



2002



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The background features several thin, light yellow lines that intersect and create a sense of movement and depth. The lines vary in length and orientation, some extending from the top left towards the bottom right, and others from the top right towards the bottom left. The overall aesthetic is clean and modern.

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RECORD GROUP PROFIT AND CASH FLOW

The Hills Industries' Group achieved a record group profit after tax attributable to Hills' Shareholders of \$23.9 million. This was an increase of 4.8% over the previous year and represented the 11th consecutive year of record profits for the Group. Underlining the strength of our businesses, our cash flows from operations exceeded \$30 million for the first time.

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DIVIDENDS

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

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

As a result of this policy, shareholders have received a total of 20 cents per share fully franked dividends in respect of the year ending June 2002. Earnings per share for the same period were 19.4 cents. At balance date the debt to equity ratio stood at 42.9%.

GROUP STRATEGY

Our strategy is to develop competitive businesses in three main industry segments being Electronics, Home & Hardware and Building & Industrial. We aim to achieve a sensible level of diversification within each industry segment to minimise the impact of short term changes to markets and economies. We aim to be product innovators and market leaders. Where appropriate we will achieve geographic diversification through the establishment of offshore operations. Overall, our clear objective is to grow revenue and earnings by a combination of organic growth and acquisitions.

TRADING CONDITIONS

Trading conditions throughout the world during the year under review were some of the most difficult ever experienced. In the second half of the year, the high profile collapses of companies both in Australia and overseas impacted upon consumer confidence.

Building activity, both commercial and residential, was strong which underpinned the growth in the Australian economy.

The growth in revenue of 15.6% achieved by the Hills' Group during the year reflected in part, the full year effect of acquisitions made in the prior year as well as the underlying growth in the businesses in which we operate.

LIKELY DEVELOPMENTS

The continuing uncertainty regarding the stability of equity markets around the world makes the outlook for the economy and trading conditions in general difficult to predict. Notwithstanding these challenges, your Directors believe that the diversification of the businesses that make up the Hills' Group and the strategies that are in place, will result in acceptable profitability in the year ending June 2003.

HILLS PEOPLE

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

SHAREHOLDERS

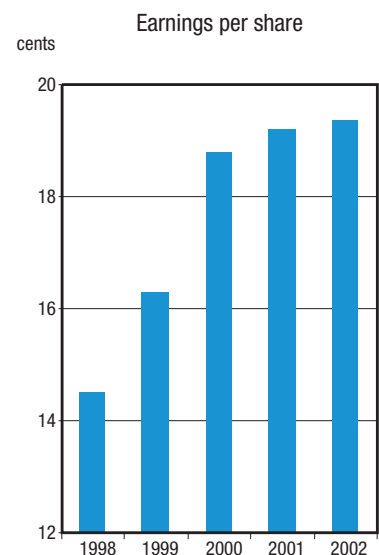
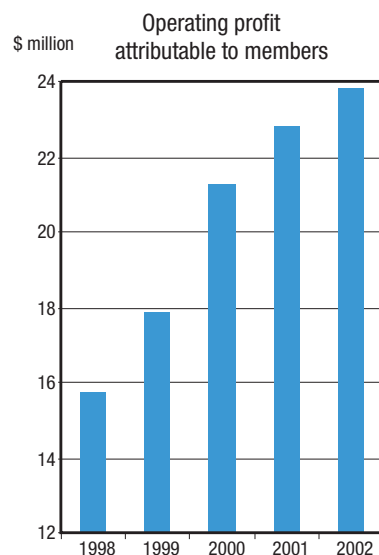
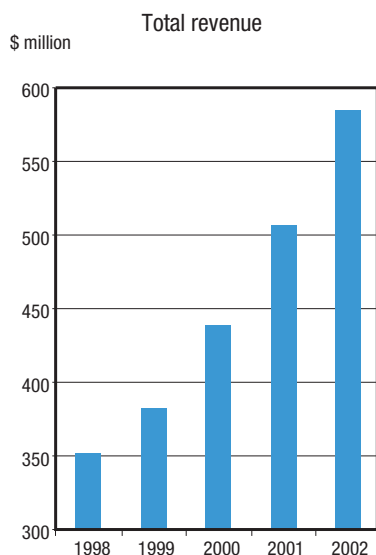
During the year the number of shareholders in the Company grew by 3,000 to in excess of 10,000. We were pleased to be able to offer both new and existing shareholders the opportunity to purchase shares at a discount to market through the Share Purchase Plan.

The relatively strong share price and the increased dividend were the highlights of the year. In addition, the number of Employee Shareholders has increased to approximately 1,900. We believe that widespread ownership of the Company's shares by our employees has many positive benefits for both employees and the Company.

5 YEAR SUMMARY

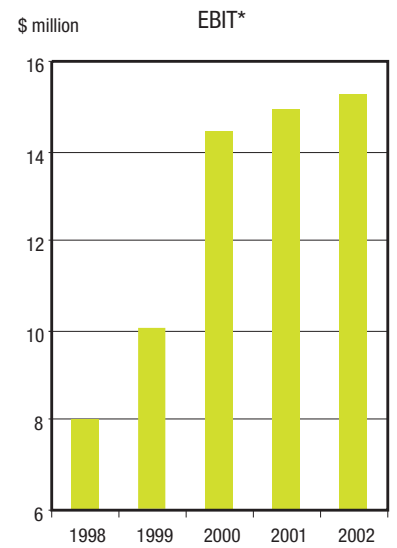
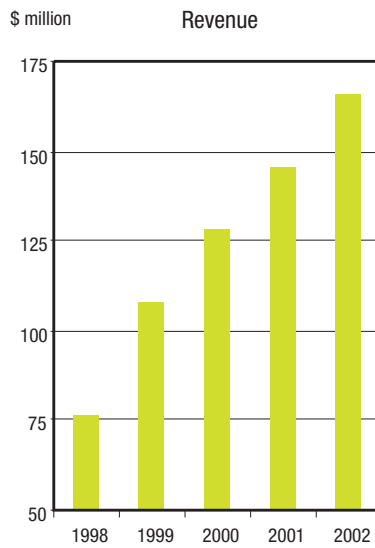
	1998	1999	2000	2001	2002
Total revenue (\$'000)	352,471	382,012	439,081	506,151	585,308
Operating profit attributable to members (\$'000)	15,741	17,904	21,278 ■	22,770	23,864
Depreciation and amortisation (\$'000)	8,560	9,404	11,579	10,735	13,727
Net borrowing costs (\$'000)	1,614	1,722	1,654	3,315	4,291
Shareholders' equity (\$'000)	104,609	104,000	113,605	123,426	136,100
Operating profit attributable to members (\$'000)					
- as a % of shareholders' equity	15.1%	17.2%	18.7% ■	18.4%	17.5%
- as a % of total revenue	4.5%	4.7%	4.8% ■	4.5%	4.1%
Earnings per share (cents)	14.5	16.3	18.8 ■	19.2	19.4
Dividends per share (cents)	15.4	17.0	19.0	19.4	20.0
Employees at year end					
	2,075	2,012	2,155	2,338	2,314
Shareholders at year end					
	4,999	5,535	5,962	7,073	9,915

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



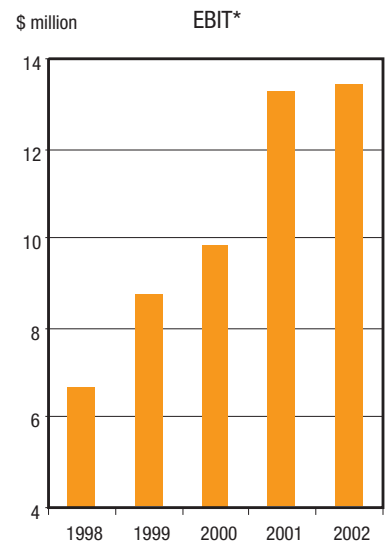
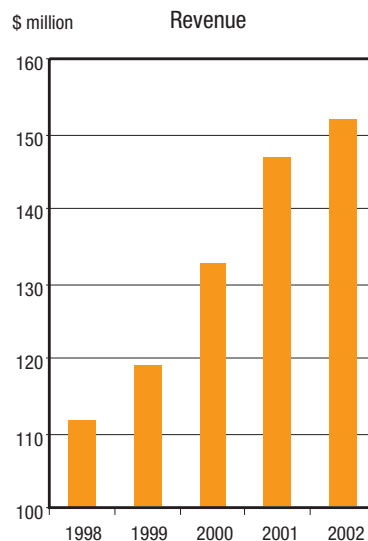
ELECTRONICS

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



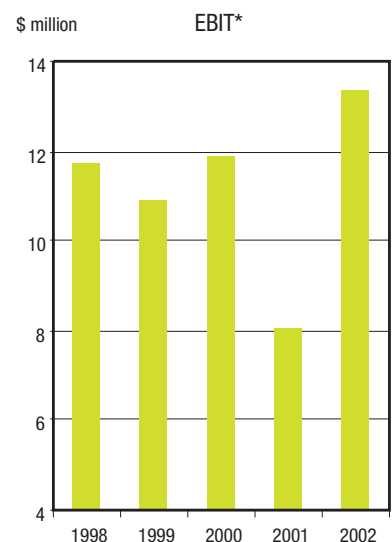
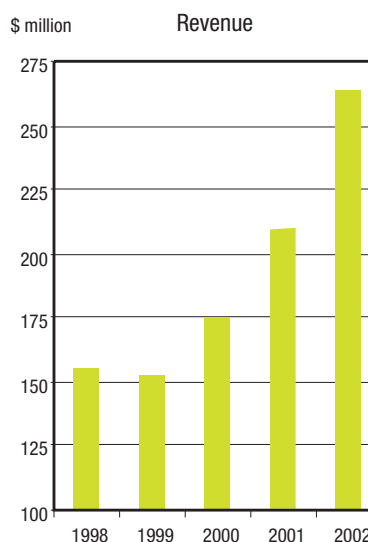
HOME & HARDWARE

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



BUILDING & INDUSTRIAL

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



*EBIT - Earnings before interest and tax



ORS THE DIF

From left to right:

GRAHAM LLOYD TWARTZ

BA(Adel) DipAcc(Flinders) ACA

Finance Director

Age 45. Joined the Company in 1993.

Appointed Director in July 1993.

Director of Korvest Ltd, Fielders Australia Pty Ltd, Orrcon Pty Ltd, ePic Australia Pty Ltd and Radio Frequency Systems Pty Ltd.

GEOFFREY GUILD HILL

FCPA FAICD ASIA BEcon(Syd) MBA(NSW)

Non-Executive Director

Age 56. Appointed Director in February 1999.

Member of the Audit and Remuneration Committees.

Principal of Geoffrey Hill & Associates. Chairman of Auspine Limited and Pacific Strategic Investments Limited. Director of Biron Corporation Limited, Ellex Medical Lasers Limited, Huntley Investment Company Limited and Heritage Gold NZ Limited.

ROBERT DONALD HILL-LING

AO FIE(Aust) CPEng

Chairman - Non-Executive Director

Age 69. Joined the Company in 1952. Director since June 1958. Managing Director November 1965 to December 1992. Appointed Chairman December 1966. Chairman of the Audit and Remuneration Committees. Director of Argo Investments Limited and Deputy Chairman of the Carrick Hill Trust.

DAVID JAMES SIMMONS

BA(Accountancy) FCPA

Managing Director

Age 48. Joined the Company in 1984.

Appointed Finance Director in July 1987.

Appointed Managing Director in December 1992. Member of the Remuneration Committee.

Director of Korvest Ltd, Fielders Australia Pty Ltd, Orrcon Pty Ltd, ePic Australia Pty Ltd and Radio Frequency Systems Pty Ltd.

JENNIFER HELEN HILL-LING

LLB(Adel)

Non-Executive Director

Age 40. Appointed Director in August 1985.

Member of the Audit and Remuneration Committees.

Member of the Australian Law Council.

Consultant to Blessington Judd, solicitors.

ROGER BADEN FLYNN

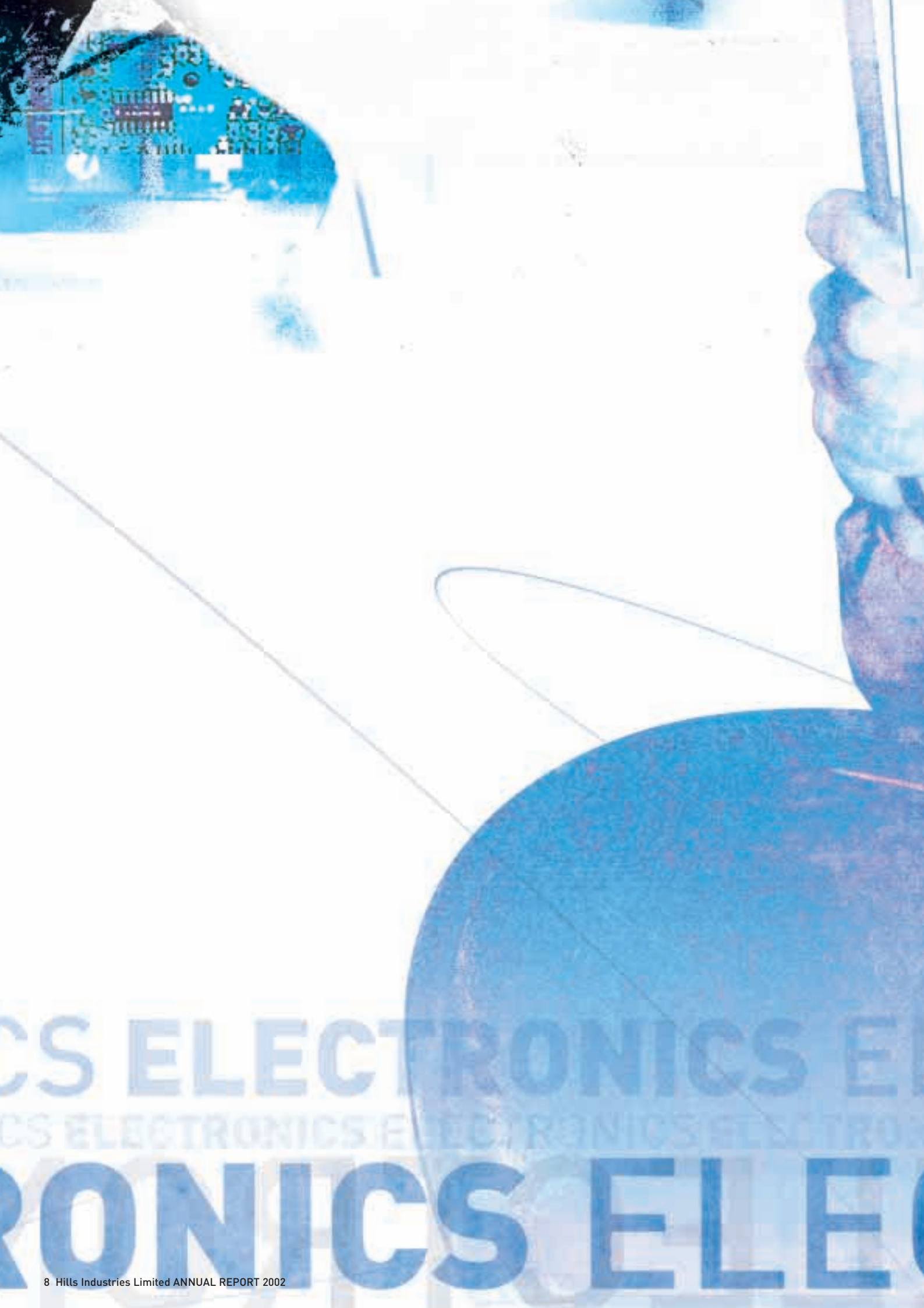
BEng(Hons) MBA FIE(Aust)

Non-Executive Director

Age 52. Appointed Director in November 1999.

Non-Executive Director of WattyI Limited, Hartec Limited and Coventry Group Ltd.





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THE ELECTRONICS SEGMENT COMPRISES HILLS ANTENNA AND TV SYSTEMS, HILLS ELECTRONIC SECURITY (DIRECT ALARM SUPPLIES AND PACIFIC COMMUNICATIONS) AND RADIO FREQUENCY SYSTEMS. REVENUE IMPROVED BY 13.4% TO \$165.4M FOR THE YEAR WHILST EBIT IMPROVED BY 1.9% TO \$15.3M.

Hills Electronic Security

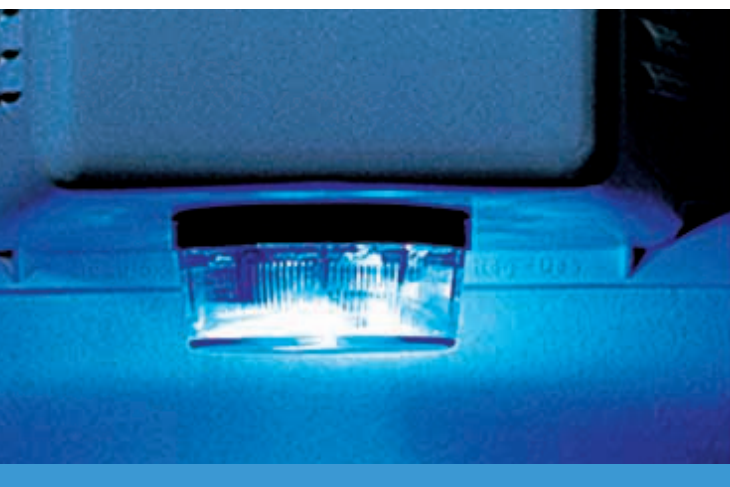
This business unit markets an extensive range of electronic security products ranging from simple domestic alarm systems to complex integrated surveillance and access control systems. We represent a number of the world's leading security companies and have achieved a leading market position on the basis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

The events of September 11 further raised the profile of security throughout our community, supporting further penetration of domestic electronic security in Australian and New Zealand households. As a result of our growing product range and geographic expansion, the revenues of our security division continued to grow. In particular, sales of our market leading Simon wireless security panels were most pleasing. The market trend to upgrade to new digital technology saw further growth in sales of digital video recorders and associated equipment.

During the year we acquired the Allguard distribution business which provides fibre optic solutions to high end security installations.

Some of our new business initiatives did not achieve the success we had expected. In particular, ePic Australia, did not achieve the sales we had forecast. Alternative plans to support this product range have now been developed.

In the coming year our intention is to continue to add new products to our range and to expand our geographic presence across Australia and New Zealand.





Antenna & TV Systems

This business unit provides a full range of reception and distribution equipment for the PayTV, the free-to-air television and the wireless voice and data markets. During the year we consolidated our position as a major supplier to the Australian PayTV industry providing satellite reception equipment to both Foxtel and Austar.

The Satellite & Microwave Communications group continued to expand winning a number of large contracts with government departments and telecommunications infrastructure providers.

In order to achieve critical mass in New Zealand, we acquired the business of Signal Master. Signal Master manufacture antenna and associated hardware equipment in Auckland and are a major installer for the New Zealand PayTV operator, Sky Television.

In July 2002 we released the new Optimax and Trumatch 'engineered for digital' free-to-air antenna ranges. These product ranges represent a major step forward with improved reception performance characteristics combined with a more efficient manufacturing process. We have secured significant market share as a result and will continue to grow this market as digital television evolves in Australia.

Radio Frequency Systems (RFS)

RFS leads the world in design and manufacture of mobile base station antennas, broadcast antenna, HF systems for defence applications and confined coverage systems for mobile operators.

RFS achieved excellent results in their year ended December 2001, however trading conditions are much more difficult in the current year due to the downturn in the world telecommunications industry. A dividend of \$551,000 was received during the year under review from this 30% owned company.



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THE HOME & HARDWARE SEGMENT IS MADE UP OF OUR CONSUMER PRODUCTS OPERATIONS IN AUSTRALIA, NEW ZEALAND AND THE UNITED KINGDOM, OUR TRADE PRODUCTS BUSINESS AND TRITON. DURING THE YEAR REVENUE IMPROVED BY 3.3% TO \$151.8M AND EBIT IMPROVED BY 1.4% TO \$13.4M.

Consumer and Trade Products

This business unit manufactures and distributes a range of predominantly metal based branded products to consumers, trade customers and government utilities.

Our results were most pleasing in Australia. We benefited from a relatively strong housing market and the acquisition of the Oldfields ladder brand during the year. Our Bailey ladder business achieved outstanding growth as we introduced many new products to the market.

We remain committed to a strong new product innovation programme for all product segments.

During the year we approved a major upgrade to our ladder manufacturing facilities at Richlands in Queensland. This upgrade will improve efficiencies and provide the manufacturing capacity to support an increased market share.

In July 2002 we began the distribution of the ClosetMaid range of indoor storage products.





Triton

This business unit manufactures and distributes a range of products for the do-it-yourself home woodworking market. Triton products are renowned for their patented features, which promote accuracy and operator satisfaction.

We were delighted with the results that Triton achieved during the year. Triton continued its strategy of releasing innovative products for the serious home handyman. Our new Triton Router has received worldwide acclaim for its unique features. Further new product releases are well advanced for the coming year.

Hills United Kingdom

This business unit, based in Wales in the United Kingdom, manufactures a range of outdoor drying products for sale in the UK and Europe.

The results of our UK business were below expectations. We did not achieve the level of distribution of our products in Europe that we had expected and during the year we lost the business of one of UK's major DIY retailers, B&Q.

As a result we reviewed our strategy for the UK operations and were delighted to announce in July, the formation of a joint venture with Freudenberg Household Products. Using the market leading brand Vileda, the joint venture will utilise the manufacturing skills of our operation in the UK and the sales and distribution expertise of Freudenberg throughout Europe to grow the sales of rotary clothes drying products and ironing tables. Further details about this joint venture are contained in the notes to the financial statements.





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THE BUILDING & INDUSTRIAL SEGMENT CONSISTS OF ORRCON, FIELDERS, WOODROFFE EQUIPMENT AND KORVEST. REVENUE IMPROVED BY 25.7% TO \$263.4M AND EBIT IMPROVED BY 65.3% TO \$13.3M.

Orrcon

This business unit manufactures and distributes a wide range of Precision and Structural Tubing. It continued to grow in line with our business plan in an industry which has undergone significant change with the spin-off of BHP Steel and the acquisition of Email's steel distribution business by Smorgon and OneSteel.

The process of commissioning the 'Big Tube Mill' in Wollongong has begun. This Tube Mill will produce larger diameter structural sections within the next few months and then move to the production of tubing for use in gas and other fluid pipelines.

Fielders

This business unit manufactures and distributes a range of rollformed metal building products (roof and gutter material, downpipes, steel flooring systems and purlins) to the commercial and domestic building industry throughout Australia. We have improved sales and profitability in Adelaide and Perth and are looking forward to improving our 'start-up' operations in Sydney and Melbourne to an acceptable level.

During the year we closed our Brisbane branch and also relocated to bigger and better premises in Victoria. We have implemented many changes to this business and with our focus on profitability combined with our unique range of products, we expect improved results in the current year.

Woodroffe Equipment

This business unit provides a range of high specification cabinets and enclosures to both the industrial and consumer markets. In addition, it supplies a range of stainless steel equipment for the catering industry. Results here were again unacceptable and further improvement programmes have been put in place.

Korvest

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

Korvest sales and profit improved on the previous year as a result of strong results by their Ezy-Strut cable support business and the Korvest hot dip galvanising facility.



CORPORATE GOVERNANCE STATEMENT

Hills Industries Limited and its Controlled Entities

RESPONSIBILITIES

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

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

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

BOARD OF DIRECTORS

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

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

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

COMMITTEES

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

The Audit Committee consists entirely of non-executive directors and is scheduled to meet at least four times a year. Its role is documented in a Charter approved by the Board. Its primary responsibilities are:

- oversight of compliance with statutory responsibilities relating to financial disclosure and other external reporting requirements;
- monitoring of corporate risk assessment, systems and the internal controls instituted;
- review and direction of the consolidated entity's internal audit department, its activities and work programme;
- review of the annual audit strategy with the external auditors;
- review of the findings and reports of the external auditors;
- considering whether non-audit services provided by the external auditors are consistent with maintaining the external auditors' independence;
- review of the nomination and performance of the external auditors. The current auditors of the Company and its antecedent firms were appointed at incorporation on 27 June 1957. The lead engagement partner was last rotated in 1998 and will be rotated off in 2005;
- review of the half-yearly and annual Australian Stock Exchange releases and financial statements with management and the external auditors immediately before their submission to the Board;
- review of the nature and impact of any changes in accounting policies during the year and provide a recommendation to the Board on their adoption; and
- examination of any other matters referred to it by the Board.

The Audit Committee may have such members of management attend its meetings as it deems appropriate and has access to both internal and external auditors and senior management of the consolidated entity.

The Audit Committee comprised RD Hill-Ling (Chairman), JAS Brown, GG Hill and JH Hill-Ling. JAS Brown retired on 31 March 2002.

The primary function of the Remuneration Committee is to review and approve the policies governing remuneration including executive salaries, executive incentives, employee share and bonus schemes and superannuation.

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

The Remuneration Committee comprises RD Hill-Ling (Chairman), DJ Simmons, GG Hill and JH Hill-Ling.

RISK MANAGEMENT

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

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

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

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

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

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

CONTINUOUS DISCLOSURE

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

SHARE TRADING

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

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

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

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

DIRECTORS' REPORT

Hills Industries Limited and its Controlled Entities

DIRECTORS

The directors present their report together with the financial report of Hills Industries Limited ('the Company') and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2002 and the auditor's report thereon.

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

ROBERT DONALD HILL-LING AO FIE(Aust) CPEng
Chairman - Non-Executive Director

Age 69. Joined the Company in 1952. Director since June 1958. Managing Director November 1965 to December 1992. Appointed Chairman December 1966. Chairman of the Audit and Remuneration Committees. Director of Argo Investments Limited and Deputy Chairman of the Carrick Hill Trust.

DAVID JAMES SIMMONS BA(Accountancy) FCPA
Managing Director

Age 48. Joined the Company in 1984. Appointed Finance Director in July 1987. Appointed Managing Director in December 1992. Member of the Remuneration Committee. Director of Korvest Ltd, Fielders Australia Pty Ltd, Orrcon Pty Ltd, ePic Australia Pty Ltd and Radio Frequency Systems Pty Ltd.

ROGER BADEN FLYNN BEng(Hons) MBA FIE(Aust)
Non-Executive Director

Age 52. Appointed Director in November 1999. Non-Executive Director of Wattyl Limited, Hartec Limited and Coventry Group Ltd.

GEOFFREY GUILD HILL FCPA FAICD ASIA BEcon(Syd) MBA(NSW)
Non-Executive Director

Age 56. Appointed Director in February 1999. Member of the Audit and Remuneration Committees. Principal of Geoffrey Hill & Associates. Chairman of Auspine Limited and Pacific Strategic Investments Limited. Director of Biron Corporation Limited, Ellex Medical Lasers Limited, Huntley Investment Company Limited and Heritage Gold NZ Limited.

JENNIFER HELEN HILL-LING LLB(Adel)
Non-Executive Director

Age 40. Appointed Director in August 1985. Member of the Audit and Remuneration Committees. Member of the Australian Law Council. Consultant to Blessington Judd, solicitors.

GRAHAM LLOYD TWARTZ BA(Adel) DipAcc(Flinders) ACA
Finance Director

Age 45. Joined the Company in 1993. Appointed Director in July 1993. Director of Korvest Ltd, Fielders Australia Pty Ltd, Orrcon Pty Ltd, ePic Australia Pty Ltd and Radio Frequency Systems Pty Ltd.

JOHN ARTHUR STACY BROWN BSc(Adel)
Deputy Chairman - Non-Executive Director

Age 72. Director since March 1981. Deputy Chairman since February 1993. Retired 31 March 2002.

DIRECTORS' MEETINGS

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

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Attended	Held	Attended	Held	Attended	Held
RD Hill-Ling	13	13	6	6	2	2
DJ Simmons	13	13	-	-	2	2
RB Flynn	13	13	-	-	-	-
GG Hill	11	13	4	6	2	2
JH Hill-Ling	13	13	6	6	2	2
GL Twartz	13	13	-	-	-	-
JAS Brown	9	10	4	5	-	-

CONSOLIDATED RESULT

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

	2002 \$'000	2001 \$'000
Profit from ordinary activities		
after related income tax expense	26,433	23,013
Net profit attributable to outside equity interests	2,569	243
Net profit attributable to members of the Company	23,864	22,770

PRINCIPAL ACTIVITIES

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

DIRECTORS' REPORT

Hills Industries Limited and its Controlled Entities

REVIEW AND RESULTS OF OPERATIONS

The Hills Industries' Group achieved a record group profit after tax attributable to Hills' shareholders of \$23.9 million. This was an increase of 4.8% over the previous year and represents the 11th consecutive year of record profits for the Group. Underlining the strength of the Group's businesses, cash flows from operations exceeded \$30 million for the first time. The increase in group profit after tax but before deducting outside equity interests is 14.9% and is due to the strong improvement in the results of the Group's partly owned businesses.

Trading conditions throughout the world during the year under review were some of the most difficult ever experienced. In the second half of the year, the high profile collapses of companies both in Australia and overseas impacted upon consumer confidence. Building activity, both commercial and residential, was strong which underpinned the growth in the Australian economy. The growth in revenue of 15.6% achieved by the Hills' Group during the year reflected, in part, the full year effect of acquisitions made in the prior year, as well as underlying growth in the Group's three main industry segments.

Electronics

Hills Electronic Security

This business unit markets an extensive range of electronic security products ranging from simple domestic alarm systems to complex integrated surveillance and access control systems. It represents a number of the world's leading security companies and has achieved a leading market position on the basis of comprehensive customer service.

The events of September 11 further raised the profile of security throughout the community, supporting further penetration of domestic electronic security in Australian and New Zealand households. As a result of a growing product range and geographic expansion, the revenues of the security division continued to grow. In particular, sales of the market leading Simon wireless security panels were most pleasing. The market trend to upgrade to new digital technology saw further growth in sales of digital video recorders and associated equipment.

During the year, the Company acquired the Allguard distribution business which provides fibre optic solutions to high end security installations. Some new business initiatives did not achieve the success expected: in particular, ePic Australia (50% owned), did not achieve its forecast sales and alternative plans to support this product range have now been developed.

Antenna & TV Systems

This business unit provides a full range of reception and distribution equipment for the PayTV, free-to-air television and wireless voice and data markets. During the year, it consolidated its position as a major supplier to the Australian PayTV industry, providing satellite reception equipment to both Foxtel and Austar. The Satellite & Microwave Communications group continued to expand, winning a number of large contracts with government departments and telecommunications infrastructure providers.

In order to achieve critical mass in New Zealand, the Group acquired the business of Signal Master. Signal Master manufacture antenna and associated hardware equipment in Auckland and are a major installer for the New Zealand PayTV operator, Sky Television.

Home & Hardware

Consumer and Trade Products

This business unit manufactures and distributes a range of predominantly metal based branded products to consumers, trade customers and government utilities and its Australian results were most pleasing. It benefited from a relatively strong housing market and the acquisition of the Oldfields ladder brand during the year. The Bailey ladder business achieved outstanding growth due to the introduction of many new products to the market.

During the year, the Company approved a major upgrade to its ladder manufacturing facilities at Richlands in Queensland. This upgrade will improve efficiencies and provide the manufacturing capacity to support an increased market share.

Triton

This business unit manufactures and distributes a range of products for the do-it-yourself home woodworking market. Triton products are renowned for their patented features which promote accuracy and operator satisfaction. Triton achieved an excellent result for the year due to its continued strategy of releasing innovative products for the serious home handyman. The new Triton Router has received worldwide acclaim for its unique features.

Hills United Kingdom

This business unit, based in Wales in the United Kingdom, manufactures a range of outdoor drying products for sale in the UK and Europe. Its results were below expectations as it did not achieve the level of distribution of products in Europe that had been expected. It also lost the business of one of the UK's major DIY retailers, B&Q.

Building & Industrial

Orrcon (50% owned)

This business unit manufactures and distributes a wide range of Precision and Structural Steel Tubing. It continued to grow in line with its business plan in an industry which has undergone significant change with the spin-off of BHP Steel and the acquisition of Email's steel distribution business by Smorgon and OneSteel.

Fielders (60% owned)

This business unit manufactures and distributes a range of roll-formed metal building products (roof and gutter material, down-pipes, steel flooring systems and purlins) to the commercial and domestic building industry throughout Australia. It has improved sales and profitability in Adelaide and Perth and is looking forward to improving its 'start up' operations in Sydney and Melbourne to an acceptable level.

During the year, the business closed its branch in Brisbane and also relocated to bigger and better premises in Victoria. It implemented many changes with the aim of improving profitability by focusing on its unique range of products.

Woodroffe Equipment

This business unit provides a range of high specification cabinets and enclosures to both the industrial and consumer markets. In addition, it supplies a range of stainless steel equipment to the catering industry. Its results were, once again, unacceptable and further improvement programmes have been put into place.

Korvest (45% owned)

Korvest is a small publicly listed company involved in the manufacture of storage systems and cable support products for national distribution. It also operates a modern hot-dip galvanising plant in South Australia. Its sales and profit improved on the previous year as a result of strong results by their Ezy-Strut cable support business and the Korvest hot dip galvanising facility.

DIRECTORS' REPORT

Hills Industries Limited and its Controlled Entities

DIVIDENDS

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

As proposed and provided for in last year's report:

A final fully franked ordinary dividend of 7.4 cents per share amounting to \$7,097,322 in respect of the year ended 30 June 2001, paid 28 September 2001 (excludes dividends forgone by shareholders who elected to participate in the Share Investment Plan).

	\$
Over provided in respect of the previous financial year	(80,269)
Dividends forgone for Share Investment Plan in respect of the previous financial year	(1,822,410)
In respect of the current financial year:	
■ An interim fully franked ordinary dividend of 10.0 cents per share was paid 25 March 2002	12,248,939
■ Interim dividends forgone for Share Investment Plan	(2,297,870)
■ A final fully franked ordinary dividend of 10.0 cents per share has been declared by the directors to be paid 30 September 2002	12,600,000
Total dividends provided for or paid in respect of the year ended 30 June 2002	20,648,390

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

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

STATE OF AFFAIRS

In the opinion of the directors of the Company, there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review.

ENVIRONMENTAL REGULATION

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

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

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

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

EVENTS SUBSEQUENT TO BALANCE DATE

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 Industries Limited (UK).

The pricing for the sale of 50% of the issued shares in Hills Industries Limited (UK) was equal to 50% of the net assets of Hills Industries Limited (UK) as at 1 July 2002. There will be no profit impact and the consolidated entity will realise approximately \$9 million cash during the year ending 30 June 2003.

Hills Industries Limited (UK) will continue to be consolidated as part of the consolidated entity. Under the terms of the joint venture agreement, Freudenberg has a put option to sell back to the consolidated entity prior to 30 June 2005, its 50% interest in Hills Industries Limited (UK) for 60% of the total amount paid.

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

LIKELY DEVELOPMENTS

The continuing uncertainty regarding the stability of equity markets around the world makes the outlook for the economy and trading conditions in general difficult to predict. Notwithstanding these challenges, the directors believe that the diversification of the businesses that make up the Hills' Group and the strategies that are in place, will result in acceptable profitability for the year ending 30 June 2003.

Specific major likely developments are as follows:

Building & Industrial

The commissioning of Orrcon's Big Tube Mill in Wollongong is nearing completion. This tube mill will produce larger diameter structural sections within the next few months and then move to the production of tubing for use in gas and other fluid pipelines.

Other business units will continue to add new products to their ranges and expand their geographic presence.

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

DIRECTORS' REPORT

Hills Industries Limited and its Controlled Entities

DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

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

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

Director	Base Emolument		Other Benefits	Retirement Benefits	Total
	\$	\$			
RD Hill-Ling	73,500	-	6,615	-	80,115
DJ Simmons	206,513	80,000	71,849	-	358,362
RB Flynn	45,360	-	4,082	-	49,442
GG Hill	42,000	-	3,780	-	45,780
JH Hill-Ling	42,000	-	9,780	-	51,780
GL Twartz	205,753	-	61,858	-	267,611
JAS Brown	34,875	-	5,540	94,500	134,915
Officer					
The Company*					
MI Canny	134,146	129,576	61,733	-	325,455
AR Oliver	92,630	134,931	49,592	-	277,153
PJ Mellino	76,683	116,185	35,722	-	228,590
TA Payze	157,500	-	40,860	-	198,360
RJ Stokes	26,120	102,111	24,190	-	152,421
Consolidated[#]					
MI Canny	134,146	129,576	61,733	-	325,455
AR Oliver	92,630	134,931	49,592	-	277,153
SP Pradella	212,870	5,000	37,130	-	255,000
JA Easling	196,764	-	38,792	-	235,556
PJ Mellino	76,683	116,185	35,722	-	228,590

* Hills Industries Limited

[#] Hills Industries Limited and its controlled entities

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

OPTIONS

During or since the end of the financial year, the Company granted a total of 245,000 options over unissued ordinary shares to the following directors and to the following of the five most highly remunerated officers of the Company:

Director	Number of Options Granted		
	Issued During Current Period	Issued During Prior Periods	Total on Issue
DJ Simmons	60,000	60,000	120,000
GL Twartz	35,000	25,000	60,000
Officer			
MI Canny	35,000	25,000	60,000
AR Oliver	35,000	25,000	60,000
PJ Mellino	10,000	10,000	20,000
TA Payze	10,000	-	10,000
RJ Stokes	10,000	10,000	20,000
Other officers	50,000	40,000	90,000
Total number of options	245,000	195,000	440,000
Exercise price	\$2.90	\$2.50	
Exercise date	31/12/03	31/12/02	
Expiry date	31/01/04	31/01/03	

All options are subject to certain future performance measures. At the date of this report, these measures had not been met.

These options represent the total unissued ordinary shares of the Company under option at the date of this report. The Company has not issued ordinary shares as a result of the exercise of options during or since the end of the financial year.

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

DIRECTORS' INTERESTS

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

Director	Hills Industries Limited		Korvest Ltd
	Ordinary Shares	Options over Ordinary Shares	Ordinary Shares
RD Hill-Ling [#]	14,993,748	-	73,329
DJ Simmons	42,674	120,000	500
RB Flynn	14,574	-	-
GG Hill	2,504	-	-
JH Hill-Ling**	10,537,939	-	-
GL Twartz	6,800	60,000	500

* includes 9,669,665 shares owned by Hills Associates Limited

[#] includes 738,877 shares owned by Hills Associates Limited and Poplar Pty Limited

DIRECTORS' REPORT

Hills Industries Limited and its Controlled Entities

INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

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

ROUNDING OFF

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

Dated at Edwardstown this 11th day of September 2002.

Signed in accordance with a resolution of the directors:

RD Hill-Ling

Director

DJ Simmons

Director

STATEMENTS OF FINANCIAL PERFORMANCE

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

	Note	Consolidated		The Company	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Revenues from ordinary activities	3	585,308	506,151	257,002	248,723
Expenses from ordinary activities, excluding borrowing costs	3	541,316	468,502	231,885	218,965
Borrowing costs	3	4,784	3,669	1,417	1,038
Profit from ordinary activities before related income tax expense		39,208	33,980	23,700	28,720
Income tax expense relating to ordinary activities	4	12,775	10,967	6,091	9,209
Profit from ordinary activities after related income tax expense		26,433	23,013	17,609	19,511
Net profit attributable to outside equity interests		2,569	243	-	-
Net profit attributable to members of the Company		23,864	22,770	17,609	19,511
Non-owner transaction changes in equity:					
- Net exchange differences on translation of financial statements of self-sustaining foreign operations	14	481	1,711	-	-
Total revenues, expenses and valuation adjustments attributable to members of the Company recognised directly in equity		481	1,711	-	-
Total changes in equity from non-owner related transactions attributable to members of the Company		24,345	24,481	17,609	19,511
Basic earnings per share	25	19.4¢	19.2¢		
Diluted earnings per share	25	19.3¢	19.2¢		

The Statements of Financial Performance are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 29 to 45.

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2002

Hills Industries Limited and its Controlled Entities

	Note	Consolidated		The Company	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
CURRENT ASSETS					
Cash assets		6,500	2,301	-	15
Receivables	5	105,808	89,542	48,189	34,211
Inventories	6	75,308	74,146	27,100	26,494
Total current assets		187,616	165,989	75,289	60,720
NON-CURRENT ASSETS					
Receivables	5	2,000	-	2,000	-
Investments	7	1,163	1,163	30,994	29,994
Property, plant and equipment	8	130,323	116,067	45,872	45,557
Intangibles	9	6,511	6,647	5,508	5,437
Deferred tax assets		14,954	13,512	9,656	9,838
Total non-current assets		154,951	137,389	94,030	90,826
Total assets		342,567	303,378	169,319	151,546
CURRENT LIABILITIES					
Payables	10	69,169	65,229	33,892	39,711
Interest bearing liabilities	11	15,034	12,868	4,815	1,954
Current tax liabilities		5,648	2,639	687	3,069
Provisions	12	33,101	27,311	20,886	13,921
Total current liabilities		122,952	108,047	60,280	58,655
NON-CURRENT LIABILITIES					
Interest bearing liabilities	11	58,196	49,972	19,665	8,155
Deferred tax liabilities		1,570	1,290	-	-
Provisions	12	4,293	5,912	3,700	5,000
Total non-current liabilities		64,059	57,174	23,365	13,155
Total liabilities		187,011	165,221	83,645	71,810
Net assets		155,556	138,157	85,674	79,736
EQUITY					
Contributed equity	13	39,728	30,751	39,728	30,751
Reserves	14	25,676	25,195	11,326	11,326
Retained profits	15	70,696	67,480	34,620	37,659
Total parent entity interest		136,100	123,426	85,674	79,736
Outside equity interests	17	19,456	14,731	-	-
Total equity	18	155,556	138,157	85,674	79,736

The Statements of Financial Position are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 29 to 45.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

	Note	Consolidated		The Company	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts excluding GST		572,836	507,491	249,157	255,622
GST receipts from customers and ATO		66,060	56,104	25,373	29,734
Cash receipts in the course of operations		638,896	563,595	274,530	285,356
Cash payments excluding GST		(526,611)	(470,812)	(223,939)	(209,854)
GST payments to suppliers and ATO		(66,901)	(52,984)	(26,461)	(27,583)
Cash payments in the course of operations		(593,512)	(523,796)	(250,400)	(237,437)
Interest received		491	351	845	222
Dividends received		551	499	1,046	499
Borrowing costs paid		(4,740)	(3,660)	(1,417)	(1,038)
Income taxes paid		(10,855)	(17,461)	(8,291)	(13,691)
Net cash provided by operating activities	19	30,831	19,528	16,313	33,911
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds on disposal of property, plant and equipment		1,405	817	432	2,957
Payments for property, plant and equipment		(27,585)	(18,561)	(6,314)	(8,947)
Proceeds on disposal of investments		13	601	13	525
Payments for investments		(30)	(378)	(1,030)	(10,379)
Payments for intangible assets		(982)	(1,090)	(885)	(209)
Payments for businesses (net of cash acquired)		(617)	(1,661)	-	-
Loans paid to other entities		(3,611)	-	(4,389)	-
Loans paid to controlled entities		-	-	(12,180)	-
Rent received		851	1,525	1,727	1,336
Net cash used in investing activities		(30,556)	(18,747)	(22,626)	(14,717)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		10,732	15,704	10,733	-
Repayment of borrowings		(4,000)	(10,832)	-	(9,809)
Finance lease payments		(654)	(73)	-	-
Proceeds from issue of shares		8,977	5,241	8,977	5,241
Dividends paid		(17,048)	(19,507)	(17,048)	(19,507)
Proceeds from equity contributed by outside equity interests		3,030	27	-	-
Dividends paid to outside equity interests		(925)	(403)	-	-
Net cash provided by / (used in) financing activities		112	(9,843)	2,662	(24,075)
Net increase / (decrease) in cash held		387	(9,062)	(3,651)	(4,881)
Cash at the beginning of the year		(1,696)	7,315	15	4,896
Effects of exchange rate fluctuations		30	51	-	-
Cash at the end of the year	19	(1,279)	(1,696)	(3,636)	15

The Statements of Cash Flows are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 29 to 45.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. It has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or current valuations of non-current assets. The accounting policies have been consistently applied except as set out below.

The carrying amounts of all non-current assets are reviewed at least annually to determine whether they are in excess of their recoverable amount. If the carrying value of a non-current asset exceeds the recoverable amount, the asset is written down to the lower value. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

(b) Principles of Consolidation

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

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

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

(c) Goodwill

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

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

(d) Foreign Currency

Transactions

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

Translation of Controlled Foreign Entities

The statements of financial position of the controlled entities incorporated overseas (being self-sustaining foreign operations) are translated at the rates of exchange ruling at balance date. The statements of financial performance are translated at weighted average rates for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

(e) Taxation

The consolidated entity adopts the liability method of tax effect accounting. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

(f) Investments

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

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

(g) Inventories

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

Manufacturing Activities

Cost is based on the 'first-in first-out' principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of both variable and fixed costs. Fixed costs have been allocated on the basis of normal operating capacity.

Net Realisable Value

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

(h) Property, Plant and Equipment

Acquisition

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

Revaluation

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

Land and buildings are included in the financial statements at fair value. A provision for capital gains tax is only provided when it is known that the asset will eventually be sold.

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

Depreciation and Amortisation

Property, plant and equipment, excluding land, are depreciated over their estimated useful lives. Either the reducing balance or straight line method is used as considered appropriate.

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

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

Leased Property, Plant and Equipment

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(i) Patents and Trademarks

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

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

(j) Provisions

Provision for Employee Entitlements

This provision relates to annual leave and long service leave and has been calculated at nominal amounts based on current wage and salary rates and includes related on-costs. Amounts provided for long service leave represent the present value of the estimated future cash flows to be made by the employer resulting from employees' services provided up to balance date. The dissection between current and non-current is based upon past experience.

Provision for Outstanding Claims

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

(k) Employee Share and Option Plans

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

(l) Derivatives

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

Interest Rate Swaps

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

Forward Foreign Exchange Contracts

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

(m) Borrowing Costs

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

(n) Superannuation Plans

The Company and other controlled entities contribute to an employer sponsored superannuation fund and several accumulation superannuation funds. Contributions are charged against income as they are made. Further information is set out in Note 20.

(o) Receivables

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

(p) Payables

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

(q) Bank Loans

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

(r) Revenue Recognition

Sales Revenue

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

Interest Income

Interest income is recognised as it accrues.

(s) Goods and Services Tax

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

2 CHANGE IN ACCOUNTING POLICY

(a) Earnings per Share

The consolidated entity has applied AASB 1027 'Earnings Per Share' (issued June 2001) for the first time from 1 July 2001. Basic and diluted earnings per share ('EPS') for the comparative period ended 30 June 2001 have been adjusted so that the basis of calculation used is consistent with that of the current period.

Basic Earnings per Share

Basic EPS earnings are now calculated as net profit or loss, rather than excluding extraordinary items.

Diluted Earnings per Share

Diluted EPS earnings are now calculated by only adjusting the basic EPS earnings for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, rather than including the notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted.

The diluted EPS weighted average number of shares now includes the number of ordinary shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares, rather than the total number of dilutive potential ordinary shares. The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price.

The identification of dilutive potential ordinary shares is now based on net profit or loss from continuing ordinary operations, not net profit or loss before extraordinary items and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary share.

(b) Segment Reporting

The consolidated entity has applied the revised AASB 1005 'Segment Reporting' (issued August 2000) for the first time from 1 July 2001.

Individual business segments have been identified on the basis of grouping individual products or services subject to similar risks and returns. The business segments reported are Home & Hardware, Electronics and Building & Industrial and are the same as those reported under the old standard. Accordingly, comparative information has only been restated for segment revenue and segment assets as a result of changes in the definitions of these items.

3 REVENUES, EXPENSES AND PROFIT FROM ORDINARY ACTIVITIES

(a) Revenues from Ordinary Activities

	Consolidated		The Company	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Revenues from operating activities				
Sales of goods and services	580,253	500,283	248,089	240,837
Interest received or receivable from:				
- other entities	493	354	128	127
- controlled entities	-	-	717	95
Dividends received or receivable from:				
- other entities	551	499	536	499
- controlled entities	-	-	510	-
Property rentals	851	1,525	1,727	1,336
Revenues from outside operating activities				
Proceeds on disposal of non-current assets	1,418	1,418	445	3,482
Other income	1,742	2,072	4,850	2,347
Total revenues from ordinary activities	585,308	506,151	257,002	248,723

(b) Expenses from Ordinary Activities

Costs of goods sold	388,075	336,847	153,114	146,770
Sales and marketing expenses	77,370	68,445	46,086	41,775
Distribution expenses	43,338	33,824	15,767	15,365
Administration expenses	25,339	22,452	13,285	10,490
Occupancy expenses	5,019	4,779	3,241	3,083
Other expenses	2,175	2,155	392	1,482
Expenses from ordinary activities, excluding borrowing costs	541,316	468,502	231,885	218,965
Borrowing costs	4,784	3,669	1,417	1,038
Total expenses from ordinary activities	546,100	472,171	233,302	220,003

(c) Profit from Ordinary Activities

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

Depreciation of buildings	615	415	269	150
Depreciation of plant and equipment	11,986	9,317	5,369	4,261
Amortisation of goodwill	218	296	143	36
Amortisation of patents and trademarks	908	707	671	671
Total depreciation and amortisation	13,727	10,735	6,452	5,118

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

3 REVENUES, EXPENSES AND PROFIT FROM ORDINARY ACTIVITIES (cont)

(c) Profit from Ordinary Activities (cont)

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

	Consolidated		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Interest paid or payable to:				
- other entities	4,630	3,661	1,334	934
- controlled entities	-	-	83	104
Finance charges on capitalised leases	154	8	-	-
Total borrowing costs	4,784	3,669	1,417	1,038
Interest received or receivable from:				
- other entities	(493)	(354)	(128)	(127)
- controlled entities	-	-	(717)	(95)
Net borrowing costs	4,291	3,315	572	816
Write-down in value of inventories	482	126	-	-
Reversal of write-down in inventories	(129)	-	-	-
The reversal of the write-down in inventories is due to the sale of residual inventory previously written off by Pacom SE Asia, a business unit that has ceased operations.				
Net bad and doubtful debts expense including movements in provision for doubtful debts	1,179	1,388	326	610
Amounts set aside to provision for:				
- employee entitlements	8,057	4,475	6,487	2,156
- outstanding claims	(2,128)	(1,581)	300	-
	5,929	2,894	6,787	2,156
(Profit) / loss on disposal of non-current assets:				
- property, plant and equipment	77	(622)	(71)	(575)
- investments	18	73	18	73
	95	(549)	(53)	(502)
Lease rental expense				
- operating leases	4,500	3,839	1,877	1,831
Auditors' remuneration:				
Audit services				
- auditors of the Company	202	187	110	114
- other KPMG member firms	82	69	-	-
- other auditors	11	12	-	-
	295	268	110	114
Other services:				
- auditors of the Company*	87	37	72	31
- other KPMG member firms*	52	50	-	-
	139	87	72	31

* Primarily taxation related services

4 TAXATION

	Consolidated		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Income Tax Expense				
Prima facie income tax expense calculated at 30% (2001: 34%) on the profit from ordinary activities	11,762	11,553	7,110	9,765
Income tax under / (over) provided in prior year	720	(663)	(805)	(207)
Other items	293	77	(214)	(349)
Income tax expense relating to ordinary activities	12,775	10,967	6,091	9,209

5 RECEIVABLES

Current				
Trade debtors	103,570	90,430	41,458	36,266
Less provision for doubtful debts	4,882	4,443	1,998	2,055
	98,688	85,987	39,460	34,211
Other debtors	5,015	3,555	1,057	-
Loans - other entities	2,105	-	2,389	-
Loans - controlled entities	-	-	5,283	-
	105,808	89,542	48,189	34,211
Non-current				
Loans - other entities	2,000	-	2,000	-

6 INVENTORIES

Current				
Raw materials at cost	23,016	24,095	4,814	4,520
Work in progress at cost	3,932	3,684	263	76
Finished goods at cost	53,356	50,125	25,023	24,898
Less provision for stock obsolescence	4,996	3,758	3,000	3,000
	48,360	46,367	22,023	21,898
	75,308	74,146	27,100	26,494

7 INVESTMENTS

Non-current				
Shares in controlled entities				
- unlisted companies at cost	-	-	29,838	28,838
Shares in other entities				
- listed companies at cost	44	44	37	37
- unlisted companies at cost	1,119	1,119	1,119	1,119
	1,163	1,163	1,156	1,156
	1,163	1,163	30,994	29,994

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

8 PROPERTY, PLANT AND EQUIPMENT

	Consolidated		The Company	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Freehold Land				
At fair value*	21,046	21,401	10,145	10,311
Freehold Buildings				
At fair value*	44,362	43,909	21,353	21,511
Plant and Equipment				
At cost	137,188	115,499	59,360	55,330
Less accumulated depreciation	72,273	64,742	44,986	41,595
	64,915	50,757	14,374	13,735
Total property, plant and equipment at net book value	130,323	116,067	45,872	45,557

Reconciliations

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

Freehold Land				
Carrying amount at the beginning of the year	21,401	20,409	10,311	9,406
Additions	-	905	-	905
Disposals	(411)	-	(166)	-
Differences on translation of foreign operations	56	87	-	-
Carrying amount at the end of the year	21,046	21,401	10,145	10,311
Freehold Buildings				
Carrying amount at the beginning of the year	43,909	40,072	21,511	19,735
Additions	1,204	3,734	-	1,926
Disposals	(413)	-	-	-
Depreciation	(452)	(415)	(158)	(150)
Differences on translation of foreign operations	114	518	-	-
Carrying amount at the end of the year	44,362	43,909	21,353	21,511
Plant and Equipment				
Carrying amount at the beginning of the year	50,757	30,833	13,735	14,261
Additions	26,984	15,595	6,314	6,116
Additions through acquisition of businesses	126	13,166	-	-
Disposals	(677)	(194)	(195)	(2,381)
Depreciation	(12,149)	(9,317)	(5,480)	(4,261)
Differences on translation of foreign operations	(126)	674	-	-
Carrying amount at the end of the year	64,915	50,757	14,374	13,735

* Fair value is a directors' valuation at 30 June 2002 based on an independent valuation carried out as at May 2000 by Mr N Satchell, AAPI, BAppSc(Val) on the basis of market value for existing use. The costs of additions since then are deemed to be the fair value of those assets. The directors are of the opinion that this basis provides a reasonable estimate of fair value.

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

9 INTANGIBLES

	Consolidated		The Company	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Goodwill				
Goodwill on consolidation	7,518	7,518	-	-
Less accumulated amortisation	7,518	7,518	-	-
	-	-	-	-
Goodwill purchased	6,162	5,264	2,870	1,981
Less accumulated amortisation	4,888	4,670	1,969	1,827
	1,274	594	901	154
Patents and Trademarks				
Patents and trademarks	9,213	9,195	7,365	7,369
Less accumulated amortisation	3,976	3,142	2,758	2,086
	5,237	6,053	4,607	5,283
	6,511	6,647	5,508	5,437

10 PAYABLES

Current				
Trade creditors	45,785	47,760	24,811	25,053
Sundry creditors	23,169	17,304	9,043	7,722
Loans - controlled entities	-	-	38	6,936
Other loans - unsecured	215	165	-	-
	69,169	65,229	33,892	39,711

11 INTEREST BEARING LIABILITIES

Current				
Bank overdrafts - unsecured	7,779	3,997	3,636	-
Bank loans - unsecured	5,576	6,503	-	-
Other loans - unsecured	1,179	1,954	1,179	1,954
Lease liabilities	500	414	-	-
	15,034	12,868	4,815	1,954
Non-current				
Bank loans - unsecured	56,236	48,013	19,000	7,657
Other loans - unsecured	705	703	665	498
Lease liabilities	1,255	1,256	-	-
	58,196	49,972	19,665	8,155

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

11 INTEREST BEARING LIABILITIES (cont)

	Consolidated		The Company	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
The consolidated entity has access to the following lines of credit:				
Total facilities available:				
- bank overdrafts	7,464	7,469	1,000	1,000
- bank loans	99,222	81,651	35,000	25,000
- short term money market	6,000	12,000	5,000	10,000
	112,686	101,120	41,000	36,000
Facilities utilised at balance date:				
- bank overdraft	7,779	3,997	3,636	-
- bank loans	61,812	52,516	19,000	7,657
- short term money market	-	2,000	-	-
	69,591	58,513	22,636	7,657
Facilities not utilised at balance date:				
- bank overdraft	(315)	3,472	(2,636)	1,000
- bank loans	37,410	29,135	16,000	17,343
- short term money market	6,000	10,000	5,000	10,000
	43,095	42,607	18,364	28,343

Bank Facilities

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

Bank Overdrafts

Bank overdrafts are denominated in \$A, \$NZ and £UK. Interest on bank overdrafts is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 30 June 2002 is 7.75% (2001: 8.14%).

The Company and a number of its wholly owned Australian controlled entities have a net bank overdraft facility of \$1 million (disclosed above). Within this net facility, the Company has a gross overdraft facility of \$20 million which it can utilise as long as cash balances held by the other entities reduce the net overdraft to less than \$1 million.

At 30 June 2002, the Company's overdraft exceeded the net facility but this was offset by cash balances held by the other entities. The Company's overdraft was within its gross limit and the net of the overdraft and cash balances held was within the net limit.

Bank Loans

Bank loans are denominated in \$A, \$NZ and £UK. Interest on bank loans is charged at prevailing market rates. The weighted average interest rate for all bank loans as at 30 June 2002 is 5.00% (2001: 6.08%).

Short Term Money Market

Borrowings on the short term money market are denominated in \$A. Interest on the borrowings is charged at the prevailing market rates. The weighted average interest rate for all borrowings on the short term money market as at 30 June 2002 is nil as there were no borrowings at that date (2001: 5.76%).

12 PROVISIONS

	Consolidated		The Company	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Current				
Employee entitlements	14,063	9,727	6,286	3,221
Outstanding claims	6,438	8,584	2,000	1,700
Proposed dividends	12,600	9,000	12,600	9,000
	33,101	27,311	20,886	13,921
Non-current				
Employee entitlements	4,293	5,912	3,700	5,000
Employee entitlements				
Current	14,063	9,727	6,286	3,221
Non-current	4,293	5,912	3,700	5,000
	18,356	15,639	9,986	8,221

13 CONTRIBUTED EQUITY

Issued Capital

125,861,262 ordinary shares fully paid (2001: 120,546,050 ordinary shares fully paid)	39,728	30,751	39,728	30,751
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Movements in Ordinary Shares

Balance at the beginning of the year	30,751	27,055	30,751	27,055
Shares issued	8,977	3,696	8,977	3,696
Balance at the end of the year	39,728	30,751	39,728	30,751

The Company made two issues of ordinary shares under the Employee Share Bonus Plan during the year. All employees with more than one year of service are eligible to participate in the issues (1,604 eligible employees for the first issue and 1,592 eligible employees for the second issue). The shares are issued at market value. Details of the issues in the current year are as follows:

Date of Issue	Total No of Shares Issued	Market Value of Shares Issued	Shares Issued per Participating Employee	Number of Participating Executive Directors
27/9/01	392,245	961,000	245	2
25/3/02	209,734	635,494	132	2

The Company issued ordinary shares under a Dividend Investment Plan and a Share Investment Plan during the year. Under the Dividend Investment Plan, participating shareholders elected to apply dividends in whole or in part to the purchase of ordinary shares at an issue price. Under the Share Investment Plan, participating shareholders elected to forgo dividends in whole or in part and to substitute shares issued out of the capital account. The Dividend and Share Investment Plans were partially underwritten through a share placement.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

13 CONTRIBUTED EQUITY (cont)

Date of Issue	Plan Issued Under	Total No of Shares Issued	Issue Price per Share
19/9/01	Share Placement	500,000	\$2.73
28/9/01	Dividend Investment	375,265	\$2.67
28/9/01	Share Investment	683,022	\$2.67
18/3/02	Share Placement	900,000	\$2.88
25/3/02	Dividend Investment	1,436,741	\$2.81
25/3/02	Share Investment	818,205	\$2.81

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

14 RESERVES

	Consolidated		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Asset revaluation reserve	21,687	21,784	10,493	10,493
Asset realisation reserve	1,897	1,800	833	833
Foreign currency translation reserve	2,092	1,611	-	-
	25,676	25,195	11,326	11,326

Movements in Reserves

Asset Revaluation Reserve

Balance at the beginning of the year	21,784	21,784	10,493	10,493
Disposal of revalued land and buildings	(97)	-	-	-
Balance at the end of the year	21,687	21,784	10,493	10,493

Asset Realisation Reserve

Balance at the beginning of the year	1,800	1,800	833	833
Disposal of revalued land and buildings	97	-	-	-
Balance at the end of the year	1,897	1,800	833	833

Foreign Currency Translation Reserve

Balance at the beginning of the year	1,611	(100)	-	-
Net exchange differences on translation of financial statements of self-sustaining foreign operations	481	1,711	-	-
Balance at the end of the year	2,092	1,611	-	-

Nature and Purpose of Reserves

Asset Revaluation Reserve

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

Asset Realisation Reserve

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

Foreign Currency Translation Reserve

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

15 RETAINED PROFITS

	Consolidated		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Balance at the beginning of the year	67,480	63,066	37,659	36,504
Net profit attributable to members of the Company	23,864	22,770	17,609	19,511
Dividends paid or payable	(20,648)	(18,356)	(20,648)	(18,356)
Balance at the end of the year	70,696	67,480	34,620	37,659

16 DIVIDENDS

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

As proposed and provided for in last year's report:

A final fully franked ordinary dividend of 7.4 cents per share amounting to \$7,097,322 in respect of the year ended 30 June 2001, paid 28 September 2001 (excludes dividends forgone by shareholders who elected to participate in the Share Investment Plan).

Over provided in respect of the previous financial year	\$ (80,269)
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Dividends forgone for Share Investment Plan in respect of the previous financial year	(1,822,410)
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In respect of the current financial year:

- An interim fully franked ordinary dividend of 10.0 cents per share was paid 25 March 2002	12,248,939
- Interim dividends forgone for Share Investment Plan	(2,297,870)
- A final fully franked ordinary dividend of 10.0 cents per share has been declared by the directors to be paid 30 September 2002	12,600,000
Total dividends provided for or paid in respect of the year ended 30 June 2002	20,648,390

Dividend Franking Account

Amounts of retained profits that could be distributed as franked dividends using franking credits already in existence or which will arise from income tax payments in the following period and after deducting franking credits to be used in the payment of dividends provided for:

Franked at 30% (2001: 30%)	68,350	65,635	22,522	28,602
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The ability to use franking account credits is dependent upon there being sufficient available profits to declare dividends.

From 1 July 2002, the New Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than on after-tax profits. As a result, the balance of the dividend franking account was converted on 1 July 2002 as follows:

Converted balance at 30%	29,293	9,652
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This change in the basis of measurement does not change the value of franking credits to shareholders who may be entitled to franking credit benefits.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

17 OUTSIDE EQUITY INTEREST

	Consolidated		The Company	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Outside equity interest in controlled entities comprises:				
Interest in share capital	14,142	11,106	-	-
Interest in reserves	1,024	1,012	-	-
Interest in retained profits at the end of the year	4,290	2,613	-	-
	19,456	14,731	-	-

18 TOTAL EQUITY RECONCILIATION

Balance at the beginning of the year	138,157	118,338	79,736	74,885
Total changes in parent entity interest in equity recognised in the statements of financial performance	24,345	24,481	17,609	19,511
Transactions with owners as owners				
- contributions of equity	13 8,977	3,696	8,977	3,696
- dividends paid or payable	16 (20,648)	(18,356)	(20,648)	(18,356)
Total changes in outside equity interests	17 4,725	9,998	-	-
Balance at the end of the year	155,556	138,157	85,674	79,736

19 NOTES TO THE STATEMENTS OF CASH FLOWS

(a) Reconciliation of Cash

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

Cash	6,500	2,301	-	15
Bank overdraft	(7,779)	(3,997)	(3,636)	-
	(1,279)	(1,696)	(3,636)	15

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

	Consolidated		The Company	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Profit from ordinary activities after related income tax expense	26,433	23,013	17,609	19,511
Add / (less) items classified as investing / financing activities:				
- (profit) / loss on sale of property, plant and equipment	77	(622)	(71)	(575)
- (profit) / loss on sale of investments	18	73	18	73
- rent received	(851)	(1,525)	(1,727)	(1,336)
- finance charges on capitalised leases	154	8	-	-
Add / (less) non-cash items:	12,601	9,732	5,638	4,411
- depreciation	1,126	1,003	814	707
- write down in value of inventories	353	126	-	-
- net bad and doubtful debts expense including movement in provision for doubtful debts	1,179	1,388	326	610
- unrealised exchange rate (gain) / loss	(47)	(48)	-	-
- dilution of interest in subsidiary	57	48	-	-
Add / (less) amounts set aside to provisions:				
- employee entitlements	8,057	4,475	6,487	2,156
- outstanding claims	(2,128)	(1,581)	300	-
Net cash provided by operating activities before changes in assets and liabilities	47,029	36,090	29,394	25,557
Changes in assets and liabilities adjusted for effects of purchase and disposal of businesses during the year:				
(Increase) / decrease in:				
- debtors	(15,368)	12	(6,667)	10,824
- prepayments and other debtors	(590)	909	-	739
- inventories	(751)	(7,711)	(606)	4,157
- deferred tax assets	(1,416)	1,319	182	1,000
(Decrease) / increase in:				
- payables	4,009	964	1,114	43
- other loans	-	949	-	891
- provisions	(5,418)	(4,950)	(4,722)	(3,818)
- income taxes payable	3,034	(8,252)	(2,382)	(5,482)
- deferred taxes payable	302	198	-	-
Net cash provided by operating activities	30,831	19,528	16,313	33,911

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

19 NOTES TO THE STATEMENTS OF CASH FLOWS (cont)

(c) Acquisition of Controlled Entities and Business Operations

During the year, the consolidated entity acquired the business operations of Signal Master Limited (2001: acquired a 50% interest in Orrcon Metals Pty Ltd). Details of the acquisition are as follows:

	Consolidated		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Consideration	617	-	-	-
Cash acquired	-	(37)	-	-
Overdraft acquired	-	1,698	-	-
Outflow of cash	617	1,661	-	-
Fair value of net assets acquired:				
- cash assets	-	37	-	-
- receivables	-	9,122	-	-
- inventories	126	9,096	-	-
- investments	-	83	-	-
- property, plant and equipment	522	13,166	-	-
- other assets	-	757	-	-
- payables	-	(11,859)	-	-
- borrowings	-	(9,132)	-	-
- provisions	(40)	(1,133)	-	-
	608	10,137	-	-
Outside equity interest at acquisition	-	(10,137)	-	-
	608	-	-	-
Goodwill on acquisition	9	-	-	-
Consideration (cash)	617	-	-	-

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

(2001: The consolidated entity assumed control of Orrcon Metals Pty Ltd (formerly Welded Tube Mills of Australia Pty Ltd) and its controlled entities on 1 October 2000 after subscribing to a 50% interest. The operating results of the entities have been included in the consolidated operating profit from that date. The main activity of the entities is the manufacture and sale of precision and structural steel tubing).

(d) Non-Cash Financing Activities

During the year, the consolidated entity acquired plant and equipment with a capitalised value of \$603,000 (2001: \$1,649,000) by means of finance leases. These acquisitions are not reflected in the statements of cash flows.

20 COMMITMENTS

(a) Superannuation Commitments

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

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

Defined Benefits Fund

An actuarial assessment of the defined benefits fund was undertaken as at 1 July 2000 by Mr Jon Holbrook BEc BSc. The actuary concluded that the assets of the fund were sufficient to meet all benefits payable in the event of the fund's termination, or the voluntary or compulsory termination of employment of each employee of the Company and other controlled entities.

	The Fund	
	2002 \$'000	2001 \$'000
Fund assets at net market value	* 28,634	** 29,455
Total accrued benefits at 1 July 2000	26,088	26,088
Excess	2,546	3,367
Total vested benefits	* 25,585	** 24,986

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

** Fund assets at net market value and vested benefits have been calculated at 30 June 2000, being the date of the most recent financial statements of the fund.

As at the date of this report, a final actuarial review is being undertaken as at the date the fund was wound up (30 June 2002). This review has not yet been completed. If the actuary determines that the fund has a surplus of assets, the surplus will be distributed to members in accordance with the rules of the fund. Should the actuary determine that there is a shortfall of assets, the Company and its controlled entities will contribute the shortfall. The Company has received advice that if there is a shortfall in the assets of the fund, the amount of the shortfall will not be material.

Details of contributions to the defined benefit fund during the year and contributions payable at 30 June 2002 are as follows:

	Consolidated		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Employer contributions to the fund	1,849	507	1,328	-
Employer contributions payable to the fund	160	59	115	-

The defined benefits fund has been on a partial contribution holiday with contributions funded out of the surplus in accordance with the actuarial assessment of 1 July 2000.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

20 COMMITMENTS (cont)

(b) Capital Expenditure Commitments

	Consolidated		The Company	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Capital expenditure projects contracted but not provided for and payable:				
- not later than one year	15,037	6,324	4,107	4,294

(c) Operating Lease Commitments

Operating leases payable:				
- not later than one year	5,564	387	1,343	172
- later than one year but not later than five years	14,483	6,347	1,344	2,243
- later than five years	7,308	263	-	263
	27,355	6,997	2,687	2,678

The consolidated entity leases property under operating leases expiring from one to five years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

(d) Finance Lease Commitments

Finance leases payable:				
- not later than one year	671	501	-	-
- later than one year but not later than five years	1,365	1,368	-	-
- later than five years	-	-	-	-
	2,036	1,869	-	-
Less future finance charges	281	199	-	-
	1,755	1,670	-	-
Lease liabilities provided for in the statements of financial position				
- current	500	414	-	-
- non-current	1,255	1,256	-	-
Total lease liabilities	1,755	1,670	-	-

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

21 CONTINGENT LIABILITIES

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

	Consolidated		The Company	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Guarantees				
Letters of credit established in favour of suppliers	9,416	3,122	7,453	3,073

Defined Benefits Fund

The consolidated entity's employer sponsored defined benefits superannuation fund was wound up as at 30 June 2002 with all assets and members' account balances being transferred to a new master trust (refer Note 20(a) for further details). A final actuarial review is being undertaken but, at the date of this report, has not been completed. Should the actuary determine that there is a shortfall of assets in the fund, the Company and its controlled entities will contribute this shortfall. The Company has received advice that if there is a shortfall in the assets of the fund, the amount of the shortfall will not be material.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

22 SEGMENT REPORTING

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income 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 period to acquire segment assets that are expected to be used for more than one year.

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

Business Segments

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

	Products / Services
Home & Hardware	Outdoor clothes driers, ladders, ironing boards, laundry trolleys, folding beds, security doors, playtime equipment, garden sprayers, wheelbarrows, hand trucks and do-it-yourself woodworking equipment.
Electronics	Communications related products and services, domestic and commercial antennae, closed circuit television systems (CCTV), master antenna television systems (MATV), communications antennae, amplifiers, electronic security systems and fibre optic transmission solutions.
Building & Industrial	Structural and precision steel tubing, fence posts, galvanising, office storage systems, precision metal cabinets, sheet metal, steel door frames and metal building products.

Geographical Segments

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

22 SEGMENT REPORTING (cont)

Primary reporting by business segments	Home & Hardware		Electronics		Building & Industrial		Eliminations		Consolidated	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Revenue										
External segment revenue	151,812	146,896	165,412	145,822	263,436	209,530	0	0	580,660	502,248
Inter-segment revenue	0	0	0	0	9,675	6,952	(9,675)	(6,952)	0	0
Total segment revenue	151,812	146,896	165,412	145,822	273,111	216,482	(9,675)	(6,952)	580,660	502,248
Unallocated / corporate revenue									4,648	3,903
Total revenue									585,308	506,151
Result										
Segment result (before interest and tax)	13,423	13,244	15,269	14,983	13,332	8,067	0	0	42,024	36,294
Unallocated / corporate result									1,475	1,001
									43,499	37,295
Net interest									4,291	3,315
Profit from ordinary activities before income tax									39,208	33,980
Income tax expense									12,775	10,967
Net profit									26,433	23,013
Depreciation and amortisation	5,254	*	2,077	*	4,608	*	0	*	11,939	*
Unallocated / corporate depreciation and amortisation									1,788	*
									13,727	*
Other non-cash expenses	3,307	*	185	*	2,881	*	0	*	6,373	*
Unallocated / corporate other non-cash expenses									1,088	*
									7,461	*
Assets										
Segment assets	93,882	85,902	73,211	65,684	133,752	117,575	0	0	300,845	269,161
Unallocated / corporate assets									41,722	34,217
Consolidated total assets									342,567	303,378
Liabilities										
Segment liabilities	17,718	*	17,543	*	31,487	*	0	*	66,748	*
Unallocated / corporate liabilities									120,263	*
Consolidated total liabilities									187,011	*
Acquisitions of non-current assets	5,344	*	4,461	*	16,681	*	0	*	26,486	*
Unallocated / corporate assets									3,301	*
									29,787	*
Secondary reporting by geographical segments										
			Australia		Overseas		Eliminations		Consolidated	
			2002	2001	2002	2001	2002	2001	2002	2001
			\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
External segment revenue by location of customers			528,578	453,932	56,730	52,219	0	0	585,308	506,151
Segment assets by location of assets			299,999	265,903	42,568	37,475	0	0	342,567	303,378
Acquisitions of non-current assets			27,725	*	2,062	*	0	*	29,787	*

* Comparative information not required to be provided

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

23 DIRECTORS' AND EXECUTIVES' REMUNERATION

(a) Remuneration of Directors

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

	The Company	
	2002 No	2001 No
\$ 40,000 - \$ 49,999	2	4
\$ 50,000 - \$ 59,999	1	-
\$ 70,000 - \$ 79,999	-	1
\$ 80,000 - \$ 89,999	1	-
\$ 90,000 - \$ 99,999	-	1
\$130,000 - \$139,999	1	-
\$240,000 - \$249,999	-	1
\$260,000 - \$269,999	1	-
\$330,000 - \$339,999	-	1
\$350,000 - \$359,999	1	-

Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities from the Company or any related party:

Consolidated		The Company	
2002	2001	2002	2001
\$	\$	\$	\$
2,434,016	2,256,460	985,215	929,632

(b) Remuneration of Executives

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

	Consolidated		The Company	
	2002 No	2001 No	2002 No	2001 No
\$100,000 - \$109,999	11	6	8	3
\$110,000 - \$119,999	15	6	9	4
\$120,000 - \$129,999	6	4	3	2
\$130,000 - \$139,999	4	8	1	5
\$140,000 - \$149,999	9	2	6	2
\$150,000 - \$159,999	6	4	4	2
\$160,000 - \$169,999	3	1	-	-
\$170,000 - \$179,999	2	2	-	2
\$180,000 - \$189,999	1	2	-	1
\$190,000 - \$199,999	1	1	1	-
\$200,000 - \$209,999	2	3	-	2
\$220,000 - \$229,999	1	-	1	-
\$230,000 - \$239,999	1	1	-	-
\$240,000 - \$249,999	-	1	-	1
\$250,000 - \$259,999	1	2	-	1
\$260,000 - \$269,999	1	1	1	1
\$270,000 - \$279,999	1	-	1	-
\$320,000 - \$329,999	1	-	1	-
\$330,000 - \$339,999	-	1	-	1
\$350,000 - \$359,999	1	-	1	-

Total income in respect of the financial year received, or due and receivable, from the Company, entities in the consolidated entity or related parties by executive officers of the Company and of controlled entities whose income is \$100,000 or more:

Consolidated		The Company	
2002	2001	2002	2001
\$	\$	\$	\$
10,008,116	7,046,418	5,519,703	4,288,611

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

24 RELATED PARTIES

Directors

The names of each person holding the position of director of Hills Industries Limited during the financial year are RD Hill-Ling, JAS Brown, DJ Simmons, RB Flynn, GG Hill, JH Hill-Ling and GL Twartz. JAS Brown retired on 31 March 2002.

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

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

Directors' Holdings of Shares and Share Options

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

	Number Held	
	2002	2001
Hills Industries Limited		
- ordinary shares	32,905,433	31,112,679
- options over ordinary shares	180,000	147,500
Korvest Ltd		
- ordinary shares	74,329	79,866

Directors' Transactions in Shares and Share Options

During the year, the Company granted options over 245,000 unissued shares under the Executive Share Plan. Of these options, 95,000 were granted to directors and their director-related entities (to the two executive directors) on the same terms and conditions as those granted to other employees. No options granted to directors and their director-related entities were exercised during the year as the performance measures attached to the options had not been met. Also during the year, options over 172,500 ordinary shares lapsed, 62,500 of which had been granted to directors and their director-related entities (to the two executive directors).

During the year, the Company issued 601,979 ordinary shares under the Employee Share Bonus Plan. Of these, 754 were issued to directors and their director-related entities (to the two executive directors) on the same terms and conditions as those granted to other employees.

During the year, the Company issued 3,313,233 ordinary shares in lieu of dividends under the Dividend Investment and Share Investment Plans. Of these, 817,171 were issued to directors and their director-related entities in accordance with the rules of the plans and on the same terms and conditions as those available to other shareholders.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

24 RELATED PARTIES (cont)

Directors' Transactions with the Company or its Controlled Entities

Ms JH Hill-Ling is a consultant to a firm of solicitors which rendered legal services to the consolidated entity in the ordinary course of business. The amount recognised during the financial year as having been paid to the firm is \$305,344 (2001: \$55,646).

Mr RB Flynn rendered consulting services to the consolidated entity in the ordinary course of business. The amount recognised during the financial year as having been paid to Mr Flynn is Nil (2001: \$212).

Two directors and a number of their director-related entities hold cash on deposit with the Company. The total of these deposits at balance date is \$1,246,332 (2001:\$1,979,810) and the net movement for the year (including deposits, withdrawals and interest) is a reduction of \$773,478 (2001:increase of \$234,302). The deposits have been recognised by the Company as 'Other Interest Bearing Loans Payable - Current'. The Company pays interest on the deposits at rates no more favourable than market rates. The amount of interest recognised during the financial year is \$81,015 (2001: \$93,133).

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

Non-Director Related Parties

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

Non-Director Related Party Transactions

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

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

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

- interest and dividends received or receivable from controlled entities	Note 3(a)
- interest paid or payable to controlled entities	Note 3(c)
- amounts receivable from controlled entities	Note 5
- investments in controlled entities	Note 7
- amounts payable to controlled entities	Note 10
- purchases from controlled entities	Note 22
- loans paid to controlled entities	Statements of cash flows

25 EARNINGS PER SHARE

Classification of securities as ordinary shares

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

- ordinary shares

Classification of securities as potential ordinary shares

The following securities have been classified as potential ordinary shares and included in diluted earnings per share only:

- options outstanding under the Executive Share Plan

	Consolidated	
	2002 \$'000	2001 \$'000
Earnings reconciliation		
Net profit	26,433	23,013
Net profit attributable to outside equity interests	2,569	243
Basic earnings	23,864	22,770
After tax effect of interest on options	42	31
Diluted earnings	23,906	22,801
	Number of Shares	
	2002	2001
Weighted average number of shares used as the denominator		
Ordinary shares	123,217,896	118,367,674
Number for basic earnings per share	123,217,896	118,367,674
Effect of Executive Share Plan options on issue	440,000	367,500
Number for diluted earnings per share	123,657,896	118,735,174

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

26 PARTICULARS IN RELATION TO CONTROLLED ENTITIES

Parent Entity	Percentage Held	
	2002	2001
Hills Industries Limited		
Controlled Entities		
Hills Finance Pty Ltd		100%
Hills Industries Limited (1) (c)	100%	100%
Hills Industries Limited (2) (c)	100%	100%
Spraygen Sprayers Limited (2) (c)	100%	100%
Korvest Ltd (b)	45.1%	45.9%
Hills Hoists Pty Ltd	100%	100%
Bailey Aluminium Products Pty Ltd	100%	100%
Triton Manufacturing & Design Co Pty Ltd	100%	100%
Triton Workshop Systems (UK) Pty Ltd (3)	100%	100%
Woodroffe Industries Pty Ltd	100%	100%
Fielders Australia Pty Ltd (formerly Exosteel Holdings Pty Ltd)	60%	60%
Orrcon Metals Pty Ltd (b) (c)	50%	50%
Orrcon Pty Ltd (b) (c)	50%	50%
Orrcon Tubing Pty Ltd (b) (c)	50%	50%
Tube Specialist Pty Ltd (b) (c)	50%	50%
Precision Tube Company Pty Ltd (b) (c)	50%	50%
ePic Australia Pty Ltd (b)	50%	50%
Pathfinder Insurance Pte Ltd (4) (c)	100%	100%
Pacom SE Asia Pte Ltd (4) (d)	100%	100%
Pacific Communications Services Snd Bhd (5) (d)	100%	100%
Hills Nominees Pty Ltd	100%	100%
DAS Security Wholesalers Pty Ltd	100%	100%
Pacific Communications Pty Ltd	100%	100%
Pacom Security Pty Ltd	100%	100%
ePic@Home Pty Ltd (a)	100%	-
Step Electronics Pty Ltd	100%	100%

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

During the year, Korvest Ltd issued 117,756 (2001: 107,204) ordinary shares pursuant to its Employee Share Bonus Plan for no consideration. It also issued 21,742 (2001: 18,218) ordinary shares pursuant to its Dividend Investment and Share Investment Plans for an effective consideration of \$30,409 (2001: \$26,362). Hills Industries Limited did not participate in either issue. As a result of the issues, Hills Industries Limited suffered a loss of \$57,348 (2001: \$48,191) due to the dilution of its investment in Korvest Ltd. The outside equity interests received a gain for the same amount.

During the year, both Exosteel Holdings Pty Ltd (now Fielders Australia Pty Ltd) and Orrcon Metals Pty Ltd issued ordinary shares to both Hills Industries Limited and the respective outside equity interests in the same proportion as their existing holdings. Accordingly, there is no effect on Hills Industries Limited's interest in these controlled entities and no gain or loss made.

On 10 April 2002, Hills Industries Limited acquired 100% of the share capital of ePic@Home Pty Ltd, a non-trading shelf-company.

On 1 July 2002, Exosteel Holdings Pty Ltd changed its name to Fielders Australia Pty Ltd.

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

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

(a) These companies have become part of the economic entity during the financial year.

(b) These companies are controlled by virtue of the parent entity's control of the Board of Directors.

(c) These companies are audited by other firms of KPMG International.

(d) These companies are audited by firms other than KPMG International.

27 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest Rate Risk

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

Each contract involves the quarterly payment or receipt of the net amount of interest. At 30 June 2002, the fixed rates varied from 4.94% to 6.67% (2001: 5.40% to 6.68%) and the floating rates were prevailing market rates. The weighted average effective floating interest rate at 30 June 2002 was 5.80% (2001: 5.45%).

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

27 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (cont)

(a) Interest Rate Risk (cont)

	Fixed interest maturing in:					Total \$'000
	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000	Non interest bearing \$'000	
2002						
Financial assets						
Cash assets	6,125	-	-	-	375	6,500
Receivables	2,458	-	1,924	-	103,426	107,808
Investments	-	-	-	-	1,163	1,163
	<u>8,583</u>	<u>-</u>	<u>1,924</u>	<u>-</u>	<u>104,964</u>	<u>115,471</u>
Weighted average interest rate	4.76%		8.00%			
Financial liabilities						
Payables	-	-	-	-	69,169	69,169
Bank overdrafts	7,779	-	-	-	-	7,779
Bank and other loans	-	61,812	-	-	1,884	63,696
Lease liabilities	-	500	1,255	-	-	1,755
Dividends payable	-	-	-	-	12,600	12,600
	<u>7,779</u>	<u>62,312</u>	<u>1,255</u>	<u>-</u>	<u>83,653</u>	<u>154,999</u>
Interest rate swaps*	(61,000)	3,000	58,000			
Weighted average interest rate	5.80%	5.03%	5.59%			

* notional principal amounts

	Fixed interest maturing in:					Total \$'000
	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000	Non interest bearing \$'000	
2001						
Financial assets						
Cash assets	2,301	-	-	-	-	2,301
Receivables	-	-	-	-	89,542	89,542
Investments	-	-	-	-	1,163	1,163
	<u>2,301</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,705</u>	<u>93,006</u>
Weighted average interest rate	4.85%					
Financial liabilities						
Payables	-	-	-	-	65,229	65,229
Bank overdrafts	3,997	-	-	-	-	3,997
Bank and other loans	-	54,516	-	-	2,657	57,173
Lease liabilities	-	-	1,670	-	-	1,670
Dividends payable	-	-	-	-	9,000	9,000
	<u>3,997</u>	<u>54,516</u>	<u>1,670</u>	<u>-</u>	<u>76,886</u>	<u>137,069</u>
Interest rate swaps *	(49,000)	3,000	46,000			
Weighted average interest rate	5.45%	5.30%	5.79%			

* notional principal amounts

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

Hills Industries Limited and its Controlled Entities

27 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (cont)

(b) Foreign Exchange Risk

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

	Consolidated		Consolidated	
	2002	2001	2002	2001
	Exchange	Exchange	\$'000	\$'000
	rate	rate		
Buy US dollars				
Not longer than one year	0.56	0.52	7,416	3,537
Sell US dollars				
Not longer than one year	0.55	0.54	227	2,220
Buy GBP pounds				
Not longer than one year	-	0.38	-	990

(c) Credit Risk Exposures

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

Recognised Financial Instruments

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

Unrecognised Financial Instruments

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

(d) Net Fair Value of Financial Assets and Liabilities

Valuation Approach

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

On-Statement of Financial Position Financial Instruments

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

Off-Statement of Financial Position Financial Instruments

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

	Consolidated	
	2002	2001
	\$'000	\$'000
Net fair value of interest rate swaps as at the reporting date	656	638

28 EVENTS SUBSEQUENT TO BALANCE DATE

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 Industries Limited (UK).

The pricing for the sale of 50% of the issued shares in Hills Industries Limited (UK) was equal to 50% of the net assets of Hills Industries Limited (UK) as at 1 July 2002. There will be no profit impact and the consolidated entity will realise approximately \$9 million cash during the year ending 30 June 2003.

Hills Industries Limited (UK) will continue to be consolidated as part of the consolidated entity. Under the terms of the joint venture agreement, Freudenberg has a put option to sell back to the consolidated entity prior to 30 June 2005, its 50% interest in Hills Industries Limited (UK) for 60% of the total amount paid.

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

DIRECTORS' DECLARATION

Hills Industries Limited and its Controlled Entities

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

- (a) the financial statements and notes, set out on pages 26 to 45, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2002 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Edwardstown this 11th day of September 2002.

Signed in accordance with a resolution of the directors:

RD Hill-Ling
Director

DJ Simmons
Director

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF HILLS INDUSTRIES LIMITED

SCOPE

We have audited the financial report of Hills Industries Limited ('the Company') for the financial year ended 30 June 2002, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes and the directors' declaration set out on pages 26 to 46. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

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

- (a) the Corporations Act 2001, including:
 - i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2002 and of their performance for the year ended on that date; and
 - ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

KPMG

Gary Savage

Partner

Adelaide, 11 September 2002

ASX ADDITIONAL INFORMATION

Hills Industries Limited and its Controlled Entities

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

Distribution of Equity Security Holders as at 23 August 2002

Category	Number of equity security holders	
	Ordinary shares	Options
1 - 1,000	2,395	-
1,001 - 5,000	5,351	-
5,001 - 10,000	1,591	4
10,001 - 100,000	1,138	6
100,001 - and over	60	1

The number of shareholders holding less than a marketable parcel of ordinary shares at 23 August 2002 was 283.

Twenty Largest Shareholders as at 23 August 2002

	Number of shares held	Percentage
Poplar Pty Limited	14,078,294	11.18
RBC Global Services Australia	12,616,251	10.02
Hills Associates Limited	9,669,665	7.68
National Nominees Limited	5,667,539	4.50
Jacaranda Pastoral Pty Ltd	5,664,000	4.50
Chase Manhattan Nominees Ltd	3,279,607	2.61
Australian Foundation	3,054,868	2.43
Argo Investments Ltd	2,750,730	2.19
Colleen Sims Nominees Pty Ltd	1,690,049	1.34
Donald Cant Pty Ltd	1,502,215	1.19
Mirrabooka Investments Limited (Investment Portfolio Account)	1,135,136	0.90
Milton Corporation Ltd	956,432	0.76
Invia Custodian Pty Limited	921,990	0.73
Hills Associates Limited & Poplar Pty Limited	738,877	0.59
Cogent Nominees Pty Limited	712,659	0.57
Choiseul Investments Limited	700,000	0.56
Westpac Custodian Nominees Limited	681,558	0.54
Bounty Investments Limited	585,332	0.47
Wakefield Investments	531,469	0.42
Gowing Bros Limited	522,747	0.42
	67,459,418	53.60

The twenty largest shareholders held 67,459,418 shares equal to 53.60% of the total issued 125,861,262 shares.

Substantial Shareholders

The number of shares held by substantial shareholders and their associates as listed in the Company's register of substantial shareholders as at 23 August 2002 were:

	Number of shares held
Perpetual Trustees Australia Limited	16,405,495
Argo Investments Ltd	16,042,362
Poplar Pty Limited	14,218,265
Maple Brown Abbott Limited	6,438,324

On-Market Buy-Back

There is no current on-market buy-back.

Offices and Officers

Share Registry

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

Registered Office

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

Company Secretary

Mr Graham L Twardt

Voting Rights

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

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

Stock Exchange

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

Direct Payment to Shareholders' Accounts

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

Shareholder Enquiries / Change of Address

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

Other Information

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

FINANCIAL CALENDAR

■ Final Dividend:

Books close 16 September 2002
Dividend paid 30 September 2002
Annual General Meeting 1 November 2002
Half Year Result announced February 2003

■ Share Purchase Plan:

Record date 16 September 2002
Offer opens 20 September 2002
Offer closes 25 October 2002

■ Interim Dividend:

Books close late March 2003
Dividend paid April 2003

■ Annual General Meeting:

The 45th Annual General Meeting of Hills Industries Limited will be held at Australian Mineral Foundation, 63 Conyngham Street, Glenside, SA 5065 on Friday, 1 November 2002 at 2.30pm. The Notice of Meeting and Proxy Form are enclosed with this report.

■ Auditors:

KPMG

■ Bankers:

ANZ Banking Group Limited
National Australia Bank Limited
Westpac Banking Corporation



Hills Industries Limited

ABN 35 007 573 417

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ANNUAL REPORT