## PRESS RELEASE

**PROFIT & DIVIDEND IMPROVEMENT FOR HILLS SHAREHOLDERS**

The Chairman, Mr. Bob Ling, today announced the following record operating results for the 12 months ended 30 June 2005 for the Hills Group.

| | 12 MONTHS TO 30/6/05 $'000 | 12 MONTHS TO 30/6/04 $'000 | % CHANGE |
|---|---|---|---|
| Total Revenue from Ordinary Activities | 828,184 | 725,184 | + 14.2 |
| | | | |
| Profit from Ordinary Activities before Tax | 60,674 | 53,959 | + 12.6 |
| Profit after tax from Ordinary Activities attributable to Owners | 36,217 | 31,114 | + 16.4 |
| Earnings per share (cents) | 23.5 | 22.5 | + 4.4 |

Mr Ling said that the improvement in operating profit after tax was very pleasing. The results for individual business units were as follows:

**ELECTRONIC SECURITY & ENTERTAINMENT**

| | 12 MONTHS TO 30/6/05 $'000 | 12 MONTHS TO 30/6/04 $'000 | % CHANGE |
|---|---|---|---|
| Total Revenue | 206,311 | 170,262 | + 21.2 |
| | | | |
| Operating profit before interest and tax | 23,544 | 18,618 | + 26.5 |
| | | | |
| % to Sales | 11.4% | 10.9% | |

- Electronic Security revenues finished ahead of the corresponding period notwithstanding continuing weakness in domestic alarm sales. Product range diversification and a stream of new product introductions were standout achievements during the year. We were also successful in supplying equipment to a number of major corporate customers as they upgraded their security systems to digital solutions. We expect the trend for increased and enhanced security across all sectors, public and private, to continue.

- The Hills Technology Solutions Group facilitated the closure of a number of major contracts and continued to operate as the umbrella across all Hills Electronic Security & Entertainment business units.

- The Antenna & TV Systems business achieved very good results for the year. Strong demand from Foxtel and Austar as they promoted their new digital offerings assisted the results. Further steady growth is expected as both subscription TV providers promote personal video recorders and other products to enhance their customers Audio Visual experience.

- The Antenna & TV Systems business was successful in achieving a major contract with Air Services Australia to upgrade telecommunications infrastructure at regional airports around Australia. Some revenues in relation to this project were booked in the current year with further revenues to be booked during 2006.

- Audio Telex and Crestron Control Solutions were acquired effective 1st June 2005 and both businesses achieved outstanding results in the first month of Hills ownership. These businesses are professionally managed and growth orientated. A key initiative is to use the Hills Technology Solutions Group to access bundled opportunities in high rise developments, major infrastructure projects, hotel developments and the like. We have already achieved some success in a major project in Queensland.

- Access Television Services was acquired effective 1st December 2004. ATS operates in a highly competitive market and is meeting the strict performance targets of its major customer, Austar.

**HOME & HARDWARE PRODUCTS**

| | 12 MONTHS TO 30/6/05 $'000 | 12 MONTHS TO 30/6/04 $'000 | % CHANGE |
|---|---|---|---|
| Total Revenue | 164,928 | 161,774 | + 1.9 |
| | | | |
| Operating profit before interest and tax | 9,560 | 13,392 | - 28.6 |
| | | | |
| % to Sales | 5.8% | 8.3% | |

- As reported at the half year, the Branded Products business within Home & Hardware Products operated in a difficult environment due to a combination of volatile steel prices, high oil prices (translating into cost increases for plastic components and freight) and very competitive pricing from overseas particularly China.

  Earlier this year we took the decision to reshape the Branded Products business and this process is well advanced. In the future we will focus more on design and innovation with a larger proportion of our products sourced from lower cost environments. The Board has set some sensible time frames to enable the reshaping of the business to be achieved in a controlled way thus ensuring that our customer service levels and quality imperatives are maintained.

  As a result of the restructure of the Branded Products business, we have booked a $2.3 million charge for impairment of assets and other restructuring costs. This item is included as an individually significant item.

- Late in the year we announced the sale of the Triton business to GMC, an Australian based power tool specialist. A profit of $2.306 million was recorded on the sale. This is reported as an individually significant item.

- Profitability in the United Kingdom joint venture was in line with expectations with significantly improved factory performance being a major contributor.

- We were pleased with the performance of K•Care and Kerry Equipment as they increased their market penetration in the Eastern States and achieved further export success to New Zealand and the United Kingdom. Further product range enhancements are planned for these two businesses through a combination of new product development and range extension, primarily through products manufactured offshore to our specifications.

- The Team Poly business which is involved in the manufacture of water storage tanks, chemical storage, septic and holding tanks as well as SmartBar vehicle frontal protection systems was acquired in April 2005. Hills has a 75% interest in this business. Team Poly has met all of our expectations since acquisition and will form the basis for a much larger water related business to be developed under the Hills umbrella.

- We expect steel price increases to moderate during 2006 although oil prices appear to have settled at historically high levels. The controlled restructure of the Branded Products business will be further progressed during 2006 and we expect good growth from Team Poly and the K•Care Group. Overall our expectation for 2006 is that profit in this business segment will improve.

**BUILDING & INDUSTRIAL PRODUCTS**

| | 12 MONTHS TO 30/6/05 $'000 | 12 MONTHS TO 30/6/04 $'000 | % CHANGE |
|---|---|---|---|
| Total Revenue | 440,358 | 378,763 | + 16.3 |
| | | | |
| Operating profit before interest and tax | 31,028 | 25,281 | + 22.7 |
| | | | |
| % to Sales | 7.0% | 6.7% | |

Comparatives for the 12 Months to 30/6/04 exclude the individually significant item being sale of the Elite Built business by Korvest Ltd

- We were pleased with the increase in sales and profitability in this segment. Although some of the increase in sales revenue resulted from price increases related to steel we nevertheless grew our market share in each business unit.

- In February 2005 we acquired the 50% interest in Orrcon that we did not already hold. Orrcon has achieved good sales and profit growth since it was formed through a merger of Hills Tubing and Welded Tube Mills in 2000. Orrcon is set to build on this track record of growth over the next few years.

  We were pleased with the performance of the majority of the business units within Orrcon although the results for the Large Pipe & Tube Mill located in Wollongong were below expectation. A complete review of the engineering requirements to meet our objectives has been completed, which will result in further capital expenditure. This investment will improve results in the medium term.

- The Fielders rollforming business performed well during the year. We will continue to release new products which are aimed at distinguishing our offer in what is a very competitive industry. Our unique flooring systems and the introduction of innovations such as our angle cut technology (which reduces the labour costs required to install a steel roof) will assist in our objective of differentiating our business in the Australian market.

- The Korvest results were very good for the year with the Ezy-Strut business in particular performing well. The strength of the non-residential and engineering construction markets assisted this business.

- Overall Hills is a major user of steel across many of its business units. A decision has been taken to diversify our supply source due to the damage caused last year as a result of supply difficulties from our major supplier. Additional resources are being applied to ensure that we are able to identify and proceed with competitive offers from alternative suppliers.

**DIVIDEND POLICY**

The company will continue to pay the majority of its after tax profits to shareholders as interim and final dividends. This policy is subject to the same conditions as previously advised as follows:

- The Debt to Equity ratio remaining around 45% taking into account the funding required for growth (This ratio was 27.1% at 30 June 2005).
- No change in the law in connection with the distribution of accumulated franking credits.
- An acceptable level of profitability.

The Directors announced an increased fully franked final dividend of 12.0 cents per share. This dividend can be taken as cash, reinvested in Hills shares at a 5% discount or received as bonus shares at a 5% discount or any combination of the above. The dividend will be paid on 26th September 2005. The Record Date is 12th September 2005.

## TRANSITION TO AIFRS

The work to transition to the new international accounting standards has been completed. The impact on our reported profit is not significant. The full details are set out in our Appendix 4E, Preliminary Final Report.

**APPOINTMENT OF NEW CHAIRMAN**

Today I am announcing my retirement from the position of Chairman of the Hills Group of Companies following the completion of the AGM on October 28. The world has certainly changed since I joined the company in 1952. It has been a pleasure to have been involved in the growth of a great Australian company and I have enjoyed working with an outstanding group of colleagues over an extended period of time.

I am delighted that Jenny Hill-Ling has accepted the challenge to take on the Chairman's role. I will remain on the Board until December to assist in transitional arrangements and look forward to meeting with shareholders at the October AGM which will be my last in an official Board capacity.

**2006 GUIDANCE**

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

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

**R.D.H. LING AO**
**CHAIRMAN**

9 August 2005

**Contact Details:**

ROBERT HILL-LING
CHAIRMAN

DAVID SIMMONS
MANAGING DIRECTOR
Mobile: 0412 66 22 11

# Appendix 4E

## Hills Industries Limited
## ABN 35 007 573 417
## and its Controlled Entities

## Preliminary Final Report
## Financial Year Ended 30 June 2005

**Results for announcement to the market:** $A'000

| | | | | |
|---|---|---|---|---|
| Revenues from ordinary activities | **Up** | **14.2%** | to | **828,184** |
| Profit from ordinary activities after tax attributable to members | **Up** | **16.4%** | to | **36,217** |
| Net profit for the period attributable to members | **Up** | **16.4%** | to | **36,217** |

| **Dividends** | Amount per security | Franked amount per security |
|---|---|---|
| Final dividend (#) | | |
| - current reporting period | **12.0¢** | **12.0¢** |
| - previous corresponding period | 11.5¢ | 11.5¢ |
| Interim dividend | | |
| - current reporting period | 12.0¢ | 12.0¢ |
| - previous corresponding period | 11.0¢ | 11.0¢ |

# Final dividend proposed in respect of the current reporting period. The financial effect of this dividend will be recognised in the next reporting period.

Record date for determining entitlements to the dividend: **12 September 2005**

Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:

**Refer attached press release and Note 5 of this financial report for details of individually significant items.**

**This financial report is the preliminary final report provided to the Australian Stock Exchange under listing rule 4.3A.**

**Hills Industries Limited and its Controlled Entities**
**Statement of Financial Performance for the Year Ended 30 June 2005**

| | Note | Consolidated 2005 $'000 | Consolidated 2004 $'000 |
|---|---|---|---|
| Revenues from ordinary activities | 3 | **828,184** | 725,184 |
| Expenses from ordinary activities, excluding borrowing costs | 4 | **763,165** | 665,943 |
| Borrowing costs | 4 | **4,345** | 5,282 |
| **Profit from ordinary activities before related income tax expense** | | **60,674** | 53,959 |
| Income tax expense relating to ordinary activities | | **18,211** | 15,970 |
| **Profit from ordinary activities after related income tax expense** | | **42,463** | 37,989 |
| Profit from extraordinary items after related income tax expense | | **-** | - |
| **Net profit** | | **42,463** | 37,989 |
| Net profit attributable to outside equity interests | | **6,246** | 6,875 |
| **Net profit attributable to members of the Company** | | **36,217** | 31,114 |
| Non-owner transaction changes in equity: | | | |
| - Increase in asset revaluation reserve | 12 | **0** | 7,064 |
| - Net exchange differences relating to self-sustaining foreign operations | | **(502)** | 804 |
| Total revenues, expenses and valuation adjustments attributable to members of the Company recognised directly in equity | | **(502)** | 7,868 |
| **Total changes in equity from non-owner related transactions attributable to members of the Company** | | **35,715** | 38,982 |
| Basic earnings per share | 9 | **23.5** | 22.5¢ |
| Diluted earnings per share | 9 | **23.5** | 22.5¢ |
| Basic earnings per share before individually significant items | | **23.5** | 22.6¢ |
| Diluted earnings per share before individually significant items | | **23.5** | 22.6¢ |
| Dividends per share in respect of the current reporting period | | **24.0** | 22.5¢ |

The statement of financial performance is to be read in conjunction with the discussion and analysis in the attached press release and the notes to and forming part of the financial statements set out on pages 5 to 26.

**Hills Industries Limited and its Controlled Entities**
**Statement of Financial Position as at 30 June 2005**

| | Note | Consolidated 2005 $'000 | Consolidated 2004 $'000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash assets | | **21,287** | 21,835 |
| Receivables | | **154,188** | 118,884 |
| Inventories | | **133,986** | 89,610 |
| Total current assets | | **309,461** | 230,329 |
| **Non-Current Assets** | | | |
| Receivables | | **1,222** | 6,399 |
| Investments | | **102** | 104 |
| Property, plant and equipment | | **154,940** | 156,821 |
| Intangible assets | | **90,760** | 15,388 |
| Deferred tax assets | | **25,980** | 20,042 |
| Total non-current assets | | **273,004** | 198,754 |
| **Total assets** | | **582,465** | 429,083 |
| **Current Liabilities** | | | |
| Payables | | **117,495** | 69,369 |
| Interest-bearing liabilities | | **10,528** | 10,501 |
| Current tax liabilities | | **8,599** | 9,286 |
| Provisions | | **29,787** | 25,866 |
| Total current liabilities | | **166,409** | 115,022 |
| **Non-Current Liabilities** | | | |
| Interest-bearing liabilities | | **95,405** | 74,336 |
| Deferred tax liabilities | | **1,540** | 1,002 |
| Provisions | | **6,721** | 4,390 |
| Total non-current liabilities | | **103,666** | 79,728 |
| **Total liabilities** | | **270,075** | 194,750 |
| **Net assets** | | **312,390** | 234,333 |
| **Equity** | | | |
| Contributed equity | | **158,544** | 68,300 |
| Reserves | | **31,622** | 33,876 |
| Retained profits | 13 | **106,179** | 97,340 |
| Total Company interest | | **296,345** | 199,516 |
| Outside equity interests | | **16,045** | 34,817 |
| **Total equity** | | **312,390** | 234,333 |

The statement of financial position is to be read in conjunction with the discussion and analysis in the attached press release and the notes to and forming part of the financial statements set out on pages 5 to 26.

**Hills Industries Limited and its Controlled Entities**
**Statement of Cash Flows for the Year Ended 30 June 2005**

| | Note | Consolidated 2005 $'000 | Consolidated 2004 $'000 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Cash receipts in the course of operations | | **894,812** | 791,616 |
| Cash payments in the course of operations | | **(834,405)** | (731,275) |
| Interest received | | **1,037** | 791 |
| Dividends received | | **15** | - |
| Borrowing costs paid | | **(3,723)** | (5,211) |
| Income taxes paid | | **(25,142)** | (19,118) |
| **Net cash provided by operating activities** | | **32,594** | 36,803 |
| **Cash Flows from Investing Activities** | | | |
| Proceeds on disposal of property, plant and equipment | | **3,024** | 917 |
| Payments for property, plant and equipment | | **(20,514)** | (23,432) |
| Proceeds on disposal of investments | | **-** | - |
| Payments for investments | | **-** | (94) |
| Payments for intangible assets | | **-** | (370) |
| Proceeds on disposal of business operations (net of cash disposed) | | **10,400** | 6,518 |
| Payments for controlled entities (net of cash acquired) | 15(a) | **(87,020)** | (3,091) |
| Loans repaid by other entities | | **8,741** | 492 |
| Loans provided to other entities | | **-** | (5,142) |
| Rent received | | **526** | 878 |
| **Net cash provided by / (used in) investing activities** | | **(84,843)** | (23,324) |
| **Cash Flows from Financing Activities** | | | |
| Proceeds from borrowings | | **64,799** | 61,539 |
| Repayment of borrowings | | **(59,645)** | (42,771) |
| Finance lease payments | | **(624)** | (658) |
| Proceeds from issue of shares by the Company | | **91,064** | 8,191 |
| Payments for share issue costs by the Company | | **(820)** | - |
| Dividends paid by the Company | 14(a) | **(29,129)** | (23,526) |
| Proceeds from equity contributed by outside equity interests | | **-** | 77 |
| Dividends paid to outside equity interests | | **(18,934)** | (3,263) |
| **Net cash provided by / (used in) financing activities** | | **46,711** | (411) |
| **Net increase / (decrease) in cash held** | | **(5,538)** | 13,068 |
| **Cash at the beginning of the year** | | **19,282** | 6,297 |
| Effects of exchange rate fluctuations on the balances of cash held in foreign currencies | | **253** | (83) |
| **Cash at the end of the year** | | **13,997** | 19,282 |

The statement of cash flows is to be read in conjunction with the discussion and analysis in the attached press release and the notes to and forming part of the financial statements set out on pages 5 to 26.

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

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**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

## 1 Basis of Preparation of Preliminary Final Financial Report

This preliminary final financial report has been prepared in accordance with the Corporations Act 2001, Appendix 4E of the Australian Stock Exchange Listing Rules and is based on Accounting Standard AASB 1039 “Concise Financial Reports”. The preliminary final financial report also complies with other applicable Accounting Standards and applicable Urgent Issues Group Consensus Views.

The financial statements and specific disclosures required by AASB 1039 have been derived from information that will be used to prepare the consolidated entity’s full financial report for the financial year. Additional information included in the preliminary final financial report as a result of the specific requirements of Appendix 4E is consistent with the information that will be used to prepare the consolidated entity’s full financial report.

The preliminary final financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The preliminary final financial report 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 non-current assets.

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

A full description of the accounting policies adopted by the consolidated entity will be included in the consolidated entity’s full financial report.

## 2 Details of Reporting Periods

The current reporting period is the financial year ended 30 June 2005. The previous corresponding period is the financial year ended 30 June 2004.

| | Consolidated | |
|---|---|---|
| | **2005 $’000** | 2004 $’000 |
| **3 Revenues from Ordinary Activities** | | |
| **Revenues from operating activities** | | |
| Sales of goods and services | **810,156** | 713,643 |
| Interest received or receivable | **1,037** | 743 |
| Property rentals | **890** | 868 |
| Other income | **2,677** | 2,495 |
| | **814,760** | 717,749 |
| **Revenues from outside operating activities** | | |
| Proceeds on disposal of non-current assets | **3,024** | 917 |
| | **817,784** | 718,666 |
| Proceeds on disposal of businesses | **10,400** | 6,518 |
| Total revenues from ordinary activities | **828,184** | 725,184 |

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

| | | Consolidated 2005 $'000 | Consolidated 2004 $'000 |
|---|---|---|---|
| **4 Expenses from Ordinary Activities** | | | |
| Costs of goods sold | | **537,883** | 465,371 |
| Sales and marketing expenses | | **102,143** | 92,258 |
| Distribution expenses | | **54,908** | 49,480 |
| Administration expenses | | **39,083** | 38,169 |
| Occupancy expenses | | **13,715** | 12,844 |
| Other expenses | | **15,433** | 7,821 |
| Expenses from ordinary activities, excluding borrowing costs | | **763,165** | 665,943 |
| Borrowing costs | | **4,345** | 5,282 |
| Total expenses from ordinary activities | | **767,510** | 671,225 |
| **5 Individually Significant Items** | | | |
| **(a) Summary of individually significant items** | | | |
| Net effect of all individually significant items on: | | | |
| - profit before related income tax expense | | **6** | 318 |
| - related income tax expense | | **(2)** | (561) |
| - net profit attributable to outside equity interests | | **-** | 97 |
| - net profit attributable to members of the Company | | **4** | (146) |
| Consisting of the following individual items: | | | |
| Sale of the Elite Built business by Korvest Ltd | | | |
| - effect on profit before related income tax expense | 5(b) | **-** | 1,318 |
| - related income tax expense | 5(c) | **-** | (561) |
| - attributable to outside equity interests | 5(d) | **-** | (403) |
| - attributable to members of the Company | | **-** | 354 |
| Recoverable amount write-down in Hills UK | | | |
| - effect on profit before related income tax expense | 5(b) | **-** | (1,000) |
| - attributable to outside equity interests | 5(d) | **-** | 500 |
| - attributable to members of the Company | | **-** | (500) |
| Sale of Triton Business | | | |
| - effect on profit before related income tax expense | 5(b) | **2,306** | - |
| - related income tax expense | 5(c) | **(692)** | - |
| - attributable to members of the Company | | **1,614** | - |
| Restructuring charge for Edwardstown plant | | | |
| - effect on profit before related income tax expense | 5(b) | **(2,300)** | - |
| - effect on income tax expense | 5(c) | **690** | - |
| - attributable to members of the Company | | **(1,610)** | - |

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

| | | Consolidated | |
|---|---|---|---|
| | | **2005 $'000** | 2004 $'000 |
| **5** | **Individually Significant Items (continued)** | | |
| **(b)** | **Individually significant revenues / (expenses) included in profit from ordinary activities before income tax expense** | | |
| | Proceeds on sale of business | **10,400** | 6,518 |
| | Carrying amount of assets and liabilities sold | **(8,094)** | (5,200) |
| | Net gain on sale of business | **2,306** | 1,318 |
| | Resulting from the sale of the Triton business (Prior year: sale of Elite Built business by Korvest Ltd.) | | |
| | Recoverable amount write-down | **(2,300)** | (1,000) |
| | Provision for Restructuring of the Edwardstown Plant includes $1,100 write down of Plant & Equipment. (Prior year: write down in the value of plant, equipment and inventory due to continuing losses in Hills Industries Limited (UK)). | | |
| **(c)** | **Individually significant items included in income tax expense relating to ordinary activities** | | |
| | Income tax benefit on Edwardstown restructure provision | **690** | - |
| | Income tax expense relating to sale of business (#) | **(692)** | (561) |
| | Net income tax expense | **(2)** | (561) |
| | # Resulting from the sale of the Triton business (Prior year: sale of Elite Built business by Korvest Ltd.) | | |
| **(d)** | **Individually significant items included in net profit attributable to outside equity interests** | | |
| | Share of net gain on sale of business after related income tax expense attributable to outside equity interests | **-** | (403) |
| | Resulting from the sale of the Elite Built business by Korvest Ltd. | | |
| | Share of recoverable amount write-down attributable to outside equity interests | **-** | 500 |
| | Resulting from the write down in the value of plant, equipment and inventory due to continuing losses in Hills Industries Limited (UK). | | |

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

## 6 Profit from Ordinary Activities

| | Consolidated 2005 $'000 | Consolidated 2004 $'000 |
|---|---|---|
| **Profit from ordinary activities before income tax has been arrived at after charging / (crediting) the following items** | | |
| Depreciation of buildings | **681** | 684 |
| Depreciation of plant and equipment | **18,082** | 16,743 |
| Total depreciation of property, plant and equipment | **18,763** | 17,427 |
| Amortisation of goodwill | **587** | 672 |
| Amortisation of patents and trademarks | **1,554** | 1,624 |
| Total amortisation of intangible assets | **2,141** | 2,296 |
| Total depreciation and amortisation | **20,904** | 19,723 |
| Write down of plant and equipment to recoverable amount | **1,100** | 1,000 |
| Write down of intangible assets to recoverable amount | **1,328** | 225 |
| Interest paid or payable | **4,320** | 5,219 |
| Finance charges on capitalised leases | **25** | 63 |
| Total borrowing costs | **4,345** | 5,282 |
| Interest received or receivable | **(1,037)** | (743) |
| Net interest paid | **3,308** | 4,539 |
| Net bad and doubtful debts expense including movements in provision for doubtful debts | **3,180** | 4,015 |
| (Profit) / loss on disposal of non-current assets: | | |
| - property, plant and equipment | **(154)** | (260) |
| - business operations | **(2,306)** | (1,318) |
| | **(2,460)** | 1,578 |

## 7 Comparison of Half-Year Profit

| | Consolidated 2005 $'000 | Consolidated 2004 $'000 |
|---|---|---|
| Net profit attributable to members of the Company reported for the first half-year | **17,568** | 15,908 |
| Net profit attributable to members of the Company for the second half-year | **18,649** | 15,206 |
| | **36,217** | 31,114 |

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

| | Consolidated | |
|---|---|---|
| | **2005** | 2004 |
| **8 Ratios** | | |
| **(a) Net tangible asset (NTA) backing** | | |
| Net tangible assets per ordinary share<br>Calculated as net assets less intangible assets less outside equity interests in those assets over the total number of shares on issue | **$1.24** | $1.31 |
| **(b) Other ratios** | | |
| Profit before tax / revenue<br>Calculated as profit from ordinary activities before related income tax expense as a percentage of total revenues | **7.3%** | 7.4% |
| Profit after tax / equity interests<br>Calculated as net profit attributable to members of the Company as a percentage of equity attributable to members | **12.2%** | 15.6% |

## 9 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

| **Earnings reconciliation** | **$'000** | $'000 |
|---|---|---|
| Net profit | **42,463** | 37,989 |
| Net profit attributable to outside equity interests | **6,246** | 6,875 |
| Basic earnings / diluted earnings | **36,217** | 31,114 |

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

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

## 10 Segment Reporting

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

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Inter-segment pricing is determined on a cost basis for wholly-owned entities and on an arm's-length basis for non-wholly-owned entities.

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

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

| | |
|---|---|
| Electronic Security and Entertainment | Communications related products and services, domestic and commercial antennas, master antenna television systems, communications antennas, amplifiers, electronic security systems, closed circuit television systems, home and commercial automation and control systems, professional audio products 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, rehabilitation and mobility products and water tanks. |
| Building and Industrial | Structural, precision and large steel tubing, galvanising, precision metal cabinets, stainless steel products, steel door frames, roll-formed metal building products, carports and shed systems. |

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

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

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

## Hills Industries Limited and its Controlled Entities
## Notes to the Financial Statements for the Year Ended 30 June 2005

## 10 Segment Reporting (continued)

**Primary reporting by business segments**

| | Electronic Security and Entertainment | | Home and Hardware | | Building and Industrial | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| **Revenue** | | | | | | | | | | |
| External segment revenue | **206,311** | 170,262 | **164,928** | 161,774 | **440,358** | 385,281 | **0** | 0 | **811,597** | 717,317 |
| Inter-segment revenue | **0** | 0 | **0** | 0 | **9,948** | 10,665 | **-9,948** | -10,665 | **0** | 0 |
| Total segment revenue | **206,311** | 170,262 | **164,928** | 161,774 | **450,306** | 395,946 | **-9,948** | -10,665 | **811,597** | 717,317 |
| Unallocated / corporate revenue | | | | | | | | | **16,587** | 7,867 |
| **Total revenue** | | | | | | | | | **828,184** | 725,184 |
| **Result** | | | | | | | | | | |
| Segment result (before interest and tax) | **23,544** | 18,618 | **9,560** | 13,392 | **31,028** | 26,599 | **0** | 0 | **64,132** | 58,609 |
| Unallocated / corporate result | | | | | | | | | **-150** | -111 |
| | | | | | | | | | **63,982** | 58,498 |
| Net interest | | | | | | | | | **3,308** | 4,539 |
| Profit from ordinary activities before income tax | | | | | | | | | **60,674** | 53,959 |
| Income tax expense | | | | | | | | | **18,211** | 15,970 |
| **Net profit** | | | | | | | | | **42,463** | 37,989 |
| Depreciation and amortisation | **4,520** | 3,368 | **8,272** | 7,997 | **7,096** | 6,602 | **0** | 0 | **19,888** | 17,967 |
| Unallocated / corporate depreciation and amortisation | | | | | | | | | **1,016** | 1,756 |
| | | | | | | | | | **20,904** | 19,723 |
| Other non-cash expenses | **2,907** | 1,673 | **3,408** | 2,081 | **9,389** | 6,117 | **0** | 0 | **15,704** | 9,871 |
| Unallocated / corporate other non-cash expenses | | | | | | | | | **-3,455** | 4,487 |
| | | | | | | | | | **12,249** | 14,358 |
| **Assets** | | | | | | | | | | |
| Segment assets | **110,390** | 75,052 | **105,522** | 106,156 | **232,168** | 181,456 | **0** | -1,364 | **448,080** | 362,300 |
| Unallocated / corporate assets | | | | | | | | | **134,385** | 66,783 |
| **Consolidated total assets** | | | | | | | | | **582,465** | 429,083 |
| **Liabilities** | | | | | | | | | | |
| Segment liabilities | **29,670** | 14,503 | **26,268** | 14,657 | **70,131** | 43,901 | **0** | -1,364 | **126,069** | 72,697 |
| Unallocated / corporate liabilities | | | | | | | | | **144,006** | 122,053 |
| **Consolidated total liabilities** | | | | | | | | | **270,075** | 192,750 |
| Acquisitions of non-current assets | **21,863** | 4,677 | **19,377** | 10,855 | **61,936** | 9,804 | **0** | 0 | **103,176** | 25,336 |
| Unallocated / corporate assets | | | | | | | | | **1,180** | 1,557 |
| | | | | | | | | | **104,356** | 26,893 |

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

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

## 11 Issued and Quoted Securities at End of Current Period

| | Total number | Number quoted | Exercise price | Expiry date |
|---|---|---|---|---|
| **Ordinary securities** | | | | |
| Balance at the beginning of the year | 140,047,007 | 140,047,007 | N/A | N/A |
| Increases through issues | 25,142,954 | 25,142,954 | N/A | N/A |
| Balance at the end of the year | 165,189,961 | 165,189,961 | N/A | N/A |
| **Options** | | | | |
| Balance at the beginning of the year | 280,000 | - | 3.23 | 31/01/05 |
| | 370,000 | - | 3.66 | 31/01/06 |
| Issued during the year | 460,000 | - | 4.16 | 31/01/07 |
| Lapsed during the year | (10,000) | - | 3.66 | 31/01/06 |
| Lapsed during the year | (10,000) | - | 4.16 | 31/01/07 |
| Exercised during the year | (280,000) | - | 3.23 | 31/01/05 |
| Balance at the end of the year | 360,000 | - | 3.66 | 31/01/06 |
| | 450,000 | - | 4.16 | 31/01/07 |

All options are subject to certain future performance measures. In respect of the balance of options outstanding at year end, at the date of this report these measures had not been met.

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

| | Consolidated | |
|---|---|---|
| | **2005 $'000** | 2004 $'000 |

## 12 Increase in Asset Revaluation Reserve

| | | |
|---|---|---|
| Revaluation increment on freehold land and buildings | **-** | 7,064 |

During the prior year, the consolidated entity obtained independent valuations of all freehold land and buildings. The valuation process was managed by AON Risk Services Australia Limited with the individual valuations being performed by various certified valuers during August and September 2003 and dated 15 September 2003. The valuations were determined having regard to the highest and best use of the assets for which market participants would be prepared to pay.

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

During the previous corresponding period, freehold land and buildings of Hills Industries Limited (UK), a controlled entity incorporated in the United Kingdom, were revalued by directors to fair value prior to the sale of part of the consolidated entity's interest in Hills Industries Limited (UK). The total revaluation increment for both land and buildings was $888,000.

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

| | Consolidated | |
|---|---|---|
| | **2005 $'000** | 2004 $'000 |
| **13 Retained Profits** | | |
| Balance at the beginning of the year | **97,340** | 89,752 |
| Net profit attributable to members of the Company | **36,217** | 31,114 |
| Transfer from Asset Realisation Reserve | **1,751** | - |
| Dividends recognised during the year – refer Note 14 | **(29,129)** | (23,526) |
| Balance at the end of the year | **106,179** | 97,340 |

## 14 Dividends

**(a)** Dividends recognised in the current year by the Company are:

| | Cents per share | Total amount $'000 | Franked / unfranked | Date of payment |
|---|---|---|---|---|
| **2005** | | | | |
| Interim – ordinary | 12.0 | 19,577 | Franked | 29 March 2005 |
| Interim dividend forgone for Share Investment Plan | | (3,097) | | |
| Final – ordinary | 11.5 | 16,105 | Franked | 27 September 2004 |
| Final dividend forgone for Share Investment Plan | | (3,456) | | |
| Total amount | | 29,129 | | |
| **2004** | | | | |
| Interim – ordinary | 11.0 | 15,194 | Franked | 29 March 2004 |
| Interim dividend forgone for Share Investment Plan | | (2,862) | | |
| Final – ordinary | 10.5 | 14,234 | Franked | 29 September 2003 |
| Final dividend forgone for Share Investment Plan | | (3,040) | | |
| Total amount | | 23,526 | | |

**Subsequent events**
Since the end of the year, the directors declared the following dividend:

| | | | | |
|---|---|---|---|---|
| Final – ordinary | 12.0 | 19,823 | Franked | 26 September 2005 |

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

All dividends paid or declared are fully franked at the tax rate of 30%. The directors expect that dividends will continue to be fully franked for the foreseeable future.

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

## 14 Dividends (continued)

### (b) Dividend and share reinvestment plans

The Dividend Investment Plan and Share Investment Plan will operate in respect of the proposed final dividend. Under the Dividend Investment Plan, participating shareholders elect 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 elect to forgo dividends in whole or in part and to substitute shares issued out of the capital account.

A discount of 5.0% will apply under the rules of the plans.

Last date for receipt of election notice for the dividend plans: 12 September 2005

| | The Company | |
|---|---|---|
| | **2005** **$'000** | 2004 $'000 |
| **(c) Dividend franking account** | | |
| 30% franking credits available to shareholders of the Company for subsequent financial years | **39,628** | 35,248 |

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

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

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

| | | |
|---|---|---|
| The franking credits available to shareholders disclosed above will allow for the following amounts of after-tax profits to be distributed fully franked at the current tax rate after deducting franking credits to be used in the payment of the proposed final dividend | **72,467** | **66,145** |

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

## 15 Details of Entities Over Which Control Has Been Gained

### Acquisition of controlled entities

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

| Company Name | Date of Control | Consideration Net of Cash $'000 | Nature of Business | % Acquired |
|---|---|---|---|---|
| • Access Television Services Group (Formerly UCG Group) | 30/11/2004 | (588) | Provision of installation services for AUSTAR's subscription television network. | 100% |
| • Team Poly Pty Ltd | 1/04/2005 | 16,646 | Manufacture of rotationally moulded water tanks. | 75% |
| • Audio Telex Group | 1/06/2005 | *20,680 | Distributor of professional audio and domestic and commercial control systems. | 100% |
| • Orrcon Group | | 48,582 | Manufacturer and distributor of steel tubing. | Additional 50% Total 100% |
| • K-Care - Deferred payment | | 1,700 | | |
| **Total** | | 87,020 | | |

* Excludes a deferred payment of $3,250,000 and stamp duty and other accrued costs of $200,000.

## 16 Events Subsequent to Reporting Date

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

**(b) Dividends**
For dividends declared after 30 June 2005 see Note 14.

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

## 17 Impact of adopting Australian equivalents to International Financial Reporting Standards

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

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

### Transition management

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

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

***Assessment and planning phase***

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

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

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

### Design phase

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

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

The design phase is completed as at 30 June 2005.

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

### Implementation phase

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

This phase is substantially complete as at 30 June 2005.

***Impact of transition to AIFRS***

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

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

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

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

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

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

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

*(a) Reclassifications*

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

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

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

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

*(b) Equity-based compensation benefits*

**Share Options – Executive Share Plan**

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

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

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

**Shares – Employee Share Bonus Plan**

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

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

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

*(c) Business combinations*

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

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

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

**Comparative period**

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

(d) *Intangible assets*

**Goodwill**

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

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

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

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

**Research and development**

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

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

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

**Other intangible assets**

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

**Amortisation**

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

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

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

*(e) Property, plant and equipment*

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

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

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

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

(f) *Impairment*

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

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

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

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

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

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

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

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

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

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

**Calculation of recoverable amount**

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

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

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

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

**Reversals of impairment**

Under current Australian GAAP impairment losses have not been reversed.

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

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

*(g) Taxation*

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

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

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

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**Notes to the Financial Statements for the Year Ended 30 June 2005**

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

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

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

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

**Tax consolidation**

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

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

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

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

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

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

*(h) Foreign currency*

**Financial statements of foreign operations**

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

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

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

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

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

All foreign operations are translated into Australian dollars using the method described above, the concepts of 'selfsustaining' and 'integrated' operations do not exist in the AIFRS framework.
On disposal of a foreign operation, the amount recognised in the foreign currency translation reserve attributable to the foreign operation is included in the calculation of gain or loss on disposal and recycled through the current year income statement.

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

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

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

*(m) Borrowing costs*

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

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

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

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

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

*(i) Financial instruments*

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

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

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

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

| | Note | Consolidated $'000 | Company $'000 |
|---|---|---|---|
| Net profit as reported under AGAAP | | 36,217 | 34,872 |
| Non amortisation of goodwill | 17 (d) | 587 | 268 |
| Recognition of share based payment expense | 17 (b) | (667) | (593) |
| Adjustments to income tax expense | 17 (g) | (460) | (477) |
| Minority interest | | 48 | 0 |
| Net profit under AIFRS | | 35,725 | 34,070 |
| Basic earnings per share | | 23.2¢ | 22.1¢ |
| Diluted earnings per share | | 23.2¢ | 22.1¢ |

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

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

| | Note | Consolidated $'000 | Company $'000 |
|---|---|---|---|
| Retained earnings as at 1 July 2004 under AGAAP | | 97,340 | 42,598 |
| Recognition of share based payment expense | 17 (b) | (19) | (19) |
| Adjustments to income tax expense | 17 (g) | 35 | 35 |
| Minority interest | | 0 | 0 |
| Retained earnings as at 1 July 2004 under AIFRS | | 97,356 | 42,614 |

**Hills Industries Limited and its Controlled Entities**
**Notes to the Financial Statements for the Year Ended 30 June 2005**

### *Reconciliation of net assets*

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

| | Note | Consolidated $'000 | Company $'000 |
|---|---|---|---|
| Net assets under AGAAP | | 312,390 | 221,229 |
| Goodwill | 17 (d) | 587 | 268 |
| Deferred tax asset | 17 (g) | 150 | 72 |
| Deferred tax liability | 17 (g) | (1,868) | (1,795) |
| | | 311,259 | 219,774 |

### *Reconciliation of equity*

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

| | Note | Consolidated $'000 | Company $'000 |
|---|---|---|---|
| Total equity under AGAAP | | 312,390 | 221,229 |
| Contributed equity | 17 (b) | 601 | 527 |
| Asset Revaluation Reserve | 17 (g) | (1,293) | (1,281) |
| Share Based Payment Reserve | 17 (b) | 85 | 85 |
| Retained profit | 17(b),(d),(g) | (476) | (786) |
| Minority interest | | (48) | 0 |
| Total equity under AIFRS | | 311,259 | 219,774 |

**Hills Industries Limited and its Controlled Entities**
**Compliance Statement**

1 This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views.

2 This report, and the accounts upon which the report is based, use the same accounting policies.

3 This report gives a true and fair view of the matters disclosed.

4 This report is based on accounts which are in the process of being audited.

5 The accounts on which this report is based are not likely to be subject to dispute or qualification.

Dated at Edwardstown this 9th day of August 2005.

Signed in accordance with a resolution of the directors.

**Graham L Twartz**
Director and Company Secretary

**Annual General Meeting**

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

The Notice of Meeting and Proxy Form will be sent with the Annual Report at the end of September 2005.