



PRESS RELEASE

PROFIT & DIVIDEND IMPROVEMENT FOR HILLS SHAREHOLDERS

The Chairman, Mr. Bob Ling, today announced the following record results for the 12 months ended 30 June 2004 for the Hills Group. The results exclude individually significant items set out later in this release.

	12 MONTHS TO 30/6/04 \$'000	12 MONTHS TO 30/6/03 \$'000	% CHANGE
Total Revenue from Ordinary Activities	718,666	669,410	+ 7.4
Profit from Ordinary Activities before Tax	53,641	46,688	+ 14.9
Profit after tax from Ordinary Activities attributable to Owners	31,260	27,315	+ 14.4
Earnings per share (cents)	22.6	20.8	+ 8.7

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

ELECTRONIC SECURITY & ENTERTAINMENT

	12 MONTHS TO 30/6/04 \$'000	12 MONTHS TO 30/6/03 \$'000	% CHANGE
Total Revenue	170,262	163,572	+ 4.1
Operating profit before interest and tax	18,618	14,610	+ 27.4
% to Sales	10.9	8.9	

- ◆ Electronic Security revenues finished the year ahead of the previous corresponding period even though there was no recovery in the "zero cost" domestic alarm market (where security alarms are installed at heavily subsidised prices if customers sign long term monitoring contracts).

Growth was achieved as a result of overall market growth and the decision taken some time ago to further diversify our extensive product range.

- ◆ The Antenna & TV Systems business achieved a pleasing increase in sales and profit. The digitisation of the Foxtel network and the launch of New AUSTAR Digital were both positives in terms of generating increased demand in the PayTV sector. We are very pleased to be key suppliers to both Foxtel and AUSTAR leading into what we think is a very exciting period for the PayTV industry.
- ◆ Sales of the Hills Home Hub (an affordable smart wiring system for new homes) continued to gain momentum. The latest version of the Hills Home Hub will be released in the second quarter of this current financial year. This new version has increased functionality and will enable us to offer a modular solution to new home builders at very attractive price points.

- ◆ The strong appreciation of the Australian dollar in the first six months of the year resulted in some improvement in margin; however, the dollar has now come back to be around the AUD1 = USD0.70 level.
- ◆ We were pleased with the success of a number of new initiatives during the year including the strong sales of a locally designed and manufactured WI FI antenna into the US market and the establishment of the Hills Technology Solutions Group who are focused on the supply of integrated electronic solutions to developers of multiple dwelling units.
- ◆ The full year's results in this segment were assisted by the closure of a number of loss making operations in the previous year.

HOME & HARDWARE PRODUCTS

	12 MONTHS TO 30/6/04 \$'000	12 MONTHS TO 30/6/03 \$'000	% CHANGE
Total Revenue	161,774	167,335	- 3.3
Operating profit before interest and tax	13,392	13,562	- 1.3
% to Sales	8.3	8.1	

- ◆ Although revenues and profits were slightly down compared to the previous corresponding period, the profit margin increased from 8.1% to 8.3%.
- ◆ Revenues and profitability in the UK joint venture were below expectations. As a result of the poor profitability of the business we have reviewed the carrying values of a number of the assets employed and have booked a charge against the current year's profits of \$1.0M. This charge has been reported as an Individually Significant Item and is excluded from the results set out above. The prospects of improved sales suggests that we will achieve better results from the UK joint venture in the coming year.
- ◆ Triton sales were below last year as the appreciation of the Australian dollar impacted on a number of key export opportunities. We have a number of excellent new product releases scheduled for the second quarter of the current financial year and are pleased to report that Triton products have now been listed by B&Q (the largest DIY hardware retailer in the UK).
- ◆ The rapid appreciation of the Australian dollar in the first six months of the year resulted in increased competition for a number of our core consumer products. We have complimented our locally made products with imported products from China and elsewhere for many years. Due to the appreciation of the Australian dollar we have decided to source a higher proportion of our goods from overseas, particularly to meet the entry price point expectations of our major customers.

We will continue to review the mix of locally made and imported products whilst absolutely focusing on our design expertise and innovation.

- ◆ We were pleased with the performance of the K•Care Group. K•Care supply a wide range of home care, rehabilitation, hospital and nursing home equipment to the Australian and New Zealand markets.

We have a number of new initiatives underway within K•Care to increase our market share, particularly in the Eastern States. We are also reviewing a number of small related acquisitions which would diversify our product range.

- ◆ The frequent and rapid increase of steel prices across the world has been well documented. The management of volatile steel prices remains a key challenge facing

Home & Hardware Products where it is difficult to recover these cost increases.

BUILDING & INDUSTRIAL PRODUCTS

	12 MONTHS TO 30/6/04 \$'000	12 MONTHS TO 30/6/03 \$'000	% CHANGE
Total Revenue	378,763	331,902	+ 14.1
Operating profit before interest and tax	25,281	21,654	+ 16.8
% to Sales	6.7	6.5	

- ◆ We were pleased with the sales and profit improvement in this segment. We were particularly pleased that a reasonable proportion of the revenue increase has come as a result of improvements in market shares across all business units.
- ◆ The Orrcon business performed well during the period. All key customer segments (Steel and Tube Direct, Fluids and Engineering, Stockists and Distributors) increased their sales over the previous corresponding period. We will continue to focus on each segment with the aim of further increasing our market shares through the provision of unique, competitive solutions.
- ◆ At Orrcon we were delighted to achieve American Petroleum Institute (API) accreditation for gas pipe in January 2004. Our Wollongong facility has recently secured a large export order for 4,500 tonnes of steel line pipe, which will be supplied to an American distribution company.

We will continue to promote the capabilities of our facility at Wollongong to Australian and international markets.

- ◆ The Fielders rollforming business performed well during the period. We have a strong new product introduction programme scheduled for Fielders which will enhance our existing range of flooring and roofing solutions.

We were pleased to be selected for a number of major projects in Australia. We have now finished the MCG redevelopment and Stage 1 of the Rhodes development in Sydney. We are currently supplying a number of other large projects including the Adelaide Airport redevelopment.

The introduction of new products into the non-residential construction industry has proven a little more difficult than we had first anticipated. However, we are very pleased that the hard work that has been put in is now being recognized by major developers and that the Fielders products are now becoming more and more the products of choice.

- ◆ Korvest Ltd had an excellent result for the 12 months with the strength of the non-residential and engineering construction sectors being the major positive influence. The Korvest Ezy-Strut business performed particularly well and secured a major contract to supply stainless steel and aluminium cable support systems to the high profile Liquefied Natural Gas (LNG) project in Darwin. This is a \$2.3 billion onshore gas processing facility being developed by Bechtel.

In May Korvest Ltd announced the sale of the Elite Built filing cabinet business. A profit before tax of \$1.3M was recorded on the transaction. This Individually Significant Item has been excluded from the above table.

- ◆ When the Australian dollar was around AUD1 = USD0.80 the volume of steel pipe imported into Australia increased significantly. Since the dollar has retreated to lower levels and Chinese demand has consumed ever increasing volumes of steel, the volume

of pipe imported into Australia has decreased. This has been a positive for Orrcon in the last quarter.

Unfortunately there have been a number of significant price increases across a whole range of steel products imposed by Bluescope Steel and other suppliers. These increases have been very difficult to manage particularly when attempting to pass on price increases to fabricators and manufacturers. The management of steel price movements remains a key issue across all the business units within Building & Industrial Products.

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 (26.9% at 30.6.2004).
- ◆ No change in the law in connection with the distribution of accumulated franking credits.
- ◆ Continuing profitability at an acceptable level.
- ◆ We are pleased to announce an increased fully franked final dividend of 11.5 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 27th September 2004. The Record Date is 13th September 2004.

2005 GUIDANCE

New home starts will reduce in the current financial year; however, renovation activity and non-residential construction activity is forecast to remain very strong. We will need to continue to carefully monitor the variability of steel prices and changes in the Australian dollar versus the US dollar. We will concentrate on operational performance and cost reduction and push innovation in relation to new product development.

Overall the diversification of Hills means that no single economic event has the same impact across all business units.

On the basis of our forecasting, our desire to grow the business through strategic bolt on acquisitions and our desire to grow in existing and adjunct markets, we believe that the 2005 year will bring acceptable results.



R.D.H. LING AO
CHAIRMAN

10 August 2004

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Appendix 4E

Hills Industries Limited
ABN 35 007 573 417
and its Controlled EntitiesPreliminary Final Report
Financial Year Ended 30 June 2004

Results for announcement to the market:

\$A'000

Revenues from ordinary activities	Up	7.6%	to	725,184
Profit (loss) from ordinary activities after tax attributable to members	Up	14.2%	to	31,114
Net profit (loss) for the period attributable to members	Up	14.2%	to	31,114
Dividends		Amount per security		Franked amount per security
Final dividend (#)				
- current reporting period		11.5¢		11.5¢
- previous corresponding period		10.5¢		10.5¢
Interim dividend				
- current reporting period		11.0¢		11.0¢
- previous corresponding period		10.5¢		10.5¢
# 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	13 September 2004			
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 2004

		Consolidated	
	Note	2004 \$'000	2003 \$'000
Revenues from ordinary activities	3	725,184	673,662
Expenses from ordinary activities, excluding borrowing costs	4	665,943	618,911
Borrowing costs		<u>5,282</u>	<u>4,930</u>
Profit from ordinary activities before related income tax expense		53,959	49,821
Income tax expense relating to ordinary activities		<u>15,970</u>	<u>15,895</u>
Profit from ordinary activities after related income tax expense		37,989	33,926
Profit from extraordinary items after related income tax expense		<u>-</u>	<u>-</u>
Net profit		37,989	33,926
Net profit attributable to outside equity interests		<u>6,875</u>	<u>6,678</u>
Net profit attributable to members of the Company		31,114	27,248
Non-owner transaction changes in equity:			
- Increase in asset revaluation reserve	12	7,064	888
- Net exchange differences relating to self-sustaining foreign operations		<u>804</u>	<u>(557)</u>
Total revenues, expenses and valuation adjustments attributable to members of the Company recognised directly in equity		<u>7,868</u>	<u>331</u>
Total changes in equity from non-owner related transactions attributable to members of the Company		<u>38,982</u>	<u>27,579</u>
Basic earnings per share	9	22.5¢	20.7¢
Diluted earnings per share	9	22.5¢	20.7¢
Basic earnings per share before individually significant items		22.6¢	20.8¢
Diluted earnings per share before individually significant items		22.6¢	20.8¢
Dividends per share in respect of the current reporting period		22.5¢	21.0¢

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 17.

Hills Industries Limited and its Controlled Entities
Statement of Financial Position as at 30 June 2004

		Consolidated	
	Note	2004 \$'000	2003 \$'000
Current Assets			
Cash assets		21,835	6,297
Receivables		118,884	109,020
Inventories		<u>89,610</u>	<u>83,613</u>
Total current assets		<u>230,329</u>	<u>198,930</u>
Non-Current Assets			
Receivables		6,399	1,918
Investments		104	14
Property, plant and equipment		156,821	147,279
Intangible assets		15,388	17,539
Deferred tax assets		<u>20,042</u>	<u>16,208</u>
Total non-current assets		<u>198,754</u>	<u>182,958</u>
Total assets		429,083	381,888
Current Liabilities			
Payables		69,369	71,865
Interest-bearing liabilities		10,501	7,959
Current tax liabilities		9,286	8,048
Provisions		<u>25,866</u>	<u>21,600</u>
Total current liabilities		<u>115,022</u>	<u>109,472</u>
Non-Current Liabilities			
Interest-bearing liabilities		74,336	55,742
Deferred tax liabilities		1,002	1,464
Provisions		<u>4,390</u>	<u>9,097</u>
Total non-current liabilities		<u>79,728</u>	<u>66,303</u>
Total liabilities		194,750	175,775
Net assets		234,333	206,113
Equity			
Contributed equity		68,300	60,109
Reserves		33,876	26,008
Retained profits	13	<u>97,340</u>	<u>89,752</u>
Total Company interest		<u>199,516</u>	<u>175,869</u>
Outside equity interests		<u>34,817</u>	<u>30,244</u>
Total equity		234,333	206,113

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 17.

Hills Industries Limited and its Controlled Entities
Statement of Cash Flows for the Year Ended 30 June 2004

	Consolidated	
	2004	2003
Note	\$'000	\$'000
Cash Flows from Operating Activities		
Cash receipts in the course of operations	791,616	731,719
Cash payments in the course of operations	(731,275)	(664,807)
Interest received	791	587
Borrowing costs paid	(5,211)	(4,852)
Income taxes paid	<u>(19,118)</u>	<u>(14,991)</u>
Net cash provided by operating activities	36,803	47,656
Cash Flows from Investing Activities		
Proceeds on disposal of property, plant and equipment	917	2,123
Payments for property, plant and equipment	(23,432)	(30,469)
Proceeds on disposal of investments	-	4,283
Payments for investments	(94)	(2)
Payments for intangible assets	(370)	(109)
Proceeds on disposal of controlled entities (net of cash disposed)	-	6,198
Proceeds on disposal of business operations (net of cash disposed)	6,518	831
Payments for controlled entities (net of cash acquired)	(3,091)	(15,592)
Payments for business operations (net of cash acquired)	-	(1,144)
Loans repaid by other entities	492	594
Loans provided to other entities	(5,142)	(1,476)
Rent received	<u>878</u>	<u>815</u>
Net cash used in investing activities	(23,324)	(33,948)
Cash Flows from Financing Activities		
Proceeds from borrowings	61,539	22,953
Repayment of borrowings	(42,771)	(25,999)
Finance lease payments	(658)	(699)
Proceeds from issue of shares by the Company	8,191	20,381
Dividends paid by the Company	(23,526)	(20,792)
Proceeds from equity contributed by outside equity interests	77	68
Dividends paid to outside equity interests	<u>(3,263)</u>	<u>(2,070)</u>
Net cash used in financing activities	(411)	(6,158)
Net increase in cash held	13,068	7,550
Cash at the beginning of the year	6,297	(1,279)
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies	<u>(83)</u>	<u>26</u>
Cash at the end of the year	<u>19,282</u>	<u>6,297</u>

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 17.

Hills Industries Limited and its Controlled Entities
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Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2004

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 2004. The previous corresponding period is the financial year ended 30 June 2003.

	Consolidated	
	2004	2003
	\$'000	\$'000
3 Revenues from Ordinary Activities		
Revenues from operating activities		
Sales of goods and services	713,643	660,600
Interest received or receivable	743	582
Property rentals	868	815
Other income	<u>2,495</u>	<u>4,427</u>
	717,749	666,424
Revenues from outside operating activities		
Proceeds on disposal of non-current assets	<u>7,435</u>	<u>7,238</u>
Total revenues from ordinary activities	<u>725,184</u>	<u>673,662</u>

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2004

	Consolidated	
	2004	2003
	\$'000	\$'000
4 Expenses from Ordinary Activities		
Costs of goods sold	465,371	435,074
Sales and marketing expenses	92,258	88,236
Distribution expenses	49,480	44,834
Administration expenses	38,169	36,335
Occupancy expenses	12,844	10,759
Other expenses	<u>7,821</u>	<u>3,673</u>
Expenses from ordinary activities, excluding borrowing costs	665,943	618,911
Borrowing costs	<u>5,282</u>	<u>4,930</u>
Total expenses from ordinary activities	<u><u>671,225</u></u>	<u><u>623,841</u></u>
5 Individually Significant Items		
(a) Summary of individually significant items		
Net effect of all individually significant items on:		
- profit before related income tax expense	318	3,133
- related income tax expense	(561)	(1,195)
- net profit attributable to outside equity interests	<u>97</u>	<u>(2,005)</u>
- net profit attributable to members of the Company	<u><u>(146)</u></u>	<u><u>(67)</u></u>
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) <u>(403)</u>	-
- 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) <u>500</u>	-
- attributable to members of the Company	(500)	-
Sale of interest in Radio Frequency Systems Pty Ltd		
- effect on profit before related income tax expense	5(b) <u>-</u>	3,133
- attributable to members of the Company	-	3,133
Write off of deferred tax assets in ePic Australia Pty Ltd		
- effect on income tax expense	5(c) <u>-</u>	(1,195)
- attributable to members of the Company	-	(1,195)
Write off of outside equity interest in losses of ePic		
- effect on net profit attributable to outside equity interests	5(d) <u>-</u>	(2,005)
- attributable to members of the Company	-	(2,005)

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2004

	Consolidated	
	2004	2003
	\$'000	\$'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	6,518	-
Carrying amount of assets and liabilities sold	<u>(5,200)</u>	<u>-</u>
Net gain on sale of business	<u>1,318</u>	<u>-</u>
Resulting from the sale of the Elite Built business by Korvest Ltd.		
Recoverable amount write-down	(1,000)	-
Resulting from the write down in the value of plant, equipment and inventory due to continuing losses in Hills Industries Limited (UK).		
Proceeds on sale of investment	-	4,252
Carrying amount of investment sold	<u>-</u>	<u>(1,119)</u>
Net gain on sale of investment	<u>-</u>	<u>3,133</u>
Resulting from the sale of Hills' interest in Radio Frequency Systems Pty Ltd.		
(c) Individually significant items included in income tax expense relating to ordinary activities		
Income tax expense relating to sale of business	(561)	-
Resulting from the sale of the Elite Built business by Korvest Ltd.		
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 in prior years.		
(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).		
Write off of outside equity interest in losses previously recognised where recovery is unlikely	-	(2,005)
Resulting from losses incurred by ePic Australia Pty Ltd in prior years.		

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2004

	Consolidated	
	2004	2003
	\$'000	\$'000
6 Profit from Ordinary Activities		
(a) Profit from ordinary activities before income tax has been arrived at after charging / (crediting) the following items		
Depreciation of buildings	684	446
Depreciation of plant and equipment	<u>16,743</u>	<u>15,394</u>
Total depreciation of property, plant and equipment	<u>17,427</u>	<u>15,840</u>
Amortisation of goodwill	672	521
Amortisation of patents and trademarks	<u>1,624</u>	<u>1,681</u>
Total amortisation of intangible assets	<u>2,296</u>	<u>2,202</u>
Total depreciation and amortisation	<u><u>19,723</u></u>	<u><u>18,042</u></u>
Write down of plant and equipment to recoverable amount	-	613
Write down of intangible assets to recoverable amount	225	1,492
Interest paid or payable	5,219	4,831
Finance charges on capitalised leases	<u>63</u>	<u>99</u>
Total borrowing costs	<u>5,282</u>	<u>4,930</u>
Interest received or receivable	<u>(743)</u>	<u>(582)</u>
Net borrowing costs	<u><u>4,539</u></u>	<u><u>4,348</u></u>
Net bad and doubtful debts expense including movements in provision for doubtful debts	4,015	3,394
Net bad and doubtful loans expense including movements in provision for doubtful loans	-	2,250
(Profit) / loss on disposal of non-current assets:		
- property, plant and equipment	(260)	(425)
- investments	-	(3,133)
- business operations	<u>(1,318)</u>	<u>(96)</u>
	<u><u>(1,578)</u></u>	<u><u>(3,654)</u></u>

(b) Revision of accounting estimate – deferred tax balances

As a consequence of the enactment of the tax consolidation legislation and the Company, as the head entity in a tax-consolidated group, implementing tax consolidation on 4 March 2004 effective from 1 July 2002, the Company has applied UIG 52 "Income Tax Accounting under the Tax Consolidation System".

Where assets have had their tax value reset under tax consolidation, the subsidiary-related deferred tax balances recognised in the Company and consolidated entity have been determined based on the tax-consolidated group carrying amount for the subsidiaries' assets less the reset tax bases. For other assets and liabilities, the subsidiary-related deferred tax balances recognised in the Company and consolidated entity have been determined based on the previous timing differences at the level of the tax-consolidated group. The consolidated entity has reflected all adjustments in income tax expense as it has elected not to open past acquisition accounting. Future acquisition accounting will take deferred tax balances into account.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2004

	Consolidated	
	2004	2003
	\$'000	\$'000
7 Comparison of Half-Year Profit		
Net profit attributable to members of the Company reported for the first half-year	15,908	13,977
Net profit attributable to members of the Company for the second half-year	<u>15,206</u>	<u>13,271</u>
	<u>31,114</u>	<u>27,248</u>
8 Ratios		
(a) Net tangible asset (NTA) backing		
Net tangible assets per ordinary share	\$1.31	\$1.17
Calculated as net assets less intangible assets less outside equity interests in those assets over the total number of shares on issue		
(b) Other ratios		
Profit before tax / revenue	7.4%	7.4%
Calculated as profit from ordinary activities before related income tax expense as a percentage of total revenues		
Profit after tax / equity interests	15.6%	15.5%
Calculated as net profit attributable to members of the Company as a percentage of equity attributable to members		

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2004

	Consolidated	
	2004	2003
	\$'000	\$'000
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		
Net profit	37,989	33,926
Net profit attributable to outside equity interests	<u>6,875</u>	<u>6,678</u>
Basic earnings / diluted earnings	<u><u>31,114</u></u>	<u><u>27,248</u></u>
	Number of Shares	
	2004	2003
Weighted average number of shares used as the denominator		
Ordinary shares	<u>138,203,255</u>	<u>131,335,734</u>
Number for basic earnings per share	<u>138,203,255</u>	<u>131,335,734</u>
Effect of Executive Share Plan options on issue	<u>61,769</u>	<u>45,355</u>
Number for diluted earnings per share	<u><u>138,265,024</u></u>	<u><u>131,381,089</u></u>

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2004

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 automation systems and fibre optic transmission solutions.
Home and Hardware	Outdoor clothes driers, ladders, ironing boards, laundry trolleys, security doors, playtime equipment, garden sprayers, wheelbarrows, Do-It-Yourself woodworking equipment and rehabilitation and mobility products.
Building and Industrial	Structural, precision and large steel tubing, galvanising, precision metal cabinets, 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 2004

10 Segment Reporting (continued)

Primary reporting by business segments	Electronic Security and Entertainment		Home and Hardware		Building and Industrial		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue										
External segment revenue	170,262	163,572	161,774	167,335	385,281	331,902	0	0	717,317	662,809
Inter-segment revenue	0	0	0	0	10,665	10,101	(10,665)	(10,101)	0	0
Total segment revenue	170,262	163,572	161,774	167,335	395,946	342,003	(10,665)	(10,101)	717,317	662,809
Unallocated / corporate revenue									7,867	10,853
Total revenue									725,184	673,662
Result										
Segment result (before interest and tax)	18,618	14,610	13,392	13,562	26,599	21,654	0	0	58,609	49,826
Unallocated / corporate result									(111)	4,343
Net interest									58,498	54,169
Profit from ordinary activities before income tax									4,539	4,348
Income tax expense									53,959	49,821
Net profit									15,970	15,895
Depreciation and amortisation	3,368	3,066	7,997	6,661	6,602	6,659	0	0	17,967	16,386
Unallocated / corporate depreciation and amortisation									1,756	1,656
Other non-cash expenses	1,673	3,297	2,081	2,204	6,117	6,308	0	0	9,871	11,809
Unallocated / corporate other non-cash expenses									4,487	2,812
Assets										
Segment assets	74,645	71,440	107,464	107,003	180,191	170,213	0	(1,866)	362,300	346,790
Unallocated / corporate assets									66,783	35,098
Consolidated total assets									429,083	381,888
Liabilities										
Segment liabilities	14,095	15,811	15,966	17,778	42,636	42,628	0	(1,866)	72,697	74,351
Unallocated / corporate liabilities									122,053	101,424
Consolidated total liabilities									194,750	175,775
Acquisitions of non-current assets	4,677	3,326	10,855	20,885	9,804	22,426	0	0	25,336	46,637
Unallocated / corporate assets									1,557	718
									26,893	47,355
Secondary reporting by geographical segments										
			Australia		Overseas		Eliminations		Consolidated	
			2004	2003	2004	2003	2004	2003	2004	2003
			\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue										
External segment revenue by location of customers			677,747	612,488	49,797	60,726	(10,227)	(10,405)	717,317	662,809
Unallocated / corporate revenue									7,867	10,853
Total revenue									725,184	673,662
Assets										
Segment assets by location of assets			334,173	317,259	28,404	31,046	(277)	(1,515)	362,300	346,790
Unallocated / corporate assets									66,783	35,098
Consolidated total assets									429,083	381,888
Acquisitions of non-current assets			23,354	46,642	1,982	1,095	0	0	25,336	46,637
Unallocated / corporate assets									1,557	718
									26,893	47,355

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2004

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	135,559,528	135,559,528	N/A	N/A
Increases through issues	<u>4,487,479</u>	<u>4,487,479</u>	N/A	N/A
Balance at the end of the year	<u>140,047,007</u>	<u>140,047,007</u>	N/A	N/A
Options				
Balance at the beginning of the year	195,000	-	2.90	31/01/04
	280,000	-	3.23	31/01/05
Issued during the year	370,000	-	3.66	31/01/06
Exercised during the year	<u>(195,000)</u>	<u>-</u>	2.90	31/01/04
Balance at the end of the year	280,000	-	3.23	31/01/05
	<u>370,000</u>	<u>-</u>	3.66	31/01/06

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

2004 **2003**
\$'000 **\$'000**

12 Increase in Asset Revaluation Reserve

Revaluation increment on freehold land and buildings	7,064	888
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During the 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 2004

	Consolidated	
	2004 \$'000	2003 \$'000
13 Retained Profits		
Balance at the beginning of the year	89,752	70,696
Net profit attributable to members of the Company	31,114	27,248
Net effect on dividends from:		
- initial adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	-	12,600
- dividends recognised during the year – refer Note 14	<u>(23,526)</u>	<u>(20,792)</u>
Total dividends	<u>(23,526)</u>	<u>(8,192)</u>
Balance at the end of the year	<u>97,340</u>	<u>89,752</u>

14 Dividends

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

	Cents per share	Total amount \$'000	Franked / unfranked	Date of payment
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		<u>(3,040)</u>		
Total amount		<u>23,526</u>		
2003				
Interim – ordinary	10.5	13,949	Franked	24 March 2003
Interim dividend forgone for Share Investment Plan		(3,043)		
Final – ordinary	10.0	12,586	Franked	30 September 2002
Final dividend forgone for Share Investment Plan		<u>(2,700)</u>		
Total amount		<u>20,792</u>		

Subsequent events

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

Final – ordinary	11.5	16,100	Franked	27 September 2004
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The financial effect of this dividend has not been brought to account in this financial report for the year ended 30 June 2004. 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 2004

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: 13 September 2004

The Company

2004	2003
\$'000	\$'000

(c) Dividend franking account

30% franking credits available to shareholders of the Company for subsequent financial years	35,248	14,597
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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	66,145	19,860
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Tax consolidation legislation

On 4 March 2004 and effective 1 July 2002, the Company and its wholly-owned Australian subsidiaries adopted the tax consolidation legislation which requires a tax-consolidated group to keep a single franking account. The amount of franking credits available to shareholders of the Company (being the head entity in the tax-consolidated group) disclosed at 30 June 2004 has been measured under the new legislation as those available from the tax-consolidated group.

The comparative information has not been restated for this change in measurement. Had it been calculated on the new basis, the franking credits available to shareholders of the Company as at 30 June 2003 would have been \$31,631,000. This will allow for \$59,606,000 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.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Year Ended 30 June 2004

15 Details of Entities Over Which Control Has Been Gained or Lost

(a) Acquisition of controlled entities

2004

The consolidated entity did not acquire any controlled entities during the current financial year. The consolidated entity paid \$3,091,000 deferred consideration in respect of the acquisition of the K-Care Group acquired during the previous year.

2003

The consolidated entity acquired 100% of the K-Care Group, comprising KDB Engineering Pty Ltd and Kerry Equipment (Aust) Pty Ltd effective 1 October 2002 for a total consideration of \$20,341,000, including deferred consideration of \$4,749,000. 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.

(b) Disposal of controlled entities

2004

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

2003

During the previous year, the consolidated entity did not lose control of any controlled entities. It did, however, dispose of an interest in a controlled entity as set out below.

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 profit impact and the consolidated entity received \$6,198,000 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.

The consolidated entity retains control of Hills UK by virtue of effective management of the company and the existence of the put option which results in the consolidated entity being exposed to the majority of the risks and benefits of ownership.

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 2004 see Note 14.

(c) Tax consolidation

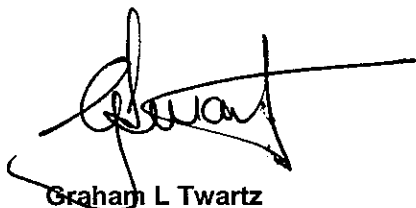
The Government has announced that it plans to amend the tax consolidation legislation. Details of the proposed changes are not yet available. The effects of any change will be brought to account when the legislation is substantively enacted and the Company can assess the impact.

**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 10th day of August 2004.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'G Twartz', with a long horizontal stroke extending to the right.

Graham L Twartz
Director and Company Secretary

Annual General Meeting

The 47th Annual General Meeting of Hills Industries Limited will be held at The Grainger Studio, 91 Hindley Street, Adelaide, SA, 5000 on Friday 29 October 2004 at 2.30 pm.

The Notice of Meeting and Proxy Form will be sent with the Annual Report at the end of September 2004.