distribution of accumulated franking credits; and

– continued profitability at an acceptable level.

Directors' Report

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:

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

The pricing for the sale of 50% of the issued shares in Hills UK was equal to 50% of the net assets of Hills UK as at 1 July 2002. Accordingly, there was no material profit impact and the consolidated entity received $6.198 million cash consideration.

Under the terms of the joint venture agreement, Freudenberg has a put option to sell back to the consolidated entity its interest in Hills UK for 60% of the total amount paid with economic effect as of 30 June 2005.

Effective 1 October 2002, the Company acquired the K-Care Group, comprising KDB Engineering Pty Ltd and Kerry Equipment (Aust) Pty Ltd, for $20.341 million. The K-Care Group manufactures and distributes rehabilitation and mobility equipment and is included in the consolidated entity's Home and Hardware segment.

On 17 December 2002, the Orrcon Pipe and Large Tube manufacturing facility established in Wollongong and costing $12.000 million was commissioned and is supplying large structural tube into the Australian market. The facility is now refining its production processes to achieve American Petroleum Institute (API) accreditation for gas pipeline products.

On 30 January 2003, the Company sold its 30% investment in Radio Frequency Systems Pty Ltd. The profit resulting from this sale was $3.133 million and has been treated as an individually significant item in the financial statements.

Also during the year, a decision was made to suspend the business of ePic Australia Pty Ltd and, as a result, to write off future income tax benefits recorded in earlier years that may no longer be recovered. Accordingly, $1.195 million was written off as an individually significant income tax expense item.

Later in the year, our US based 50% partner in ePic Australia Pty Ltd filed for bankruptcy protection. Accordingly, the minority interest in the accumulated losses of ePic Australia Pty Ltd of $2.005 million were written off. This amount has been included as an individually significant outside equity interest item.

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 Balance Date

The Company will be the head entity in a tax-consolidated group comprising the Company and all of its Australian wholly-owned subsidiaries, from the date of lodgement of the first consolidated income tax return in respect of the year ended 30 June 2003. The financial effect of this change has not been brought to account in the financial statements for the year ended 30 June 2003. The net of deferred tax assets over deferred tax liabilities of the wholly-owned subsidiaries of $815,000 will be transferred to the Company as at 1 July 2003 for no consideration. This will generate income tax revenue of $815,000.

The ultimate financial effect of the Tax Consolidation legislation may differ from these amounts as a result of Urgent Issues Group deliberations and final calculations and decisions under the legislation.

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

Likely Developments

The domestic building cycle in Australia has enjoyed a long period of sustained high activity. Most forecasters are now predicting that this is drawing to an end. The Australian dollar has moved to levels which are less attractive for Australian manufacturers. Despite these factors, your Directors believe that strength in the commercial building cycle and the diversification of our businesses combined with our organic growth strategies, will result in acceptable profitability for the year ending June 2004.

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

Directors' and Senior Executives' Emoluments

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

Executive directors and senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity (including operational results). Shares issued to executive directors and senior executives are a result of the Employee Share Bonus Plan under which shares are issued to all employees with more than one year of service. Options issued to executive directors and senior executives are a result of the Executive Share Plan. Non-executive directors do not receive any performance related remuneration.

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

	Base Emolument $	Incentive $	Options $	Other Benefits $	Total $
Director					
RD Hill-Ling	76,000	-	-	8,090	84,090
DJ Simmons	219,913	104,150	14,728	60,937	399,728
RB Flynn	49,050	-	-	-	49,050
GG Hill	45,000	-	-	4,050	49,050
JH Hill-Ling	45,000	-	-	7,300	52,300
GL Twartz	237,023	10,000	7,364	55,227	309,614

I Elliot and PW Stancliffe were appointed as directors after the end of the financial year.

	Base Emolument $	Incentive $	Options $	Other Benefits $	Total $
Officer					
The Company *					
MI Canny	132,450	143,925	7,364	47,271	331,010
AR Oliver	155,387	105,372	7,364	38,535	306,658
PJ Mellino	95,908	147,035	3,682	9,632	256,257
TA Payze	191,514	-	3,682	23,236	218,432
A Colicchia	125,000	-	-	27,250	152,250
Consolidated #					
MI Canny	132,450	143,925	7,364	47,271	331,010
AR Oliver	155,387	105,372	7,364	38,535	306,658
SP Pradella	196,929	21,229	-	44,364	262,522
PJ Mellino	95,908	147,035	3,682	9,632	256,257
JA Easling	198,676	-	1,841	43,823	244,340

* Hills Industries Limited
# Hills Industries Limited and its controlled entities

The options granted during the year expire on 31 January 2005 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. Further details of options granted during the year are set out under 'Options' below.

Directors' Report

Hills Industries Limited and its Controlled Entities

Options

During or since the end of the financial year, the Company granted a total of 300,000 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:

	Number of Options Granted			
	Issued During Current Period	Issued During Prior Period	Lapsed During Current Period	Total on Issue
Director				
DJ Simmons	80,000	60,000	-	140,000
GL Twartz	40,000	35,000	-	75,000
Officer				
MI Canny	40,000	35,000	-	75,000
AR Oliver	40,000	35,000	-	75,000
PJ Mellino	20,000	10,000	-	30,000
TA Payze	20,000	10,000	-	30,000
Other officers	60,000	60,000	(70,000)	50,000
Total number of options	300,000	245,000	(70,000)	475,000
Exercise price	$3.23	$2.90		
Exercise date	31/12/04	31/12/03		
Expiry date	31/01/05	31/01/04		

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

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

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

Shares Issued on Exercise of Options

During or since the end of the financial year, the Company issued 195,000 ordinary shares as a result of the exercise of options. The amount paid on each share was $2.50. There are no unpaid amounts on the shares issued.

Directors' Interests

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

	Hills Industries Limited		Korvest Ltd
	Ordinary Shares	Options over Ordinary Shares	Ordinary Shares
Director			
RD Hill-Ling #	15,368,892	-	73,329
DJ Simmons	105,703	140,000	500
I Elliot	1,000	-	-
RB Flynn	17,826	-	-
GG Hill	3,785	-	-
JH Hill-Ling *#	10,771,817	-	-
PW Stancliffe	5,000	-	-
GL Twartz	34,825	75,000	500

* includes 10,294,245 shares owned by Hills Associates Limited

includes 396,443 shares owned by Hills Associates Limited and Poplar Pty Limited

Insurance of Directors and Officers

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

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

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

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

Rounding Off

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

Dated at Edwardstown this 16th day of September 2003.

Signed in accordance with a resolution of the directors:

RD Hill-Ling
Director

DJ Simmons
Director

Statements of Financial Performance

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

		Consolidated		The Company	
	Note	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000
Revenues from ordinary activities	3	**673,662**	585,308	**268,262**	257,002
Expenses from ordinary activities, excluding borrowing costs	3	**618,911**	541,316	**242,549**	231,885
Borrowing costs	3	**4,930**	4,784	**1,202**	1,417
Profit from ordinary activities before related income tax expense		**49,821**	39,208	**24,511**	23,700
Income tax expense relating to ordinary activities	4	**15,895**	12,775	**7,494**	6,091
Profit from ordinary activities after related income tax expense		**33,926**	26,433	**17,017**	17,609
Net profit attributable to outside equity interests		**6,678**	2,569	**-**	-
Net profit attributable to members of the Company		**27,248**	23,864	**17,017**	17,609
Non-owner transaction changes in equity:					
• Increase in asset revaluation reserve	14	**888**	-	**-**	-
• Net exchange differences on translation of financial statements of self-sustaining foreign operations	14	**(557)**	481	**-**	-
Total revenues, expenses and valuation adjustments attributable to members of the Company recognised directly in equity		**331**	481	**-**	-
Total changes in equity from non-owner related transactions attributable to members of the Company		**27,579**	24,345	**17,017**	17,609
Basic earnings per share	25	**20.7¢**	19.4¢		
Diluted earnings per share	25	**20.7¢**	19.3¢		
Basic earnings per share excluding individually significant items		**20.8¢**	19.4¢		

The statements of financial performance are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 26 to 49.

Statements of Financial Position

At at 30 June 2003. Hills Industries Limited and its Controlled Entities

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
CURRENT ASSETS					
Cash assets		**6,297**	6,500	**6,228**	-
Receivables	5	**109,020**	105,808	**53,998**	48,189
Inventories	6	**83,613**	75,308	**25,381**	27,100
Total current assets		**198,930**	187,616	**85,607**	75,289
NON-CURRENT ASSETS					
Receivables	5	**1,918**	2,000	**1,918**	2,000
Investments	7	**14**	1,163	**52,870**	30,994
Property, plant and equipment	8	**147,279**	130,323	**47,208**	45,872
Intangible assets	9	**17,539**	6,511	**3,886**	5,508
Deferred tax assets		**16,208**	14,954	**10,429**	9,656
Total non-current assets		**182,958**	154,951	**116,311**	94,030
Total assets		**381,888**	342,567	**201,918**	169,319
CURRENT LIABILITIES					
Payables	10	**71,865**	69,169	**51,072**	33,892
Interest bearing liabilities	11	**7,959**	15,034	**954**	4,815
Current tax liabilities		**8,048**	5,648	**2,960**	687
Provisions	12	**21,600**	33,101	**13,155**	20,886
Total current liabilities		**109,472**	122,952	**68,141**	60,280
NON-CURRENT LIABILITIES					
Interest bearing liabilities	11	**55,742**	58,196	**10,606**	19,665
Deferred tax liabilities		**1,464**	1,570	-	-
Provisions	12	**9,097**	4,293	**8,291**	3,700
Total non-current liabilities		**66,303**	64,059	**18,897**	23,365
Total liabilities		**175,775**	187,011	**87,038**	83,645
Net assets		**206,113**	155,556	**114,880**	85,674
EQUITY					
Contributed equity	13	**60,109**	39,728	**60,109**	39,728
Reserves	14	**26,008**	25,676	**11,326**	11,326
Retained profits	15	**89,752**	70,696	**43,445**	34,620
Total Company interest		**175,869**	136,100	**114,880**	85,674
Outside equity interests	17	**30,244**	19,456	-	-
Total equity	18	**206,113**	155,556	**114,880**	85,674

The statements of financial position are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 26 to 49.

Statements of Cash Flows

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Cash Flows from Operating Activities					
Cash receipts in the course of operations		**731,719**	638,896	**282,597**	274,530
Cash payments in the course of operations		**(664,807)**	(593,512)	**(250,181)**	(250,400)
Interest received		**587**	491	**1,184**	845
Dividends received		**-**	551	**3,683**	1,046
Borrowing costs paid		**(4,852)**	(4,740)	**(1,138)**	(1,417)
Incomes taxes paid		**(14,991)**	(10,855)	**(5,995)**	(8,291)
Net cash provided by operating activities	19(b)	**47,656**	30,831	**30,150**	16,313
Cash Flows from Investing Activities					
Proceeds on disposal of property, plant and equipment		**2,123**	1,405	**647**	432
Payments for property, plant and equipment		**(30,469)**	(27,585)	**(7,439)**	(6,314)
Proceeds on disposal of investments		**4,283**	13	**4,282**	13
Payments for investments		**(2)**	(30)	**(18,140)**	(1,030)
Payments for intangible assets		**(109)**	(982)	**(109)**	(885)
Proceeds on disposal of businesses	19(c)	**7,029**	-	**370**	-
Payments for businesses (net of cash acquired)	19(d)	**(16,736)**	(617)	**-**	-
Proceeds from repayments of loans		**594**	-	**9,660**	-
Payment of loans		**(1,476)**	(3,611)	**(13,873)**	(16,569)
Rent received		**815**	851	**1,496**	1,727
Net cash used in investing activities		**(33,948)**	(30,556)	**(23,106)**	(22,626)
Cash Flow from Financing Activities					
Proceeds from borrowings		**22,953**	10,732	**12,513**	10,733
Repayment of borrowings		**(25,999)**	(4,000)	**(9,282)**	-
Finance lease payments		**(699)**	(654)	**-**	-
Proceeds from issue of shares		**20,381**	8,977	**20,381**	8,977
Dividends paid		**(20,792)**	(17,048)	**(20,792)**	(17,048)
Proceeds from equity contributed by outside equity interests		**68**	3,030	**-**	-
Dividends paid to outside equity interests		**(2,070)**	(925)	**-**	-
Net cash provided by / (used in) financing activities		**(6,158)**	112	**2,820**	2,662
Net increase / (decrease) in cash held		**7,550**	387	**9,864**	(3,651)
Cash at the beginning of the year		**(1,279)**	(1,696)	**(3,636)**	15
Effects of exchange rate fluctuations		**26**	30	**-**	-
Cash at the end of the year	19(a)	**6,297**	(1,279)	**6,228**	(3,636)

The statements of cash flows are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 26 to 49.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

1 Statement of Significant Accounting Policies

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

(a) Basis of Preparation

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

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

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy as set out in Note 2, 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 9

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

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 4

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.

(f) Investments – Note 7

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 6

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 8

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.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

1 Statement of Significant Accounting Policies (continued)

(h) Property, Plant and Equipment – Note 8 (continued)

Potential capital gains tax is only taken into account if the asset is held for sale.

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

Depreciation and Amortisation

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

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

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

The rates specified for plant and equipment include the Orrcon Pipe and Large Tube Mill commissioned during the year. The mill is depreciated using the units of production method, based on anticipated normal production over a 20 year period, 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 20

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 9

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

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

(l) Provisions – Note 12

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 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, Annual Leave and Sick Leave

Liabilities for employee benefits for wages, salaries, annual leave and sick leave expected to be settled within 12 months of the year-end 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.

Long Service Leave

The provision for employee benefits to 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.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

1 Statement of Significant Accounting Policies (continued)

(m) Employee Benefits (continued)

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. Further information is set out in Note 20.

(n) Derivatives

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

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 deferred liabilities recorded at their present value. 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 5

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 10

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 11

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 3

Sales Revenue

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

Interest Income

Interest income is recognised as it accrues.

Dividend Income

Dividends are recognised as income as they are received.

Sale of Non-Current Assets

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

(t) Goods and Services Tax

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

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

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

(u) Earnings per Share – Note 25

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.

2 Changes in Accounting Policies

(a) Employee Benefits

Revised AASB 1028 'Employee Benefits' is applicable from 1 July 2002 and requires the liability for wages and salaries, annual leave and sick leave to be calculated using the remuneration rates the Company expects to pay at each reporting date, not the wage and salary rates current at this reporting date.

In the past, the consolidated entity has calculated the liability for wages and salaries, annual leave and sick leave in accordance with the requirements of the revised standard and will continue to do so. Accordingly, the change in the accounting standard has had no effect on the financial report.

(b) Provisions, Contingent Liabilities and Contingent Assets

The consolidated entity has applied AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' for the first time from 1 July 2002. Dividends are now recognised at the time they are declared, determined or publicly recommended. Previously, final dividends were recognised in the financial year to which they related, even though the dividends were announced after the end of that financial year.

The adjustments to the consolidated financial report as at 1 July 2002 as a result of this change are a $12.600 million increase in opening retained profits and a corresponding decrease in provision for dividends. There was no impact on net profit for the current financial year to 30 June 2003.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

2 Changes in Accounting Policies (continued)

Restatement of Retained Profits

This restatement of retained profits shows the information that would have been disclosed had AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' always been applied.

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Reported retained profits at the end of the previous year	**70,696**	67,480	**34,620**	37,659
Increase in retained profits due to change in accounting policy on adoption of AASB 1044	**12,600**	9,000	**12,600**	9,000
Restated retained profits at the beginning of the year	**83,296**	76,480	**47,220**	46,659
Net profit attributable to members of the Company	**27,248**	23,864	**17,017**	17,609
Dividends provided for or paid	**(20,792)**	(17,048)	**(20,792)**	(17,048)
Restated retained profits at the end of the year	**89,752**	83,296	**43,445**	47,220

Restatement of Provision for Dividends

This restatement of provision for dividends shows the information that would have been disclosed had AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' always been applied.

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Reported balance at the end of the year – as previously reported	-	12,600	-	12,600
Effect of change in accounting policy on adoption of AASB 1044	-	(12,600)	-	(12,600)
Restated balance at the end of the year	-	-	-	-

3 Revenues, Expenses and Profit from Ordinary Activities

(a) Revenues from Ordinary Activities

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Revenues from operating activities				
Sales of goods	**660,600**	580,253	**251,780**	248,089
Interest received or receivable from:				
– other entities	**582**	493	**156**	128
– controlled entities	-	-	**1,028**	717
Dividends received or receivable from:				
– other entities	-	551	-	536
– controlled entities	-	-	**3,683**	510
Property rental	**815**	851	**1,496**	1,727
Revenues from outside operating activities				
Proceeds on disposal of non-current assets	**7,238**	1,418	**5,299**	445
Other income	**4,427**	1,742	**4,820**	4,850
Total revenues from ordinary activities	**673,662**	585,308	**268,262**	257,002

(b) Expenses from Ordinary Activities

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Cost of goods sold	**435,866**	388,075	**153,680**	153,114
Sales and marketing expenses	**89,657**	77,370	**49,655**	46,086
Distribution expenses	**49,183**	43,338	**15,036**	15,767
Administration expenses	**31,175**	25,339	**14,770**	13,285
Occupancy expenses	**9,368**	5,019	**3,403**	3,241
Other expenses	**3,662**	2,175	**6,005**	392
Expenses from ordinary activities, excluding borrowing costs	**618,911**	541,316	**242,549**	231,885
Borrowing costs	**4,930**	4,784	**1,202**	1,417
Total expenses from ordinary activities	**623,841**	546,100	**243,751**	233,302

(c) Individually Significant Items

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

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Proceeds on sale of investment	**(4,252)**	-	**(4,252)**	-
Carrying amount of investment sold	**1,119**	-	**1,119**	-
Net gain on sale of investment	**(3,133)**	-	**(3,133)**	-

Resulting from sale of interest in Radio Frequency Systems Pty Ltd and non-recurring.

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Write off of loans owed to the Company by a controlled entity that are no longer recoverable	-	-	**925**	-
Provision for repayment of the borrowings of a controlled entity guaranteed by the Company	-	-	**3,135**	-
	-	-	**4,060**	-

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

Additional individually significant items are included as part of income tax expense (refer Note 4) and net profit attributable to outside equity interests (refer Note 17).

Notes to and forming part of the Financial Statements

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
3 Revenues, Expenses and Profit from Ordinary Activities (continued)				
(d) Profit from Ordinary Activities				
Profit from ordinary activities before income tax expense has been arrived at after charging / (crediting) the following items:				
Depreciation of buildings	**446**	452	**165**	158
Depreciation of plant and equipment	**15,394**	12,149	**5,450**	5,480
Total depreciation of property, plant and equipment	**15,840**	12,601	**5,615**	5,638
Amortisation of goodwill	**521**	218	**189**	143
Amortisation of patents and trademarks	**1,681**	908	**721**	671
Total amortisation of intangibles	**2,202**	1,126	**910**	814
Total depreciation and amortisation	**18,042**	13,727	**6,525**	6,452
Write down in value of plant and equipment to recoverable amount	**613**	-	-	-
Write down in value of intangibles to recoverable amount	**1,492**	-	**821**	-
Interest paid or payable to:				
– other entities	**4,831**	4,630	**1,084**	1,334
– controlled entities	-	-	**118**	83
Finance charges on capitalised leases	**99**	154	-	-
Total borrowing costs	**4,930**	4,784	**1,202**	1,417
Interest received or receivable from:				
– other entities	**(582)**	(493)	**(156)**	(128)
– controlled entities	-	-	**(1,028)**	(717)
Net borrowing costs	**4,348**	4,291	**18**	572
Write-down in value of inventories	**1,692**	482	**925**	-
Reversal of write-down in inventories	**(532)**	(129)	**(500)**	-

The reversal in the write-down of inventories was predominately 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 during the year. The prior year's reversal was due to the sale of residual inventory previously written off by Pacom SE Asia, a business unit that has ceased operations.

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Net bad and doubtful debts expense including movements in provision for doubtful debts	**3,394**	1,179	**2,242**	326
Net bad and doubtful loans expense including movements in provision for doubtful loans	**2,250**	-	**2,250**	-
(Profit) / loss on disposal of non-current assets:				
– property, plant and equipment	**(425)**	77	**(159)**	(71)
– investments	**(3,133)**	18	**(3,133)**	18
– businesses	**(96)**	-	**(100)**	-
	(3,654)	95	**(3,392)**	(53)
Lease rental expense				
– operating leases	**7,349**	4,500	**1,944**	1,877
Auditors' remuneration:				
Audit services				
– auditors of the Company	**198**	202	**112**	110
– other KPMG member firms	**79**	82	-	-
– other auditors	-	11	-	-
	277	295	**112**	110
Other services:				
– auditors of the Company *	**182**	87	**65**	72
– other KPMG member firms *	**119**	52	-	-
	301	139	**65**	72

* Primarily taxation and other assurance services

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
4 Taxation				
(a) Income Tax Expense				
Prima facie income tax expense calculated at 30% (2002: 30%) on the profit from ordinary activities	**14,946**	11,762	**7,353**	7,110
Individually significant income tax items:				
– Write off of future income tax benefit previously recognised on tax losses where recovery is no longer virtually certain	**1,195**	-	-	-

Resulting from losses incurred by ePic Australia Pty Ltd (now suspended) in prior years and non recurring.

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Income tax under / (over) provided in prior years	**(465)**	720	**(88)**	(805)
Other items	**219**	293	**229**	(214)
Income tax expense relating to ordinary activities	**15,895**	12,775	**7,494**	6,091

Notes to and forming part of the Financial Statements

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
4 Taxation (continued)				
(b) Future Income Tax Benefit Not Taken to Account				
The potential future income tax benefit in a controlled entity, which is a company, arising from tax losses has not been recognised as an asset because recovery is not virtually certain	**1,195**	-	-	-

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

(i) the relevant company derives future assessable income of a nature and amount sufficient to enable the benefit to be realised, or the benefit 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 company and / or the consolidated entity continues to comply with the conditions for deductibility imposed by law; and

(iii) no changes in tax legislation adversely affect the relevant company and / or the consolidated entity in realising the benefit.

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
5 Receivables				
Current				
Trade debtors	**113,021**	103,570	**39,786**	41,458
Less provision for doubtful debts	**7,260**	4,882	**4,240**	1,998
	105,761	98,688	**35,546**	39,460
Other debtors	**1,913**	5,015	-	1,057
Loans – other entities	**3,596**	2,105	**3,102**	2,389
Loans – controlled entities	-	-	**18,525**	5,283
Less provision for doubtful loans				
– other entities	**2,250**	-	**2,250**	-
– controlled entities	-	-	**925**	-
	1,346	2,105	**18,452**	7,672
	109,020	105,808	**53,998**	48,189
Non-current				
Loans – other entities	**1,918**	2,000	**1,918**	2,000
Loans paid to controlled entities during the year	-	-	**13,242**	12,180
6 Inventories				
Current				
Raw materials at cost	**26,594**	23,016	**5,508**	4,814
Work in progress at cost	**3,565**	3,932	**56**	263
Finished goods at cost	**58,980**	53,356	**22,317**	25,023
Less provision for stock obsolescence	**5,526**	4,996	**2,500**	3,000
	53,454	48,360	**19,817**	22,023
	83,613	75,308	**25,381**	27,100

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
7 Investments				
Non-current				
Shares in controlled entities				
– unlisted companies at cost	-	-	**52,862**	29,838
Shares in other entities				
– listed companies at cost	**14**	44	**8**	37
– unlisted companies at cost	-	1,119	-	1,119
	14	1,163	**8**	1,156
	14	1,163	**52,870**	30,994
8 Property, Plant and Equipment				
Freehold Land				
At fair value *	**21,599**	21,046	**10,754**	10,145
Freehold Buildings				
At fair value *	**44,669**	44,362	**21,536**	21,353
Plant and Equipment				
At cost	**165,988**	137,188	**63,958**	59,360
Less accumulated depreciation	**84,977**	72,273	**49,040**	44,986
	81,011	64,915	**14,918**	14,374
Total property, plant and equipment at net book value	**147,279**	130,323	**47,208**	45,872

Reconciliations

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

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Freehold Land				
Carrying amount at the beginning of the year	**21,046**	21,401	**10,145**	10,311
Additions	**609**	-	**609**	-
Disposals	-	(411)	-	(166)
Differences on translation of foreign operations	**(56)**	56	-	-
Carrying amount at the end of the year	**21,599**	21,046	**10,754**	10,145
Freehold Buildings				
Carrying amount at the beginning of the year	**44,362**	43,909	**21,353**	21,511
Additions	**613**	1,204	**348**	-
Revaluations	**888**	-	-	-
Disposals	**(391)**	(413)	-	-
Depreciation	**(446)**	(452)	**(165)**	(158)
Differences on translation of foreign operations	**(357)**	114	-	-
Carrying amount at the end of the year	**44,669**	44,362	**21,536**	21,353

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
8 Property, Plant and Equipment (continued)				
Plant and Equipment				
Carrying amount at the beginning of the year	**64,915**	50,757	**14,374**	13,735
Additions	**29,288**	26,984	**6,482**	6,314
Additions through acquisition of businesses	**4,914**	126	**-**	-
Disposals	**(1,306)**	(677)	**(488)**	(195)
Disposals through sale of businesses	**(102)**	-	**-**	-
Depreciation	**(15,394)**	(12,149)	**(5,450)**	(5,480)
Write down to recoverable amount	**(613)**	-	**-**	-
Differences on translation of foreign operations	**(691)**	(126)	**-**	-
Carrying amount at the end of the year	**81,011**	64,915	**14,918**	14,374

* Fair value is a directors' valuation at 30 June 2003 based on an independent valuation carried out as at May 2000 by Mr N Satchell, AAPI, BappSc(Val) on the basis of market value for existing use. The costs of additions since then are deemed to be the fair value of those assets. The directors are of the opinion that this basis provides a reasonable estimate of fair value.

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

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
9 Intangibles				
Goodwill				
Goodwill on consolidation	**10,081**	7,518	**-**	-
Less accumulated amortisation	**3,995**	7,518	**-**	-
	6,086	-	**-**	-
Goodwill purchased	**3,703**	6,162	**2,979**	2,870
Less accumulated amortisation	**3,403**	4,888	**2,979**	1,969
	300	1,274	**-**	901
Patents and Trademarks				
Patents and trademarks – at cost	**15,930**	9,213	**7,365**	7,365
Less accumulated amortisation	**4,777**	3,976	**3,479**	2,758
	11,153	5,237	**3,886**	4,607
	17,539	6,511	**3,886**	5,508

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
10 Payables				
Current				
Trade creditors	**50,480**	45,785	**21,402**	24,811
Sundry creditors	**21,170**	23,169	**7,458**	9,043
Loans – controlled entities	**-**	-	**22,212**	38
Other loans – unsecured	**215**	215	**-**	-
	71,865	69,169	**51,072**	33,892
Loans received from controlled entities during the year	**-**	-	**22,174**	-

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
11 Interest Bearing Liabilities				
Current				
Bank overdrafts – secured	**-**	7,779	**-**	3,636
Bank loans – secured	**6,505**	5,576	**-**	-
Other loans – unsecured	**954**	1,179	**954**	1,179
Lease liabilities	**500**	500	**-**	-
	7,959	15,034	**954**	4,815
Non-current				
Bank loans – secured	**54,400**	56,236	**10,000**	19,000
Other loans – unsecured	**646**	705	**606**	665
Lease liabilities	**696**	1,255	**-**	-
	55,742	58,196	**10,606**	19,665

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

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Total facilities available:				
- bank overdrafts	**8,011**	7,464	**1,000**	1,000
- bank loans	**118,402**	99,222	**35,000**	35,000
- short term money market	**11,000**	6,000	**10,000**	5,000
	137,413	112,686	**46,000**	41,000
Facilities utilised at reporting date:				
– bank overdraft	**-**	7,779	**-**	3,636
– bank loans	**60,905**	61,812	**10,000**	19,000
– short term money market	**-**	-	**-**	-
	60,905	69,591	**10,000**	22,636
Facilities not utilised at reporting date:				
– bank overdraft	**8,011**	(315)	**1,000**	(2,636)
– bank loans	**57,497**	37,410	**25,000**	16,000
– short term money market	**11,000**	6,000	**10,000**	5,000
	76,508	43,095	**36,000**	18,364

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.

11 Interest Bearing Liabilities (continued)

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 2003 is nil as there were no overdrafts utilised at that date (2002: 7.75%).

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 reduce the net overdraft to less than $1.000 million.

At 30 June 2002, 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 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 2003 is 5.20% (2002: 5.00%).

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 2003 is nil as there were no borrowings at that date (2002: nil).

12 Provisions

	Consolidated		The Company	
	2003 $'000	2002 $'000	**2003 $'000**	2002 $'000
Current				
Dividends	**-**	12,600	**-**	12,600
Employee benefits	**15,922**	14,063	**7,320**	6,286
Outstanding claims	**5,678**	6,438	**2,700**	2,000
Guaranteed borrowings – controlled entities	**-**	-	**3,135**	-
	21,600	33,101	**13,155**	20,886
Non-current				
Employee benefits	**4,306**	4,293	**3,500**	3,700
Deferred consideration	**5,100**	-	**5,100**	-
Deferred consideration – unexpired interest	**(309)**	-	**(309)**	-
	4,791	-	**4,791**	-
	9,097	4,293	**8,291**	3,700

Aggregate liability for employee benefits, including on-costs

	Consolidated		The Company	
	2003 $'000	2002 $'000	**2003 $'000**	2002 $'000
Employee benefits provision				
- current	**15,922**	14,063	**7,320**	6,286
- non-current	**4,306**	4,293	**3,500**	3,700
	20,228	18,356	**10,820**	9,986

Reconciliations

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

	Consolidated		The Company	
	2003 $'000	2002 $'000	**2003 $'000**	2002 $'000
Dividends				
Carrying amount at the beginning of the year	**12,600**		**12,600**	
Adjustment on adoption of AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets'	**(12,600)**		**(12,600)**	
Provisions made during the year:				
- final dividend 2002	**12,586**		**12,586**	
- interim dividend 2003	**13,949**		**13,949**	
Payments made during the year	**(20,792)**		**(20,792)**	
Dividends forgone during the year	**(5,743)**		**(5,743)**	
Carrying amount at the end of the year	-		-	
Outstanding Claims				
Carrying amount at the beginning of the year	**6,438**		**2,000**	
Provisions made during the year	**987**		**700**	
Re-measurement adjustments	**(1,705)**		-	
Payments made during the year	**(17)**		-	
Differences on translation of foreign operations	**(25)**		-	
Carrying amount at the end of the year	**5,678**		**2,700**	
Guaranteed Borrowings				
Carrying amount at the beginning of the year	-		-	
Provision made during the year	-		**3,135**	
Carrying amount at the end of the year	-		**3,135**	

Provision for guaranteed borrowings is in respect of the borrowings of a controlled entity.

	Consolidated		The Company	
Deferred Consideration				
Carrying amount at the beginning of the year	-		-	
Increase on acquisition of controlled entity				
– gross consideration	**5,100**		**5,100**	
– discount (unexpired interest)	**(351)**		**(351)**	
Expiration of unexpired interest	**42**		**42**	
Carrying amount at the end of the year	**4,791**		**4,791**	

Comparative information is not required to be provided.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
13 Contributed Equity				
Issued Capital				
135,559,528 ordinary shares fully paid (2002: 125,861,262 ordinary shares fully paid)	**60,109**	39,728	**60,109**	39,728
Movements in Ordinary Shares				
Balance at the beginning of the year	**39,728**	30,751	**39,728**	30,751
Shares issued	**20,381**	8,977	**20,381**	8,977
Balance at the end of the year	**60,109**	39,728	**60,109**	39,728

The Company made three issues of ordinary shares under the Employee Share Bonus Plan during the year. All employees with more than one year of service are eligible to participate in the issues (1,674 eligible employees for the first issue, 1,630 eligible employees for the second issue and 114 eligible employees for the third issue). The shares are issued at market value. Details of the issues in the current year are as follows:

Date of Issue	Total No of Shares Issued	Market Value of Shares Issued	Shares Issued per Participating Employee	Number of Participating Executive Directors
30/09/02	335,586	1,003,402	200	2
24/03/03	205,380	651,055	126	2
30/06/03	12,996	45,746	114	-

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

Date of Issue	Plan Issued Under	Total No of Shares Issued	Issue Price per Share
04/02/03	Executive Share Plan	195,000	$2.50

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 10% discount on the market price for the issues dated 30 September 2002 and at a 7.5% discount on the market price for the issues dated 24 March 2003.

Date of Issue	Plan Issued Under	Total No of Shares Issued	Issue Price per Share
30/09/02	Dividend Investment	1,556,415	$2.82
30/09/02	Share Investment	957,843	$2.82
24/03/03	Dividend Investment	1,521,560	$2.98
24/03/03	Share Investment	1,021,808	$2.98

The Company issued ordinary shares under a Share Investment Plan during the year. Under the Plan, eligible participating shareholders were entitled to purchase between 178 and 1,063 ordinary shares at an issue price. The issue price was at a 10% discount on the market price.

Date of Issue	Plan Issued Under	Total No of Shares Issued	Issue Price per Share
05/11/02	Share Purchase Plan	3,891,678	$2.82

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.

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
14 Reserves				
Asset revaluation reserve	**22,024**	21,687	**10,493**	10,493
Asset realisation reserve	**2,448**	1,897	**833**	833
Foreign currency translation reserve	**1,536**	2,092	-	-
	26,008	25,676	**11,326**	11,326
Movements in Reserves				
Asset Revaluation Reserve				
Balance at the beginning of the year	**21,687**	21,784	**10,493**	10,493
Revaluation increment on freehold buildings	**888**	-	-	-
Disposal of revalued land and buildings	**(551)**	(97)	-	-
Balance at the end of the year	**22,024**	21,687	**10,493**	10,493
Asset Realisation Reserve				
Balance at the beginning of the year	**1,897**	1,800	**833**	833
Disposal of revalued land and buildings	**551**	97	-	-
Balance at the end of the year	**2,448**	1,897	**833**	833
Foreign Currency Translation Reserve				
Balance at the beginning of the year	**2,092**	1,611	-	-
Net exchange differences on translation of financial statements of self-sustaining foreign operations	**(556)**	481	-	-
Balance at the end of the year	**1,536**	2,092	-	-

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).

Notes to and forming part of the Financial Statements

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

	Consolidated		The Company	
	2003 $'000	2002 $'000	**2003 $'000**	2002 $'000
15 Retained Profits				
Balance at the beginning of the year	**70,696**	67,480	**34,620**	37,659
Net profit attributable to members of the Company	**27,248**	23,864	**17,017**	17,609
Net effect on dividends from:				
– initial adoption of AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets'	**12,600**	-	**12,600**	-
– dividends recognised during the year	**(20,792)**	(20,648)	**(20,792)**	(20,648)
– total dividends	**(8,192)**	(20,648)	**(8,192)**	(20,648)
Balance at the end of the year	**89,752**	70,696	**43,445**	34,620

16 Dividends

Dividends recognised in the current year by the Company are:

	Cents per share	Amount $'000	Date of Payment
2003			
Interim – ordinary	10.5	13,949	24 March 2003
Interim dividends forgone for Share Investment Plan		(3,043)	
2002 final dividend recognised when declared during the year, refer Note 2:			
– final – ordinary	10.0	12,586	30 September 2003
– final dividends forgone for Share Investment Plan		(2,700)	
		20,792	
2002			
Over provided in respect of previous financial year		(80)	
Dividends forgone for Share Investment Plan in respect of previous financial year		(1,823)	
Interim – ordinary	10.0	12,249	25 March 2002
Interim dividends forgone for Share Investment Plan		(2,298)	
Final – ordinary	10.0	12,600	30 September 2002
		20,648	

Subsequent events

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

	Cents per share	Amount $'000	Date of Payment
– final – ordinary	10.5	14,200	29 September 2003

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2003 and will be recognised in subsequent financial years.

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

	Consolidated		The Company	
	2003 $'000	2002 $'000	**2003 $'000**	2002 $'000
Dividend Franking Account				
30% franking credits available to shareholders of the Company for subsequent financial years	**39,738**	29,293	**14,597**	9,652

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 at the year-end;
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the year-end;
(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.

Change in measurement of dividend franking account

In accordance with the New Business Tax System (Imputation) Act 2002, the measurement basis of the dividend franking account changed on 1 July 2002 from an after-tax profits basis to an income tax paid basis. The change in the basis of measurement does not change the underlying value of franking credits or tax offsets available to shareholders from the dividend franking account.

The amounts of franking credits available to shareholders disclosed above (including the comparative as at 30 June 2002) have been measured under the new legislation and represent income tax paid amounts available to frank distributions.

Had the balance of the franking account been measured under the legislation existing at 30 June 2002 to represent after-tax profits able to be distributed fully franked at the current tax rate, the amounts would have been those shown below.

The amounts of retained profits that could be distributed as franked dividends using franking credits already in existence or which will arise from income tax payments after deducting franking credits to be used in the payment of the final dividend declared	**78,002**	68,350	**19,860**	22,522

Notes to and forming part of the Financial Statements

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

		Consolidated		The Company	
		2003	2002	**2003**	2002
		$'000	$'000	**$'000**	$'000
17 Outside equity interests in controlled entities comprise:					
Interest in retained profits at the beginning of the year		**4,290**	2,613	-	-
Interest in retained profits of controlled entity partly disposed during the year		**5,908**	-	-	-
Interest in profit from ordinary activities after income tax before individually significant items		**4,673**	2,569	-	-
Individually significant items:					
– write off of interest in losses previously recognised where recovery is unlikely #		**2,005**	-	-	-
Interest in dividends paid or payable		**(1,856)**	(892)	-	-
Interest in retained profits at the end of the year		**15,020**	4,290	-	-
Interest in share capital		**14,705**	14,142	-	-
Interest in reserves		**519**	1,024	-	-
Total outside equity interests		**30,244**	19,456	-	-

Resulting from losses incurred by ePic Australia Pty Ltd (now suspended) in prior years and non-recurring.

		Consolidated		The Company	
		2003	2002	**2003**	2002
18 Total Equity Reconciliation					
Balance at the beginning of the year		**155,556**	138,157	**85,674**	79,736
Total changes in parent entity interest in equity recognised in the statements of financial performance		**27,579**	24,345	**17,017**	17,609
Transactions with owners as owners:					
– contributions of equity	13	**20,381**	8,977	**20,381**	8,977
– dividends paid or payable	16	**(8,192)**	(20,648)	**(8,192)**	(20,648)
Total changes in outside equity interests	17	**10,789**	4,725	-	-
Balance at the end of the year		**206,113**	155,556	**114,880**	85,674

19 Notes to the Statements of Cash Flows

(a) Reconciliation of Cash

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

	Consolidated 2003	Consolidated 2002	The Company 2003	The Company 2002
Cash	**6,297**	6,500	**6,228**	-
Bank overdrafts	-	(7,779)	-	(3,636)
	6,297	(1,279)	**6,228**	(3,636)

	Consolidated		The Company	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
(b) Reconciliation of Profit from Ordinary Activities after Related Income Tax Expense to Net Cash Provided by Operating Activities				
Profit from ordinary activities after related income tax expense	**33,926**	26,433	**17,017**	17,609
Add / (less) items classified as investing / financing activities:				
– (profit) / loss on sale of property, plant and equipment	**(425)**	77	**(159)**	(71)
– (profit) / loss on sale of investments	**(3,133)**	18	**(3,133)**	18
– (profit) / loss on sale of businesses	**(96)**	-	**(100)**	-
– rent received	**(815)**	(851)	**(1,496)**	(1,727)
– finance charges on capitalised leases	**99**	154	-	-
Add / (less) non-cash items:				
– depreciation	**15,840**	12,601	**5,615**	5,638
– amortisation	**2,202**	1,126	**910**	814
– net bad and doubtful debts expense including movement in provision for doubtful debts	**3,394**	1,179	**2,242**	326
– write down in value of inventories expense including movement in provision for inventories	**1,160**	353	**425**	-
– 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	**613**	-	-	-
– write down in value of intangible assets	**1,492**	-	**821**	-
– unrealised exchange rate (gain) / loss	**2**	(47)	-	-
– dilution of interest in subsidiary	**101**	57	-	-
Add / (less) amounts set aside to provisions:				
– employee benefits	**6,430**	8,057	**2,648**	6,487
– outstanding claims	**(718)**	(2,128)	**700**	300
– other	-	-	**3,135**	-
Net cash provided by operating activities before changes in assets and liabilities	**62,322**	47,029	**30,875**	29,394

Notes to and forming part of the Financial Statements

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

19 Notes to the Statements of Cash Flows (continued)

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

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Changes in assets and liabilities adjusted for effects of purchase and disposal of businesses during the year:				
(Increase) / decrease in:				
– trade and other debtors	**(4,700)**	(15,958)	**2,730**	(6,667)
– inventories	**(8,129)**	(751)	**1,950**	(606)
– deferred tax assets	**(1,252)**	(1,416)	**(774)**	182
(Decrease) / increase in:				
– payables	**2,060**	4,009	**(5,133)**	1,114
– provisions	**(4,801)**	(5,418)	**(1,771)**	(4,722)
– income taxes payable	**2,204**	3,034	**2,273**	(2,382)
– deferred taxes payable	**(48)**	302	-	-
Net cash provided by operating activities	**47,656**	30,831	**30,150**	16,313

(c) Sale of Controlled Entities and Business Operations

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

The pricing for the sale of 50% of the issued shares in Hills (UK) was equal to 50% of the net assets of Hills (UK) as at 1 July 2002. Accordingly, there was no material profit impact and the consolidated entity received $6.198 million cash consideration.

Under the terms of the joint venture agreement, Freudenberg has a put option to sell back to the consolidated entity its interest in Hills (UK) for 60% of the total amount paid with economic effect as of 30 June 2005.

There was no sale of business in the previous year.

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Proceeds from sale of business as above	**6,198**	-	-	-
Proceeds from sale of other businesses	**831**	-	**370**	-
	7,029	-	**370**	-

(d) Acquisition of Controlled Entities and Business Operations

During the year, the Company acquired a 100% interest in the K-Care Group, comprising KDB Engineering Pty Ltd and Kerry Equipment (Aust) Pty Ltd (2002: the consolidated entity acquired the business operations of Signal Master Limited). Details of the acquisition are as follows:

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Consideration paid	**18,137**	617	-	-
Cash acquired	**(2,545)**	-	-	-
Outflow of cash	**15,592**	617	-	-
Deferred consideration	**5,100**	-	-	-
Discount on deferred consideration	**(351)**	-	-	-
	4,749	-	-	-
Consideration paid and payable	**20,341**	617	-	-
Fair value of assets acquired:				
– receivables	**3,681**	-	-	-
– inventories	**2,069**	126	-	-
– plant and equipment	**4,262**	522	-	-
– patents and trademarks	**8,001**	-	-	-
– payables	**(3,561)**	-	-	-
– tax liabilities	**(206)**	-	-	-
– provisions	**(290)**	(40)	-	-
	13,956	608	-	-
Goodwill on acquisition	**6,385**	9	-	-
Consideration paid and payable	**20,341**	617	-	-

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

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

(2002: The consolidated entity acquired the business operations of Signal Master Limited for cash on 21 November 2001 and the operating results have been included in the consolidated operating profit from that date. The business is based in New Zealand and its main activity is the manufacture of antenna and related PayTV hardware products.)

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Payments for business as above	**15,592**	617	-	-
Payments for other businesses	**1,144**	-	-	-
	16,736	617	-	-

19 Notes to the Statements of Cash Flows (continued)

(e) Non-Cash Financing Activities

During the year, the consolidated entity acquired plant and equipment with a capitalised value of $41,000 (2002: $603,000) by means of finance leases. These acquisitions are not reflected in the statements of cash flows.

20 Commitments

(a) Superannuation Commitments

The Hills Industries Limited Staff Superannuation Fund, an employer sponsored superannuation fund that provided defined benefits to certain members and accumulation benefits to others, was wound up as at 30 June 2002 and all assets and members' account balances transferred to Plum Financial Services Pty Ltd, a master trust service provider, from 1 July 2002. The Plum master trust superannuation plan provides accumulation style benefits only.

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

Defined Benefits Fund

An actuarial assessment of the defined benefits fund was undertaken as at 30 June 2002 by Mr Jon Holbrook BEc BSc. Accordingly the full distribution of the fund's assets after windup costs resulted in members receiving their leaving service benefit.

	The Fund	
	2003 $'000	2002 $'000
Fund assets at net market value	-	* 28,634
Total accrued benefits	-	**26,088
Excess	-	2,546
Total vested benefits	-	* 25,585

* Fund assets at net market value and vested benefits have been calculated at 30 June 2001, being the date of the most recent financial statements of the fund.

** Total accrued benefits have been calculated at 1 July 2000, being the date of the most recent actuarial assessment of the fund.

Details of contributions to the defined benefit fund during the year and contributions payable at 30 June 2003 are as follows:

	Consolidated		The Company	
	2003 $'000	2002 $'000	**2003 $'000**	2002 $'000
Employer contributions to the fund	-	1,849	-	1,328
Employer contributions payable to the fund	-	160	-	115

	Consolidated		The Company	
	2003 $'000	2002 $'000	**2003 $'000**	2002 $'000
(b) Capital Expenditure Commitments				
Capital expenditure projects contracted but not provided for and payable:				
– not later than one year	**5,876**	15,037	**3,166**	4,107
(c) Operating Lease Commitments				
Operating leases payable:				
– not later than one year	**8,265**	5,564	**1,332**	1,343
– later than one year but not later than five years	**15,821**	14,483	**1,412**	1,344
– later than five years	**7,296**	7,308	**420**	-
	31,382	27,355	**3,164**	2,687

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.

	Consolidated		The Company	
	2003 $'000	2002 $'000	**2003 $'000**	2002 $'000
(d) Finance Lease Commitments				
Finance leases payable:				
– not later than one year	**657**	671	-	-
– later than one year but not later than five years	**676**	1,365	-	-
– later than five years	-	-	-	-
	1,333	2,036	-	-
Less future finance charges	**137**	281	-	-
	1,196	1,755	-	-
Lease liabilities provided for in the statements of financial position				
– current	**500**	500	-	-
– non-current	**696**	1,255	-	-
Total lease liabilities	**1,196**	1,755	-	-

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.

Notes to and forming part of the Financial Statements

	Consolidated		The Company	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000

21 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

	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Letters of credit established in favour of suppliers	**10,548**	9,416	**7,783**	7,453

Defined Benefits Fund

As reported in the 30 June 2002 Annual Financial Report, the consolidated entity's employer sponsored defined benefits superannuation fund was wound up as at 30 June 2002 with all assets and members' account balances being transferred to a new master trust. At the time of completing the 2002 Annual Financial Report, a final actuarial review was being undertaken but had not been completed. It was reported in the 2002 Annual Financial Report that if the actuary determined that there was a shortfall of assets in the fund, the Company and its controlled entities would be liable for the shortfall. It was also reported that the Company had received advice that the amount of any shortfall would not be material.

The final actuarial review of the fund has now been completed and has determined that there was a small surplus in the fund prior to it being wound up. Accordingly, the directors of the Company are of the opinion that the likelihood of the Company and its controlled entities being liable to the fund is remote and the contingent liability is no longer recognised.

22 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 arms length basis for non-wholly owned entities.

Business Segments

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

	Products / Services
Electronics	Communications related products and services, domestic and commercial antennas, closed circuit television systems, master antenna television systems, communications antennas, amplifiers, electronic security 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 and precision steel tubing, fence posts, galvanising, office storage systems, precision metal cabinets, sheet metal, steel door frames and metal building products.

Geographical Segments

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

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

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

Notes to and forming part of the Financial Statements

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

22 Segment Reporting (continued)

Primary reporting by business segments	Electronics		Home and Hardware		Building and Industrial		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue										
External segment revenue	**163,572**	165,412	**167,335**	151,812	**331,902**	263,436	**0**	0	**662,809**	580,660
Inter-segment revenue	**0**	0	**0**	0	**10,101**	9,675	**(10,101)**	(9,675)	**0**	0
Total segment revenue	**163,572**	165,412	**167,335**	151,812	**342,003**	273,111	**(10,101)**	(9,675)	**662,809**	580,660
Unallocated / corporate revenue									**10,853**	4,648
Total revenue									**673,662**	585,308
Result										
Segment result (before interest and tax)	**14,610**	15,269	**13,562**	13,423	**21,654**	13,332	**0**	0	**49,826**	42,024
Unallocated / corporate result									**4,343**	1,475
									54,169	43,499
Net interest									**4,348**	4,291
Profit from ordinary activities before income tax									**49,821**	39,208
Income tax expense									**15,895**	12,775
Net profit									**33,926**	26,433
Depreciation and amortisation	**3,066**	2,077	**6,661**	5,254	**6,659**	4,608	**0**	0	**16,386**	11,939
Unallocated / corporate depreciation and amortisation									**1,656**	1,788
									18,042	13,727
Other non-cash expenses	**3,297**	185	**2,204**	3,307	**6,308**	2,881	**0**	0	**11,809**	6,373
Unallocated / corporate other non-cash expenses									**2,812**	1,088
									14,621	7,461
Assets										
Segment assets	**71,440**	73,211	**107,003**	93,882	**170,213**	133,752	**(1,866)**	0	**346,790**	300,845
Unallocated / corporate assets									**35,098**	41,722
Consolidated total assets									**381,888**	342,567
Liabilities										
Segment liabilities	**15,811**	17,543	**17,778**	17,718	**42,628**	31,487	**(1,866)**	0	**74,351**	66,748
Unallocated / corporate liabilities									**101,424**	120,263
Consolidated total liabilities									**175,775**	187,011
Acquisitions of non-current assets	**3,326**	4,461	**20,885**	5,344	**22,426**	16,681	**0**	0	**46,637**	26,486
Unallocated / corporate assets									**718**	3,301
									47,355	29,787

Secondary reporting by geographical segments	Australia		Overseas		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue								
External segment revenue by location of customers	**612,488**	528,578	**60,726**	56,730	**(10,405)**	0	**662,809**	585,308
Unallocated / corporate revenue							**10,853**	0
Total revenue							**673,662**	585,308
Assets								
Segment assets by location of assets	**317,259**	299,999	**31,046**	42,568	**(1,515)**	0	**346,790**	342,567
Unallocated / corporate assets							**35,098**	0
Consolidated total assets							**381,888**	342,567
Acquisitions of non-current assets	**45,542**	27,725	**1,095**	2,062	**0**	0	**46,637**	29,787
Unallocated / corporate assets							**718**	0
							47,355	29,787

Notes to and forming part of the Financial Statements

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

23 Directors' and Executives' Remuneration

(a) Remuneration of Directors

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

	The Company	
	2003	2002
	No	No
$ 40,000 - $ 49,999	**2**	2
$ 50,000 - $ 59,999	**1**	1
$ 80,000 - $ 89,999	**1**	1
$130,000 - $139,999	-	1
$260,000 - $269,999	-	1
$300,000 - $309,999	**1**	-
$350,000 - $359,999	-	1
$390,000 - $399,999	**1**	-

	Consolidated		The Company	
	2003	2002	**2003**	2002
	$	$	**$**	$
Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities from the Company or any related party:	**2,626,530**	2,434,016	**943,832**	985,215

(b) Remuneration of Executives

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

	Consolidated		The Company	
	2003	2002	**2003**	2002
	No	No	**No**	No
$100,000 - $109,999	**11**	11	**8**	8
$110,000 - $119,999	**26**	15	**13**	9
$120,000 - $129,999	**11**	6	**2**	3
$130,000 - $139,999	**10**	4	**5**	1
$140,000 - $149,999	**8**	9	**4**	6
$150,000 - $159,999	**3**	6	**3**	4
$160,000 - $169,999	**3**	3	**1**	-
$170,000 - $179,999	**6**	2	**2**	-
$180,000 - $189,999	**1**	1	-	-
$190,000 - $199,999	**1**	1	-	1
$200,000 - $209,999	-	2	-	-
$210,000 - $219,999	**1**	-	**1**	-
$220,000 - $229,999	**1**	1	-	1
$230,000 - $239,999	-	1	-	-
$240,000 - $249,999	**2**	-	-	-
$250,000 - $259,999	**2**	1	-	-
$260,000 - $269,999	**1**	1	-	1
$270,000 - $279,999	-	1	-	1
$300,000 - $309,999	**2**	-	**2**	-
$320,000 - $329,999	-	1	-	1
$330,000 - $339,999	**1**	-	**1**	-
$350,000 - $359,999	-	1	-	1
$390,000 - $399,999	**1**	-	**1**	-

	Consolidated		The Company	
	2003	2002	**2003**	2002
	$	$	**$**	$
Total income in respect of the financial year received, or due and receivable, from the Company, entities in the consolidated entity or related parties by executive officers of the Company and of controlled entities whose income is $100,000 or more:	**13,443,892**	10,008,116	**6,614,527**	5,519,703

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

24 Related Parties

Directors

The names of each person holding the position of director of Hills Industries Limited during the financial year are RD Hill-Ling, DJ Simmons, RB Flynn, GG Hill, JH Hill-Ling and GL Twartz. I Elliot and PW Stancliffe were appointed directors after the end of the financial year.

Details of directors' remuneration are set out in Note 23.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

Loans to Directors

	Consolidated		The Company	
	2003	2002	**2003**	2002
DJ Simmons	**145,365**	-	**145,365**	-
GL Twartz	**60,569**	-	**60,569**	-
MI Canny	**60,569**	-	**60,569**	-
	266,503	-	**266,503**	-

MI Canny is a director of Hills Industries Limited, a company incorporated in the United Kingdom.

Loans totalling $275,000 were provided to DJ Simmons, GL Twartz and MI Canny during the year to fund shares issued to them on the exercise of options granted under the Executive Share Plan. They repaid $8,497 of the balance outstanding on their loans.

The terms and conditions of the loans were approved at annual general meeting. 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 director ceases to be employed by the consolidated entity or ceases to be a member of the Executive Share Plan then the loans are payable immediately.

The loans are not secured, although certain restrictions are placed on dealing with the shares funded by the loans.

There were no transactions in respect of loans to directors in the previous year.

Loans to Director–Related Entities

	Consolidated		The Company	
	2003	2002	**2003**	2002
JA Easling, CJ Altman and RC Jantzen				
– current	**215,347**	215,347	**215,347**	215,347
– non-current	**1,917,682**	2,000,000	**1,917,682**	2,000,000
	2,133,029	2,215,347	**2,133,029**	2,215,347

JA Easling, CJ Altman and RC Jantzen are all directors of a controlled entity within the consolidated entity. The Company has provided loans to a director-related entity of all three directors.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

24 Related Parties (continued)

Loans to Director-Related Entities (continued)

The current loan is unsecured, payable at call and incurs interest at the rate of 6% per annum. The non-current loan is secured by personal guarantees from all three directors, is payable monthly, due to be repaid by 30 June 2005 and incurs interest at the rate of 1% above the National Australia Bank 90 day commercial bank bill rate.

Repayments for the year totalled $82,319 (2002: nil) and interest received on the loans was $77,682 (2002:nil).

Directors' Holdings of Shares and Share Options

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

	Number Held	
	2003	2002
Hills Industries Limited		
– ordinary shares	**34,535,152**	32,905,433
– options over ordinary shares	**215,000**	180,000
Korvest Ltd		
– ordinary shares	**74,329**	74,329

Directors' Transactions in Shares and Share Options

During the year, the Company granted options over 300,000 unissued shares under the Executive Share Plan. Of these options, 120,000 were granted to directors and their director-related entities (to the two executive directors) on the same terms and conditions as those granted to other employees who are members of the Plan.

During the year, the Company issued 195,000 ordinary shares on the exercise of options held by senior executives and granted under the Executive Share Plan. Of these shares, 85,000 were issued to directors and their director-related entities (to the two executive directors) on the same terms and conditions as those granted to other employees who are members of the Plan.

During the year, the Company issued 553,962 ordinary shares under the Employee Share Bonus Plan. Of these, 652 were issued to directors and their director-related entities (to the two executive directors) on the same terms and conditions as those granted to other employees.

During the year, the Company issued 5,057,626 ordinary shares in lieu of dividends under the Dividend Investment and Share Investment Plans. Of these, 1,557,968 were issued to directors and their director-related entities in accordance with the rules of the Plans and on the same terms and conditions as those available to other shareholders.

During the year, the Company issued 3,891,678 ordinary shares under the Share Purchase Plan. Of these, 20,197 were issued to directors and their director-related entities in accordance with the rules of the Plan and on the same terms and conditions as those available to other shareholders.

Directors' Transactions with the Company or its Controlled Entities

Ms JH Hill-Ling is a consultant to a firm of solicitors which rendered legal services to the consolidated entity in the ordinary course of business. The amount recognised during the financial year as having been paid to the firm is $402,062 (2002: $305,344).

Two directors and a number of their director-related entities hold cash on deposit with the Company. The total of these deposits at balance date is $1,377,000 (2002: $1,246,332) and the net movement for the year (including deposits, withdrawals and interest) is an increase of $130,668 (2002: reduction of $733,478).

The deposits have been recognised by the Company as 'Other Interest Bearing Loans Payable – Current'. The Company pays interest on the deposits at rates no more favourable than market rates. The amount of interest recognised during the financial year is $70,480 (2002: $81,015).

Transactions by Directors of Controlled Entities

A number of directors of controlled entities within the economic entity hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

The terms and conditions of the transactions with these directors and their director-related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to these directors and their director-related entities were as follows:

	Consolidated		The Company	
	2003 **$**	2002 $	**2003** **$**	2002 $
SP Pradella				
– inventory purchased by a controlled entity	**1,311,292**	580,529	-	-
JA Easling, CJ Altman and RC Jantzen				
– inventory purchased by a controlled entity	**359,950**	118,707	-	-
– other purchases by a controlled entity	**77,495**	16,478	-	-
– sales revenue of a controlled entity	**76,005**	107,546	-	-

Amounts receivable from and payable to these directors and their director-related entities at reporting date arising from these transactions were as follows:

Current receivables				
– trade debtors	**18,706**	5,320	-	-
Current payables				
– trade creditors	**24,042**	124,731	-	-

From time to time, directors of the Company or its controlled entities, or their director-related entities, may purchase goods from the consolidated entity. These purchases are made on the same terms and conditions as those available to other consolidated entity employees or customers and are trivial and domestic in nature.

Non-Director-Related Parties

The classes of non-director-related parties are wholly owned controlled entities, partly owned controlled entities and directors of related parties and their director-related entities.

Non-Director-Related Party Transactions

All transactions with non-director-related parties are on normal trading terms and conditions except for transactions with wholly owned controlled entities. Transactions with wholly owned controlled entities are determined on a cost basis with loans and borrowings being interest free.

The Company purchases steel tube from Orrcon Operations Pty Ltd, a partly owned controlled entity, on normal terms and conditions. The Company also re-charges a variety of corporate expenses to its operating controlled entities on the basis described above.

24 Related Parties (continued)

Non-Director-Related Party Transactions (continued)

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 3(a)
- interest paid or payable to controlled entities	Note 3(d)
- amounts receivable from controlled entities	Note 5
- provision for amounts receivable from controlled entities	Note 5
- investments in controlled entities	Note 7
- amounts payable to controlled entities	Note 10
- provisions in respect of controlled entities	Note 12
- purchases from controlled entities	Note 22
- loans paid to controlled entities	Note 5
- loans received from controlled entities	Note 10

25 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

	Consolidated	
	2003	2002
	$'000	$'000
Earnings reconciliation		
Net profit	**33,926**	26,433
Net profit attributable to outside equity interests	**6,678**	2,569
Basic earnings / diluted earnings	**27,248**	23,864

	Number of Shares	
	2003	2002
Weighted average number of shares used as the denominator		
Ordinary shares	**131,335,734**	123,217,896
Number for basic earnings per share	**131,335,734**	123,217,896
Effect of Executive Share Plan options on issue	**475,000**	440,000
Number for diluted earnings per share	**131,810,734**	123,657,896

26 Equity Based Remuneration

Executive Share Plan

The Company has an executive share option plan approved at annual general meeting. The plan provides for 12 (2002: 11) 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 Company's share price of not less than 10% plus CPI for each year of the option period. Accordingly, the plan does not represent remuneration for past services.

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

Summary of options over unissued ordinary shares

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

Notes to and forming part of the Financial Statements

For the year ended 30 June 2003. Hills Industries Limited and its Controlled Entities

26 Equity Based Remuneration (continued)

Summary of options over unissued ordinary shares (continued)

Grant Date	Exercise Date	Expiry Date	Exercise Price $	Number of Options at Beginning of Year	Options Granted	Options Lapsed	Options Exercised	Number of Options at End of Year On Issue
Consolidated and Company - 2003								
01/01/01	31/12/02	31/01/03	2.50	195,000	-	-	(195,000)	-
01/01/02	31/12/03	31/01/04	2.90	245,000	-	(50,000)	-	195,000
01/01/03	31/12/04	31/01/05	3.23	-	300,000	(20,000)	-	280,000
				440,000				475,000
Consolidated and Company - 2002								
01/01/00	31/12/01	31/01/02	2.35	172,500	-	(172,500)	-	-
01/01/01	31/12/02	31/01/03	2.50	195,000	-	-	-	195,000
01/01/02	31/12/03	31/01/04	2.90	-	245,000	-	-	245,000
				367,500				440,000

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 $
Consolidated and Company - 2003 (continued)							
01/01/01	31/12/02	-	487,500	02/04/03	195,000	3.25	633,750
01/01/02	31/12/03	-	-	-	-	-	-
01/01/03	31/12/04	-	-	-	-	-	-
Consolidated and Company - 2002 (continued)							
01/01/00	31/12/01	-	-	-	-	-	-
01/01/01	31/12/02	-	-	-	-	-	-
01/01/02	31/12/03	-	-	-	-	-	-

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.

	Consolidated		The Company	
	2003 **$**	2002 $	**2003** **$**	2002 $
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	**487,500**	-	**487,500**	-

26 Equity Based Remuneration (continued)

Employee Share Bonus Plan

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

To be eligible, employees must be permanent and have been employed by an entity in the consolidated entity continuously for a minimum period of twelve months. 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 to have up to $1,000 of free shares, in respect of an employee share scheme, excluded from their assessable income.

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

Grant Date	Number of Shares	Fair Value of Consideration Received	Fair Value per Share $	Fair Value Aggregate $
Consolidated and Company - 2003				
30/09/02	335,586	-	2.99	1,003,402
24/03/03	205,380	-	3.17	651,055
30/06/03	12,996	-	3.52	45,746
	553,962	-		1,700,203
Consolidated and Company - 2002				
27/09/01	392,245	-	2.45	961,000
25/03/02	209,734	-	3.03	635,494
	601,979	-		1,596,494

27 Particulars in Relation to Controlled Entities

				Percentage Held	
Parent Entity				**2003**	2002
Hills Industries Limited			(e)		
Controlled Entities					
Hills Finance Pty Ltd				**100%**	100%
Hills Industries Limited	(1)		(c)	**100%**	100%
Hills Industries Limited	(2)	(b)	(c)	**50%**	100%
Pacific Communications Limited (formerly Spraygen Sprayers Limited)	(2)		(c)	**100%**	100%
Korvest Ltd		(b)		**46.0%**	45.1%
Hills Hoists Pty Ltd				**100%**	100%
Bailey Aluminium Products Pty Ltd				**100%**	100%
Triton Manufacturing & Design Co Pty Ltd				**100%**	100%
Triton Workshop Systems (UK) Pty Ltd	(3)			**100%**	100%
Woodroffe Industries Pty Ltd				**100%**	100%
Fielders Australia Pty Ltd				**60%**	60%
Orrcon Limited (formerly Orrcon Metals Pty Ltd)		(b)		**50%**	50%
Orrcon Operations Pty Ltd (formerly Orrcon Pty Ltd)		(b)		**50%**	50%
Orrcon Tubing Pty Ltd		(b)		**50%**	50%
Precision Tube Company Pty Ltd		(b)		**50%**	50%
Tube Specialist Pty Ltd		(b)		**50%**	50%
KDB Engineering Pty Ltd		(a)	(e)	**100%**	-
Kerry Equipment (Aust) Pty Ltd		(a)		**100%**	-
ePic Australia Pty Ltd		(b)		**50%**	50%
Pathfinder Insurance Pte Ltd	(4)		(c)	**100%**	100%
Pacom SE Asia Pte Ltd	(4)		(d)	**100%**	100%
Pacific Communications Services Snd Bhd	(5)		(d)	**100%**	100%
Hills Nominees Pty Ltd				**100%**	100%
DAS Security Wholesalers Pty Ltd				**100%**	100%
Pacific Communications Pty Ltd				**100%**	100%
Pacom Security Pty Ltd				**100%**	100%
ePic@Home Security Pty Ltd				**100%**	100%
Step Electronics Pty Ltd				**100%**	100%

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

During the year, Korvest Ltd issued 104,384 (2002: 117,756) ordinary shares pursuant to its Employee Share Bonus Plan for no consideration. Hills Industries Limited does not participate in this plan. Korvest Ltd also issued 299,996 (2002: 21,742) ordinary shares pursuant to its Dividend Investment and Share Investment Plans for an effective consideration of $460,176 (2002: $30,409). Hills Industries Limited participated in these plans to the extent of 253,643 (2002: nil) shares for an effective consideration of $392,746 (2002: nil).

As a result of the above transactions, Hills Industries Limited increased its interest in Korvest Ltd while suffering a loss of $101,247 (2002: $57,348) due to the dilution of its interest. The outside equity interests received a gain for the same amount.

On 1 October 2002, Hills Industries Limited acquired 100% of the share capital of KDB Engineering Pty Ltd which, in turn, owns 100% of the share capital of Kerry Equipment (Aust) Pty Ltd. Refer note 19(d) for additional details.

On 1 July 2002, the consolidated entity disposed of 50% of the equity of Hills Industries Limited, a company incorporated in the United Kingdom. The consolidated entity retains control of the company by virtue of effective management of the Company and the existence of a put option, held by the non Hills shareholder, which results in the consolidated entity being exposed to the majority of the risks and benefits of ownership. Refer note 19(c) for additional details.

On 17 September 2002, Orrcon Metals Pty Ltd changed its status to a non-listed public company and its name to Orrcon Limited. At this time, Orrcon Pty Ltd also changed its name to Orrcon Operations Pty Ltd.

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 other firms of KPMG International.
(d) These companies are audited by firms other than KPMG International.
(e) These companies are parties to the Deed of Cross Guarantee – refer Note 28.

28 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:

– KDB Engineering Pty Ltd.

Both the Company and KDB Engineering Pty Ltd became parties to the Deed on 10 June 2003 by virtue of the Deed of Cross Guarantee being approved by ASIC and relief being granted pursuant to the Class Order.

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 2003, is set out below. No comparatives have been provided as the Class Order was not operative during the previous year.

	Consolidated 2003 $'000
Summarised statement of financial performance and retained profits	
Profit from ordinary activities before related income tax expense	25,508
Income tax expense relating to ordinary activities	7,813
Net profit	17,695
Retained profits at the beginning of the year	34,620
Adjustment to retained profits at the beginning of the year on initial adoption of AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets'	12,600
Dividends recognised during the year	(20,792)
Retained profits at the end of the year	44,123

	Consolidated 2003 $'000
Statement of financial position	
Cash assets	8,450
Receivables	57,770
Inventories	26,909
Total current assets	93,129
Receivables	1,918
Investments	32,579
Property, plant and equipment	49,545
Intangible assets	15,697
Deferred tax assets	10,429
Total non-current assets	110,168
Total assets	203,297
Payables	51,451
Interest bearing liabilities	954
Current tax liabilities	2,918
Provisions	13,519
Total current liabilities	68,842
Interest bearing liabilities	10,606
Deferred tax liabilities	-
Provisions	8,291
Total non-current liabilities	18,897
Total liabilities	87,739
Net assets	115,558
Contributed equity	60,109
Reserves	11,326
Retained profits	44,123
Total equity	115,558

29 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 2003, the fixed rates varied from 4.60% to 6.67% (2002: 4.94% to 6.67%) and the floating rates were prevailing market rates. The weighted average effective floating interest rate at 30 June 2003 was 5.22% (2002: 5.80%).

29 Additional Financial Instruments Disclosure (continued)

(a) Interest Rate Risk (continued)

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:

2003	Floating interest rate $'000	Fixed interest maturing in: 1 year or less $'000	Over 1 to 5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets						
Cash assets	6,016	-	-	-	281	6,297
Receivables	2,168	215	2,000	-	106,555	110,938
Investments	-	-	-	-	14	14
	8,184	215	2,000	-	106,850	117,249
Weighted average interest rate	4.66%	6.00%	8.00%			
Financial liabilities						
Payables	-	-	-	-	71,865	71,865
Bank overdrafts	-	-	-	-	-	-
Bank and other loans	-	60,905	-	-	1,600	62,505
Lease liabilities	-	-	1,196	-	-	1,196
Dividends payable	-	-	-	-	-	-
Employee benefits	20,228	-	-	-	-	20,228
	20,228	60,905	1,196	-	73,465	155,794
Interest rate swaps *	(70,000)	22,000	48,000			
Weighted average interest rate	5.22%	5.33%	5.34%			

* notional principal amounts

2002	Floating interest rate $'000	Fixed interest maturing in: 1 year or less $'000	Over 1 to 5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets						
Cash assets	6,125	-	-	-	375	6,500
Receivables	2,458	-	1,924	-	103,426	107,808
Investments	-	-	-	-	1,163	1,163
	8,583	-	1,924	-	104,964	115,471
Weighted average interest rate	4.76%	-	8.00%			
Financial liabilities						
Payables	-	-	-	-	69,169	69,169
Bank overdrafts	7,779	-	-	-	-	7,779
Bank and other loans	-	61,812	-	-	1,884	63,696
Lease liabilities	-	500	1,255	-	-	1,755
Dividends payable	-	-	-	-	12,600	12,600
Employee benefits	18,356	-	-	-	-	18,356
	26,135	62,312	1,255	-	83,653	173,355
Interest rate swaps *	(61,000)	3,000	58,000			
Weighted average interest rate	5.80%	5.03%	5.59%			

* notional principal amounts

29 Additional Financial Instruments Disclosure (continued)

(b) Foreign Exchange Risk

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

	Consolidated		**Consolidated**	
	2003 Exchange Rate	2002 Exchange Rate	**2003 $'000**	2002 $'000
Buy US dollars				
Not longer than one year	**0.65**	0.56	**5,910**	7,416
Sell US dollars				
Not longer than one year	-	0.55	-	227

(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:

On-Statement of Financial Position Financial Instruments

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

Off-Statement of Financial Position Financial Instruments

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

	Consolidated	
	2003 $'000	2002 $'000
Net fair value of interest rate swaps as at the reporting date	**401**	656

30 Events Subsequent to Balance Date

The company will be the head entity in a tax-consolidated group comprising the Company and all of its Australian wholly-owned subsidiaries, from the date of lodgement of the first consolidated income tax return in respect of the year ended 30 June 2003. The financial effect of this change has not been brought to account in the financial statements for the year ended 30 June 2003. The net of deferred tax assets over deferred tax liabilities of the wholly-owned subsidiaries of $815,000 will be transferred to the Company as at 1 July 2003 for no consideration. This will generate income tax revenue of $815,000.

The ultimate financial effect of the Tax Consolidation legislation may differ from these amounts as a result of Urgent Issues Group deliberations and final calculations and decisions under the legislation.

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

Directors' Declaration

Hills Industries Limited and its Controlled Entities

1 In the opinion of the directors of Hills Industries Limited ('the Company'):

(a) the financial statements and notes, set out on pages 16 to 49, 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 2003 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 28 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

Dated at Edwardstown this 16th day of September 2003.

Signed in accordance with a resolution of the directors:

RD Hill-Ling
Director

DJ Simmons
Director

Independent Audit Report to the Members of Hills Industries Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Hills Industries Limited (the 'Company') and the Consolidated Entity, for the year ended 30 June 2003. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

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

Audit approach

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

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

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

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

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

Independence

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

Audit opinion

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

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2003 and of its performance for the financial year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

Gary Savage
Partner
Dated at Adelaide, 16 September 2003

ASX Additional Information

Hills Industries Limited and its Controlled Entities

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

Distribution of Equity Security Holders as at 22nd August 2003

	Number of equity security holders	
Category	**Ordinary shares**	**Options**
1 – 1,000	2,903	-
1,001 – 5,000	7,879	-
5,001 – 10,000	2,466	2
10,001 – 100,000	1,565	7
100,001 – and over	66	1

The number of shareholders holding less than a marketable parcel of ordinary shares at 22nd August 2003 was 170.

Twenty Largest Shareholders as at 22nd August 2003

	Number of shares held	Percentage
Poplar Pty Limited	14,795,321	10.9
Hills Associates Limited	10,294,245	7.6
Jacaranda Pastoral Pty Ltd	5,664,000	4.2
National Nominees Limited	4,537,978	3.4
Australian Foundation	3,274,652	2.4
Queensland Investment Corporation	2,785,304	2.1
Argo Investments Ltd	2,750,730	2.0
RBC Global Services Australia	1,887,999	1.4
Colleen Sims Nominees Pty Ltd	1,691,112	1.3
Donald Cant Pty Ltd	1,591,482	1.2
Milton Corporation Ltd	1,191,672	0.9
Mirrabooka Investments Limited (Investment Portfolio Account)	900,000	0.7
Hills Associates Limited & Poplar Pty Limited	792,885	0.6
Citicorp Nominees Pty Limited	772,353	0.6
Choiseul Investments Limited	730,000	0.5
Invia Custodian Pty Limited	691,133	0.5
JP Morgan Nominees Australia	644,921	0.5
Bounty Investments Limited	585,332	0.4
Bond Street Custodians Limited	547,190	0.4
Wakefield Investments	531,469	0.4

The twenty largest shareholders held 56,659,778 shares equal to 41.8% of the total issued 135,559,528 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 22nd August 2003 were:

	Number of shares held
Perpetual Trustees Australia Limited	10,426,935
Argo Investments Ltd	16,042,362
Poplar Pty Limited	15,191,763
Maple Brown Abbott Limited	6,420,812

On-Market Buy-Back

There is no current on-market buy-back.

Offices and Officers

Share Registry

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

Registered Office

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

Company Secretary

Mr Graham L Twartz

Voting Rights

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

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

Stock Exchange

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

Direct Payment to Shareholders' Accounts

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

Shareholder Enquiries / Change of Address

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

Other Information

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

Financial Calendar

Final Dividend

Books close 15 September 2003
Dividend paid 29 September 2003
Annual General Meeting 31 October 2003
Half Year Result announced February 2004

Interim Dividend

Books close late March 2004
Dividend paid April 2004

Annual General Meeting

The 46th Annual General Meeting of Hills Industries Limited
will be held at The Grainger Studio
91 Hindley Street, Adelaide, SA, 5000
on Friday 31 October 2003 at 2.30pm.
The Notice of Meeting and Proxy Form are enclosed with this report.

Auditors

KPMG

Bankers

ANZ Banking Group Limited
National Australia Bank Limited
Westpac Banking Corporation

Hills Industries Limited

ABN 35 007 573 417