



HILLS HALF YEAR RESULT

The Directors of diversified Australian company Hills Industries Limited today announced the following results for the six month period ending 31 December 2008.

	6 MONTHS TO 31/12/08 \$'000	6 MONTHS TO 31/12/07 \$'000	% CHANGE
Total Revenue	657,616	555,746	18.3%
Operating profit after tax attributable to owners before unusual item	21,619	24,120	(10.3%)
Profit after tax attributable to owners	15,771	23,095	(31.7%)
Operating earnings per share before unusual item (cents) *	11.5	13.9	(17.3%)
Earnings per share (cents) *	8.4	13.3	(36.8%)

* Based on the weighted average number of shares on issue during the year.

Hills' Chairman, Ms Jennifer Hill-Ling, said the first half operating profit represented a steady operating performance in difficult trading conditions.

Revenue from the Group's diverse operations across Australia and New Zealand was a record – up 18.3% from \$555.7 million to \$657.6 million.

However, Ms Hill-Ling said profit margins on the record first half revenue were difficult to maintain and were eroded by rising costs - in particular unprecedented increases in steel prices and the inflationary effects of the devaluation of the Australian dollar.

“We are pleased to pay 100% of our after-tax profits to shareholders as dividends. As a result, an interim fully franked dividend of 8.0 cents per share has been declared for the period under review,” Ms Hill-Ling said.

“The Company is also pleased to again be able to offer shareholders the opportunity to purchase shares at a 10% discount to the market under a Share Purchase Plan, which we have announced today. The shares issued under this plan will qualify for the 8.0 cents per share interim dividend which will be paid in April 2009.”

2009 GUIDANCE

Ms Hill-Ling said there had been much publicity about the current volatile economic environment, with various economic forecasters having a range of outlooks for the Australian and New Zealand economies, none of which are favourable.

“Hills is exposed to many different business sectors within the general economies in which we operate. However, we are not heavily exposed to the domestic new housing market,” Ms Hill-Ling said.

“In these volatile economic times it is difficult to provide specific guidance for our 2009 full-year result, however we continue to see further deterioration in trading conditions in certain markets. Accordingly, our net operating profit for the year to June 2009 will be below the prior year, possibly by as much as 30%. Our operating profits in the second half will be affected by the level of consumer demand, the level of commercial project work awarded and further movements in steel prices and currency.”

“Importantly, we do have in place in each of our business units, cost reduction plans, margin improvement initiatives and, to the extent possible, business growth opportunities that we believe will minimise the effect of the current downturn.”

“The Company continues to assess acquisition opportunities and believes that during this time of economic uncertainty there will be acquisition options at attractive prices that can add long term value to Hills shareholders.”

BUSINESS UNIT RESULTS

Managing Director, Mr Graham Twartz, said that while some businesses within the Hills portfolio continued to perform well, the Group’s Home, Hardware and Eco division was well below expectations.

“Stronger results from our key Orrcon Steel Tube and Pipe, Fielders and Korvest businesses contributed to a 93.6% improvement in profit achieved by our Building and Industrial Products division,” Mr Twartz said.

“This most pleasing performance saw this division as the largest contributor to both revenue and profit of the Hills group in the latest December half.

“While there were some pleasing performances and some positive signs for the future, after consecutive periods of profit improvement the Electronic Security & Entertainment division’s profit was lower as a result of higher product costs associated with the devaluation of the Australian dollar.

Detailed below is a summary of the performances of our key operating divisions during the six months to 31 December 2008.

ELECTRONIC SECURITY & ENTERTAINMENT

	6 MONTHS TO 31/12/08 \$'000	6 MONTHS TO 31/12/07 \$'000	% CHANGE
Total Revenue	169,452	151,849	11.6%
Operating profit before interest and tax	16,790	20,956	(19.8%)
% to Sales	9.9%	13.8%	

The Electronic Security & Entertainment division’s continues to record the highest EBIT margins of the Hills businesses, however these margins were reduced as a result of the rapid devaluation of the Australian dollar during the period.

- ◆ Pacific Communications is the leading supplier of CCTV solutions to the Australian and New Zealand markets. While our volume of quoting activity remained buoyant, there was a trend for end users to defer the purchase of capital equipment due to the deteriorating economic environment.

We were pleased with the strong performance of our own EVO branded range of products, which represent the best value for money in the industry. These products are highly featured, cost competitive and designed to our specifications.

In December 2008, Pacific Communications announced that it had been appointed the exclusive agent in Australia for the market leading Panasonic range of CCTV products. The distribution of these products will commence in February 2009 and represents a significant long-term sales growth opportunity for both Pacom and Panasonic.

- ◆ Direct Alarm Supplies is the leading supplier of domestic and commercial security equipment in Australia and New Zealand. While the results from this business were below the corresponding period, a number of important initiatives were undertaken during the first half. The reduced profit came as a result of the Australian dollar devaluation and related cost increases referred to above. We are introducing a number of new products made to our specifications and specifically designed and engineered for the Australian and New Zealand markets. Our innovative VoiceNav product was released at the ASIAL show during the period under review

and we have since acquired the development rights to our core range of security products. We now have greater control over the future development of the products for our markets.

- ◆ The Antenna & TV Systems business provides wireless solutions for the reception and transmission of video and data signals. In addition, it owns and distributes the DGTEC range of consumer electronics products. The business also supplies Australia's leading subscription television providers, Foxtel and AUSTAR, with a wide range of equipment for installation in the homes of consumers. This business also suffered cost pressure from the Australian dollar devaluation, which it was unable to recover in the market place. Niche wireless communication markets and products to fill gaps in our product range remain important in the future growth of this business.
- ◆ Access Television Services in Australia and Signalmaster in New Zealand provide subscription television installation services to AUSTAR and SkyTV, respectively. This business again made a solid contribution to our results and continues to meet the service expectations of our customers. We were pleased to secure an additional volume of work from AUSTAR during the period in Far North Queensland.
- ◆ Hills Sound, Vision and Lighting (SVL) is the leading provider of professional audio, lighting and control solutions to a wide range of customers in Australia and New Zealand and to a large number of export markets. The results from this business were very good during the period as a result of new product introductions. Our Australian Monitor brand continues to develop its product range for sale in international markets. We also saw growth in the Crestron business during the period and held the first Australian and New Zealand Crestron Distributors Conference in Sydney.
- ◆ Our 50% owned joint venture Opticomm provides infrastructure services related to Fibre to the Node and Fibre to the Home developments generally in new housing developments. We were pleased during the period to secure a number of contracts with major developers and to continue the rollout of our networks. While the business incurred a small loss during the period, the value of the contracts that have been won will generate profits over the next five to 10 years. We continue to see this as a growth area for the Hills Group.

BUILDING & INDUSTRIAL PRODUCTS

	6 MONTHS TO 31/12/08 \$'000	6 MONTHS TO 31/12/07 \$'000	% CHANGE
Total Revenue	378,999	285,924	32.6%
Operating profit before interest and tax from Ordinary Activities	23,736	12,263	93.6%
% to Sales	6.3%	4.3%	

These 31 December 2007 figures exclude Unusual Items as disclosed and in the Company's Appendix 4D.

The Hills Building & Industrial Products division is the largest contributor to revenue in the Group and this year made the largest contribution in dollar terms to Group profit. The margins from the division improved during the period, however funds employed also increased due to the significant rise in the price of raw materials, most notably steel, compared to the previous period.

- ◆ Results for the Orrcon Steel Pipe and Tube business were much improved. This continued the trend that we witnessed in the second half of the previous year.

In the main, we were able to pass on the increase in steel price and at the same time we had consistent project related volume in our Unanderra large pipe and tube mill.

The volatility in steel prices and devaluation of the Australian dollar had some effect on the price of imported tube. Notwithstanding this, we continue to see very low prices offered by some importers, which has resulted in the Australian Government recommencing investigations into dumping by importers.

In recent months, there have been significant decreases in the global price of steel, which have

been somewhat offset by the devaluation of the Australian dollar. We are actively monitoring the effect of the economic slowdown on our customers. We expect to see further reductions in steel prices during the remainder of this financial year.

- ◆ The Fielders rollforming business performed strongly during the period. Fielders is a market leader in new and innovative products in a market that is not known for innovation. Its Centenary carport and verandah business continues to expand and the Angle Cut roofing system also continues to grow its market share. Fielders' results in South Australia and Western Australia were most pleasing.
- ◆ The Korvest business, which comprises the market leading EzyStrut cable and pipe support business, a galvanising business and an industrial access operation achieved increased sales and profits during the period. Further information about the Korvest result can be obtained from Korvest's recently announced half year profit announcement.

HOME, HARDWARE & ECO PRODUCTS

	6 MONTHS TO 31/12/08 \$'000	6 MONTHS TO 31/12/07 \$'000	% CHANGE
Total Revenue	108,297	117,488	(7.8%)
Operating profit before interest and tax	421	8,652	(95.1%)
% to Sales	0.4%	7.4%	

The Home, Hardware and Eco division is the smallest of the 3 Hills divisions and this division's results were most disappointing and well below expectations.

- ◆ Hills Healthcare is a leading manufacturer of rehabilitation, mobility and hospital equipment. Sales for this business were in line with the previous year, however the previously mentioned steel price increases and Australian dollar devaluation caused some margin compression during the period. The success of our nursing home bed was pleasing and our new range of Air Comfort Seating products should deliver solid results in the second half.
- ◆ Results for our traditional Home Hardware Products business, consisting of Hills Branded Products and the Bailey range of ladders and access equipment, were very poor during the period. Demand for our products, particularly ladders, was subdued during the period. This business operates in a market where price increases take a relatively long time to implement and as such, our margins were affected. We have undertaken a major review of our supply chain and have an active programme in place to reduce our cost to service, improve our delivery performance and reduce our inventory levels. A range of business improvement initiatives are in place in this business unit, however subdued economic demand is expected during the second half.
- ◆ Hills Eco results were also disappointing. There was a severe contraction in the market for rainwater tanks in the period under review compared to the prior period. Demand in eastern states markets, particularly Queensland and New South Wales, where Government subsidies were reduced or eliminated and heavy rainfall fell was severely reduced. In the previous period as a result of buoyant demand we opened satellite plants in Toowoomba, Bathurst and Ballarat. The volumes delivered from these operations were well below our expectations and during the period we closed the Toowoomba satellite plant. At present, the industry remains characterised by subdued demand and over capacity. We have implemented a number of cost reduction initiatives and are looking to add further products to our Eco range in the coming period.
- ◆ The Woodroffe business performed solidly during the period as a result of the acquisition of LW Gemmell in February 2008. LW Gemmell is a leading Australian importer and wholesaler of specialised plumbing products.

UNUSUAL ITEM

In the period the Group booked a non-trading, non-cash unrealised "mark to market" loss of \$8.3 million (\$5.8 million after tax). The Group holds certain interest rate swaps and foreign currency forward exchange contracts to protect against volatility in interest rates and exchange rates. The Group does not trade in these instruments and does not speculate on movements in rates. However, Accounting Standards require that at Balance Date these instruments be revalued to market rate. \$7.5 million of the pre-tax amount total relates to interest rate swaps and is attributable to the recent sharp decline in Australian interest rates.

FUNDING

Gearing (measured as debt to equity) of 47.9% as at 31 December 2008 is above our target level of 45%. Although the volume of our inventory remains in line with our expectation we were required to fund the significant increase in working capital brought about by the rise in steel prices and the devaluation of the Australian dollar. As a result, the value of inventory and debtors has increased.

Hills' principal bank facilities are not due for renewal until November 2010 and the company continues to meet all of its banking covenants.

DIVIDEND POLICY

The Company continues to pay out around 100% of its after tax profit to shareholders.

The Directors have announced a fully franked dividend of 8.0 cents per share. This dividend can be taken as cash, reinvested in Hills shares at a 10% discount or reinvested as bonus shares at a 10% discount, or any combination of the above but will not be higher than the price at which the Share Purchase Plan shares are issued. The Record Date for the dividend will be 17 March 2009. The dividend will be paid on 7 April 2009.

SHARE PURCHASE PLAN

In the past Hills has offered shareholders an opportunity to purchase shares in the company up to a value of \$5,000 under a Share Purchase Plan. The Directors are pleased to once again offer shareholders an opportunity to participate in this plan. Shares issued under this offer will be priced at a 10% discount to the market and will participate in the interim dividend of 8.0 cents per share announced above. Closing date for application for this allotment will be 25 February 2009.

The proceeds of this issue will be used to reduce debt initially but we believe that during this time of economic uncertainty there will be acquisition opportunities at attractive prices that can add long term value to Hills shareholders.

J.H. HILL-LING CHAIRMAN

4 February 2009

Contact Details:
GRAHAM TWARTZ
MANAGING DIRECTOR

Mobile: 0412 818 271

Appendix 4D

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

Half-Year Financial Report 31 December 2008

Results for announcement to the market:

\$A'000

Revenues	Up	18.3%	to	657,919
Profit for the period attributable to shareholders	Down	31.7%	to	15,771
Profit for the period attributable to shareholders before unusual items	Down	10.4%	to	21,619
Dividends	Amount per security		Franked amount per security	
Interim dividend (#)				
- current reporting period	8.0¢		8.0¢	
- previous corresponding period	13.5¢		13.5¢	
# Interim dividend proposed in respect of the current reporting period. The financial effect of this dividend will be recognised in the next reporting period.				
Record date for determining entitlements to the dividend	17 March 2009			
Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:				
Refer directors' report on pages 2 to 7 of this financial report.				

This financial report is all the half-year information provided to the Australian Stock Exchange under listing rule 4.2A. The report also satisfies the half-year reporting requirements of the Corporations Act 2001.

This half-year financial report should be read in conjunction with the 2008 annual financial report.

Hills Industries Limited and its Controlled Entities Directors' Report

The directors present their report together with the consolidated financial report of Hills Industries Limited ("the Company") and its controlled entities for the half-year ended 31 December 2008 and the auditor's review report thereon.

Directors

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

Jennifer Helen Hill-Ling LLB(Adel)
Chairman – Non-Executive Director
Age 46. Appointed Director in August 1985. Appointed Deputy Chairman in June 2004. Appointed Chairman 28 October 2005.

Ian Elliot GAICD
Independent Non-Executive Director
Age 55. Appointed Director in August 2003. Director of Salmat Limited.

Roger Baden Flynn BEng(Hons) MBA FIE(Aust)
Independent Non-Executive Director
Age 58. Appointed Director in November 1999. Executive Chairman of Coventry Group Limited.

Geoffrey Guild Hill FCPA FAICD ASIA BEcon(Syd) MBA(NSW)
Independent Non-Executive Director
Age 62. Appointed Director in February 1999. Appointed as a Director of Fielders Australia Pty Ltd on 27 July 2008. Chairman of International Pacific Securities (Group) Limited. Director Brickworks Investments Limited, Huntley Investments Limited, Metals Finance Limited, Asian Property Investments Limited and Heritage Gold (NZ) Limited.

Peter William Stancliffe BE(Civil) FAICD
Independent Non-Executive Director
Age 60. Appointed Director in August 2003. Non-executive Director of Automotive Holdings Group Limited and Chairman of View Resources Limited, Appointed Director of Korvest Ltd on 1 January 2009.

Graham Lloyd Twartz BA(Adel) DipAcc(Flinders)
Group Managing Director
Age 51. Joined the Company in 1993. Appointed Director in July 1993. Appointed as Group Managing Director 1 July 2008. Director of Korvest Ltd and Fielders Australia Pty Ltd.

Consolidated Result

The consolidated profit for the half-year attributable to the shareholders of the Company was:

<i>In thousands of AUD</i>	6 months to 31 Dec 08	6 months to 31 Dec 07
Profit for the period from ordinary activities	21,619	24,120
Loss for the period from unusual items (Refer Note 8)	(5,848)	(1,025)
Profit attributable to minority interest	3,394	2,609
Profit attributable to shareholders of the Company	<u>15,771</u>	<u>23,095</u>

Hills Industries Limited and its Controlled Entities Directors' Report

Review of Operations

The first half operating profit represented a steady operating performance in difficult trading conditions.

While some businesses within the Hills portfolio continued to perform well, the Group's Home, Hardware and Eco division was well below expectations. Stronger results from the key Orrcon Steel Tube and Pipe, Fielders and Korvest businesses contributed to a 93.6% improvement in profit achieved by our Building and Industrial Products division. This result saw this division as the largest contributor to both revenue and profit of the Hills group in the latest December half.

While there were some pleasing performances and some positive signs for the future, after consecutive periods of profit improvement the Electronic Security & Entertainment division's profit was lower as a result of higher product costs associated with the devaluation of the Australian dollar.

The results for the individual business units were as follows:

Electronic Security and Entertainment

<i>In thousands of AUD</i>	6 months to 31 Dec 08	6 months to 31 Dec 07	% Change
Total revenues	169,452	151,849	+ 11.6
Operating profit before interest and tax	16,790	20,956	- 19.8
% to sales	9.9%	13.8%	

The Electronic Security & Entertainment division continues to record the highest EBIT margins of the Hills businesses, however these margins were reduced as a result of the rapid devaluation of the Australian dollar during the period.

Pacific Communications is the leading supplier of CCTV solutions to the Australian and New Zealand markets. While our volume of quoting activity remained buoyant, there was a trend for end users to defer the purchase of capital equipment due to the deteriorating economic environment.

We were pleased with the strong performance of our own EVO branded range of products, which represent the best value for money in the industry. These products are highly featured, cost competitive and designed to our specifications.

In December 2008, Pacific Communications announced that it had been appointed the exclusive agent in Australia for the market leading Panasonic range of CCTV products. The distribution of these products will commence in February 2009 and represents a significant long-term sales growth opportunity for both Pacom and Panasonic.

Direct Alarm Supplies is the leading supplier of domestic and commercial security equipment in Australia and New Zealand. While the results from this business were below the corresponding period, a number of important initiatives were undertaken during the first half. The reduced profit came as a result of the Australian dollar devaluation and related cost increases referred to above. We are introducing a number of new products made to our specifications and specifically designed and engineered for the Australian and New Zealand markets. Our innovative VoiceNav product was released at the ASIAL show during the period under review and we have since acquired the development rights to our core range of security products. We now have greater control over the future development of the products for our markets.

The Antenna & TV Systems business provides wireless solutions for the reception and transmission of video and data signals. In addition, it owns and distributes the DGTEC range of consumer electronics products. The business also supplies Australia's leading subscription television providers, Foxtel and AUSTAR, with a wide range of equipment for installation in the homes of consumers. This business also suffered cost pressure from the Australian dollar devaluation, which it was unable to recover in the market place. Niche wireless communication markets and products to fill gaps in our product range remain important in the future growth of this business.

Hills Industries Limited and its Controlled Entities Directors' Report

Review of Operations (continued)

Access Television Services in Australia and Signalmaster in New Zealand provide subscription television installation services to AUSTAR and SkyTV, respectively. This business again made a solid contribution to our results and continues to meet the service expectations of our customers. We were pleased to secure an additional volume of work from AUSTAR during the period in Far North Queensland.

Hills Sound, Vision and Lighting (SVL) is the leading provider of professional audio, lighting and control solutions to a wide range of customers in Australia and New Zealand and to a large number of export markets. The results from this business were very good during the period as a result of new product introductions. Our Australian Monitor brand continues to develop its product range for sale in international markets. We also saw growth in the Crestron business during the period and held the first Australian and New Zealand Crestron Distributors Conference in Sydney.

Our 50% owned joint venture Opticomm provides infrastructure services related to Fibre to the Node and Fibre to the Home developments generally in new housing developments. We were pleased during the period to secure a number of contracts with major developers and to continue the rollout of our networks. While the business incurred a small loss during the period, the value of the contracts that have been won will generate profits over the next five to 10 years. We continue to see this as a growth area for the Hills Group.

Home, Hardware & Eco Products

<i>In thousands of AUD</i>	6 months to 31 Dec 08	6 months to 31 Dec 07	% Change
Total revenues	108,297	117,488	- 7.8
Operating profit before interest and tax	421	8,652	- 95.1
% to sales	0.4%	7.4%	

The Home, Hardware and Eco division is the smallest of the 3 Hills divisions and this division's results were most disappointing and well below expectations.

Hills Healthcare is a leading manufacturer of rehabilitation, mobility and hospital equipment. Sales for this business were in line with the previous year, however the previously mentioned steel price increases and Australian dollar devaluation caused some margin compression during the period. The success of our nursing home bed was pleasing and our new range of Air Comfort Seating products should deliver solid results in the second half.

Results for our traditional Home Hardware Products business, consisting of Hills Branded Products and the Bailey range of ladders and access equipment, were very poor during the period. Demand for our products, particularly ladders, was subdued during the period. This business operates in a market where price increases take a relatively long time to implement and as such, our margins were affected. We have undertaken a major review of our supply chain and have an active programme in place to reduce our cost to service, improve our delivery performance and reduce our inventory levels. A range of business improvement initiatives are in place in this business unit, however subdued economic demand is expected during the second half.

Hills Eco results were also disappointing. There was a severe contraction in the market for rainwater tanks in the period under review compared to the prior period. Demand in eastern states markets, particularly Queensland and New South Wales, where Government subsidies were reduced or eliminated and heavy rainfall fell was severely reduced. In the previous period as a result of buoyant demand we opened satellite plants in Toowoomba, Bathurst and Ballarat. The volumes delivered from these operations were well below our expectations and during the period we closed the Toowoomba satellite plant. At present, the industry remains characterised by subdued demand and over capacity. We have implemented a number of cost reduction initiatives and are looking to add further products to our Eco range in the coming period.

The Woodroffe business performed solidly during the period as a result of the acquisition of LW Gemmill in February 2008. LW Gemmill is a leading Australian importer and wholesaler of specialised plumbing products.

Hills Industries Limited and its Controlled Entities Directors' Report

Review of Operations (continued)

Building and Industrial Products

<i>In thousands of AUD</i>	6 months to 31 Dec 08	6 months to 31 Dec 07	% Change
Total revenues	378,999	285,924	+ 32.6
Operating profit before interest and tax	23,736	(18)	n/a
% to sales	6.3%	0.0%	
Unusual Item: Impairment of Inventory – Orrcon	-	12,281	
Operating Profit before interest, tax and unusual items	23,736	12,263	+ 93.6
% to sales	6.3%	4.3%	

The Hills Building & Industrial Products division is the largest contributor to revenue in the Group and this year made the largest contribution in dollar terms to Group profit. The margins from the division improved during the period, however funds employed also increased due to the significant rise in the price of raw materials, most notably steel, compared to the previous period.

Results for the Orrcon Steel Pipe and Tube business were much improved. This continued the trend that we witnessed in the second half of the previous year.

In the main, we were able to pass on the increase in steel price and at the same time we had consistent project related volume in our Unanderra large pipe and tube mill.

The volatility in steel prices and devaluation of the Australian dollar had some effect on the price of imported tube. Notwithstanding this, we continue to see very low prices offered by some importers, which has resulted in the Australian Government recommencing investigations into dumping by importers.

In recent months, there have been significant decreases in the global price of steel, which have been somewhat offset by the devaluation of the Australian dollar. We are actively monitoring the effect of the economic slowdown on our customers. We expect to see further reductions in steel prices during the remainder of this financial year.

The Fielders rollforming business performed strongly during the period. Fielders is a market leader in new and innovative products in a market that is not known for innovation. Its Centenary carport and verandah business continues to expand and the Angle Cut roofing system also continues to grow its market share. Fielders' results in South Australia and Western Australia were most pleasing.

The Korvest business, which comprises the market leading EzyStrut cable and pipe support business, a galvanising business and an industrial access operation achieved increased sales and profits during the period. Further information about the Korvest result can be obtained from Korvest's recently announced half year profit announcement.

	Consolidated	
	31 Dec 08	31 Dec 07
Net tangible asset (NTA) backing		
Net tangible assets per ordinary share	\$1.45	\$1.30

Calculated as net assets less intangible assets less minority interests in those assets over the total number of shares on issue

Hills Industries Limited and its Controlled Entities Directors' Report

Review of Operations (continued)

Unusual Items

In the period the Group booked a non-trading, non-cash unrealised "mark to market" loss of \$8.3 million (\$5.8 million after tax). The Group holds certain interest rate swaps and foreign currency forward exchange contracts to protect against volatility in interest rates and exchange rates. The Group does not trade in these instruments and does not speculate on movements in rates. However, Accounting Standards require that at Balance Date these instruments be revalued to market rate. \$7.5 million of this total relates to interest rate swaps and is attributable to the recent sharp decline in Australian interest rates.

Full details of these items are set out in Note 8 to the Company's Appendix 4D.

Dividend Policy

The Company continues to pay out 100% of its after tax profit to shareholders.

The Directors have announced a fully franked dividend of 8.0 cents per share. This dividend can be taken as cash, reinvested in Hills shares at a 10% discount or reinvested as bonus shares at a 10% discount, or any combination of the above but will not be higher than the price at which the Share Purchase Plan shares are issued. The Record Date for the dividend will be 17 March 2009. The dividend will be paid on 7 April 2009.

2009 Guidance

There has been much publicity about the current volatile economic environment, with various economic forecasters having a range of outlooks for the Australian and New Zealand economies, none of which are favourable.

Hills is exposed to many different business sectors within the general economies in which we operate. However, we are not heavily exposed to the domestic new housing market.

In these volatile economic times it is difficult to provide specific guidance for our 2009 full-year result, however we continue to see further deterioration in trading conditions in certain markets. Accordingly, our net operating profit for the year to June 2009 will be below the prior year, possibly by as much as 30%. Our operating profits in the second half will be affected by the level of consumer demand, the level of commercial project work awarded and further movements in steel prices and currency.

Importantly, we do have in place in each of our business units, cost reduction plans, margin improvement initiatives and, to the extent possible, business growth opportunities that we believe will minimise the effect of the current downturn.

The Company continues to assess acquisition opportunities and believes that during this time of economic uncertainty there will be acquisition options at attractive prices that can add long term value to Hills shareholders.

Events Subsequent to Reporting Date

Events subsequent to the reporting date are included in note 15 of the *Condensed Notes to the Consolidated Interim Financial Report*.

**Hills Industries Limited and its Controlled Entities
Directors' Report**

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 8 and forms part of the directors' report for the half-year ended 31 December 2008.

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 4th day of February 2009.

Signed in accordance with a resolution of the directors:

JH Hill-Ling
Director

GL Twartz
Director

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Hills Industries Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the six month period ended 31 December 2008 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

G Savage
Partner

Adelaide, 4 February 2009

Hills Industries Limited and its Controlled Entities
Consolidated Interim Income Statement for the Half-Year Ended 31 December 2008

<i>In thousands of AUD</i>	Note	Consolidated	
		31 Dec 08	31 Dec 07
Revenue	6(a)	657,616	555,746
Other income	6(b)	1,202	9,736
		<u>658,818</u>	<u>565,482</u>
Expenses excluding net financing costs	6(c)	(617,647)	(527,229)
Results from operating activities		<u>41,171</u>	<u>38,253</u>
Financial income		303	226
Financial expenses		(7,538)	(6,591)
Fair value loss on derivatives	8	(8,355)	-
Net financing costs		<u>(15,590)</u>	<u>(6,365)</u>
Profit before income tax expense		25,581	31,888
Income tax expense		(6,416)	(6,184)
Profit for the period	8	<u>19,165</u>	<u>25,704</u>
Attributable to:			
Equity holders of the Company		15,771	23,095
Minority interest		3,394	2,609
Profit for the period		<u>19,165</u>	<u>25,704</u>
Basic earnings per share		8.4¢	13.3¢
Diluted earnings per share		8.4¢	13.2¢

The Income Statement is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 13 to 20.

Hills Industries Limited and its Controlled Entities
Consolidated Interim Statement of Recognised Income and Expense for the Half-Year Ended 31 December 2008

<i>In thousands of AUD</i>	Note	Consolidated	
		31 Dec 08	31 Dec 07
Translation of foreign operations - exchange differences taken to equity		772	(518)
Net income/(expense) recognised directly in equity		772	(518)
Profit for the period		19,165	25,704
Total recognised income and expense for the period	10	19,937	25,186
Attributable to:			
- Equity holders of the Company	10	16,542	22,573
- Minority interest	10	3,395	2,613
Total recognised income and expense for the period	10	19,937	25,186

Other movements in equity arising from transactions with owners are set out in note 10.

The Statement of Recognised Income and Expense is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 13 to 20.

Hills Industries Limited and its Controlled Entities
Consolidated Interim Balance Sheet as at 31 December 2008

		Consolidated	
<i>In thousands of AUD</i>		31 Dec 08	30 June 08
	Note		
Current Assets			
Cash and cash equivalents		30,880	21,549
Trade and other receivables		225,048	244,761
Inventories		221,805	180,341
Total current assets		477,733	446,651
Non-Current Assets			
Receivables		-	17,285
Investments		2	2
Property, plant and equipment		231,271	226,424
Intangible assets		113,987	114,162
Deferred tax assets		21,764	16,403
Total non-current assets		367,024	374,276
Total assets		844,757	820,927
Current Liabilities			
Bank overdraft		-	239
Trade and other payables, including derivatives		113,891	139,921
Loans and borrowings		22,965	5,952
Current tax payable		7,351	4,317
Employee benefits		28,240	26,716
Provisions		7,081	5,544
Total current liabilities		179,528	182,689
Non-Current Liabilities			
Trade and other payables, including derivatives		7,390	-
Loans and borrowings		218,499	203,497
Employee benefits		5,504	4,961
Provisions		259	263
Total non-current liabilities		231,652	208,721
Total liabilities		411,180	391,410
Net assets		433,577	429,517
Equity			
Issued capital	10	229,891	223,091
Reserves	10	52,140	51,369
Retained earnings	10	127,469	133,759
Total equity attributable to equity holders of the Company		409,500	408,219
Minority interest	10	24,077	21,298
Total equity	10	433,577	429,517

The Balance Sheet is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 13 to 20.

Hills Industries Limited and its Controlled Entities
Consolidated Interim Statement of Cash Flows for the Half-Year Ended 31 December 2008

		Consolidated	
<i>In thousands of AUD</i>		31 Dec 08	31 Dec 07
	Note		
Cash flows from operating activities			
Cash receipts from customers		777,470	597,631
Cash payments to suppliers and employees		(752,115)	(564,502)
Cash generated from operations		25,355	33,129
Net finance costs paid		(7,223)	(7,554)
Income taxes paid		(8,769)	(12,914)
Net cash from (used in) operating activities		9,363	12,661
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		274	3,835
Acquisition of property, plant and equipment		(16,504)	(18,490)
Acquisition of intangible assets		-	(268)
Acquisition of business operations (net of cash)		(637)	-
Acquisition of controlled entities (net of cash acquired)		-	(658)
Loans repaid by other entities		1,172	843
Rent received		404	485
Net cash from (used in) investing activities		(15,291)	(14,253)
Cash flows from financing activities			
Proceeds from borrowings		32,484	38,922
Repayment of borrowings		-	(599)
Proceeds from issue of shares by the company		5,628	6,009
Dividends paid to members of the parent entity	11(a)	(22,061)	(20,566)
Dividends paid to minority interest		(616)	(1,743)
Net cash from (used in) financing activities		15,435	22,023
Net increase / (decrease) in cash and cash equivalents		9,507	20,431
Cash and cash equivalents at 1 July		21,310	26,923
Effect of exchange rate fluctuations on cash held		63	25
Cash and cash equivalents at the end of the period	13	30,880	47,379

The Statement of Cash Flows is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 13 to 20.

Hills Industries Limited and its Controlled Entities – 31 December 2008 Interim Financial Report Condensed Notes to the Consolidated Interim Financial Report

1. Reporting entity

Hills Industries Limited is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2008 comprises the Company and its subsidiaries (together referred to as the “Group”).

The consolidated annual financial report of the Group as at and for the year ended 30 June 2008 is available upon request from the Company’s registered office at 944 - 956 South Road Edwardstown SA 5039 or at www.hills.com.au.

2. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2008.

This consolidated interim financial report was approved by the Board of Directors on 4 February 2009.

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

3. Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2008.

4. Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2008.

5. Financial risk management

The Group’s financial risk management objectives and policies are consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2008.

**Hills Industries Limited and its Controlled Entities – 31 December 2008 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

		Consolidated		
		Note	31 Dec 08	31 Dec 07
6.	Revenues and Expenses			
	<i>In thousands of AUD</i>			
(a)	Revenue			
	<i>Sales revenue</i>			
	Sales of goods		624,472	530,156
	Services provided		32,740	25,105
			657,212	555,261
	<i>Other revenue</i>			
	Property rentals		404	485
	Total sales and other revenue		657,616	555,746
(b)	Other income			
	Gain on sale of assets held for sale	(8)	-	7,869
	Other income		1,202	1,867
			1,202	9,736
(c)	Expenses			
	Costs of goods and services sold		454,385	384,248
	Sales and marketing expenses		79,024	66,529
	Distribution expenses		40,737	39,183
	Administration expenses		30,490	27,943
	Occupancy expenses		11,671	9,292
	Other expenses		1,340	34
			617,647	527,229
(d)	Depreciation and amortisation			
	Depreciation of buildings		590	438
	Depreciation of plant and equipment		11,237	9,744
	Total depreciation of property, plant and equipment		11,827	10,182
	Amortisation of patents and trademarks		283	292
	Total amortisation of intangible assets		283	292
	Total depreciation and amortisation		12,110	10,474

**Hills Industries Limited and its Controlled Entities – 31 December 2008 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

7. Segment Reporting

For the six months ended 31 December

<i>In thousands of AUD</i>	Electronic, Security and Entertainment		Home, Hardware & Eco		Building and Industrial		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Revenue										
Sales to external customers	169,452	151,849	108,297	117,488	378,999	285,924	-	-	656,748	555,261
Inter-segment revenue	-	-	-	-	2,078	2,604	(2,078)	(2,604)	-	-
Total segment revenue	169,452	151,849	108,297	117,488	381,077	288,528	(2,078)	(2,604)	656,748	555,261
Unallocated revenue									868	485
Total sales and other revenue									657,616	555,746
Result										
Segment result (before interest and tax)	16,790	20,956	421	8,652	23,736	(18)	-	-	40,947	29,590
Unallocated/corporate result									224	8,663
Net financing costs									41,171	38,253
Profit before income tax									(15,590)	(6,365)
Income tax expense									25,581	31,888
Net profit									(6,416)	(6,184)
									19,165	25,704

During the previous financial year, Woodroffe Industries Pty Ltd was reclassified for business segment reporting purposes from Building and Industrial to Home, Hardware and Eco. The comparative numbers have been adjusted to reflect this change.

8. Profit for the period

For the six months ended 31 December

Profit for the half-year included the following items that are unusual because of their nature, size or incidence:

<i>In thousands of AUD</i>	Note	Consolidated	
		31 Dec 08	31 Dec 07
Financial expenses			
Net fair value loss on interest rate swaps and forward exchange contracts	(a)	8,355	-
Less: Applicable income tax benefit		(2,507)	-
		5,848	-
Gains			
Gain on sale of asset held for sale	(b)	-	7,869
Less: Applicable income tax expense		-	(297)
		-	7,572
Expenses			
Impairment of Inventory – Orrcon	(c)	-	12,281
Less: Applicable income tax benefit		-	(3,684)
		-	8,597

8. Profit for the period (continued)

	Consolidated	
	31 Dec 08	31 Dec 07
Earnings per share		
Profit after tax	19,165	25,704
Adjusted for unusual items:		
Interest rate swap	8 (a) 5,848	-
Gain on sale of asset held for sale	8 (b) -	(7,572)
Impairment of Inventory – Orrcon	8 (c) -	8,597
Profit after tax before unusual items	25,013	26,729
Basic earnings per share before unusual items	11.5¢	13.9¢
Diluted earnings per share before unusual items	11.5¢	13.8¢

(a) Net fair value loss on interest rate swaps and forward exchange contracts

The Group manages its financial risk relating to interest rates and currency through the use of fixed interest rate swaps and forward exchange contracts respectively. In previous reporting periods the net fair value gains relating to these contracts have not been brought to account on the basis of materiality. The Group does not trade in these instruments and does not speculate on movements in rates. In the current reporting period the devaluation of the Australian dollar resulted in a non cash fair value loss on forward exchange contracts of \$801,000 and the significant reduction in interest rates over the last quarter of 2008 resulted in a non cash fair value loss on interest rate swaps of \$7,554,000.

(b) Gain on sale of Asset held for sale

During the previous reporting period a contract was entered into for the sale of the land and buildings at the Hills manufacturing site in Edwardstown South Australia. The impact of the sale of this property was an increase in revenues of \$24,285,000, a decrease in assets held for sale of \$15,975,000, and an increase in profit for the period of \$7,572,000 after selling costs of \$441,000 had been incurred.

Tax payable on this gain was calculated after absorbing certain capital tax losses.

(c) Impairment of Inventory - Orrcon

During the previous reporting period, as part of a review of the large pipe and tube business of Orrcon it was determined that certain inventory on hand was impaired. A contract to supply water pipe to a major customer in Queensland was cancelled due to the quality of the pipe received from our overseas supplier. Legal action was commenced in relation to this matter, however the Directors considered it prudent to write down the value of the pipe to expected recoverable value. In addition, all other costs that were related to this contract were expensed. All of these costs were included in the \$12,281,000 impairment charge.

9. Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2008, the Group acquired assets with a cost of \$16,504,000 (six months ended 31 December 2007: \$18,490,000). Assets with a net book value of \$262,000 were disposed of during the six months ended 31 December 2008 (six months ended 31 December 2007: \$285,000), resulting in a gain on disposal of \$12,000 (six months ended 31 December 2007: gain of \$47,000).

Details of the disposal of the Edwardstown property during the previous reporting period are set out in Note 8.

Capital commitments

Commitments for the purchase of property, plant and equipment yet to be delivered as at 31 December 2008 were \$14,578,000 (as at 31 December 2007: \$19,068,000).

**Hills Industries Limited and its Controlled Entities – 31 December 2008 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

10. Reconciliation of movement in equity attributable to shareholders of the Company

Consolidated

In thousands of AUD

	Share capital	Equity compens- ation reserve	Trans- lation reserve	Asset revaluation reserve	Asset realisation reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 July 2007	178,031	437	259	22,556	2,825	127,618	331,726	17,038	348,764
Total recognised income and expense	-	-	(522)	-	-	23,095	22,573	2,613	25,186
Shares issued under the Employee Share Bonus Plan	93	-	-	-	-	-	93	-	93
Shares issued under the Executive Share Plan	(250)	2	-	-	-	-	(248)	-	(248)
Shares issued under the Dividend Investment Plan	6,009	-	-	-	-	-	6,009	-	6,009
Share issue costs	-	-	-	-	-	-	-	-	-
Dividends to shareholders	-	-	-	-	-	(20,566)	(20,566)	-	(20,566)
Minority interest in dividends paid or payable by controlled entities	-	-	-	-	-	-	-	(1,743)	(1,743)
Minority increase in controlled entity	-	-	-	-	-	-	-	-	-
Transfer to / from share capital	-	-	-	-	-	-	-	-	-
Transfer to / from retained earnings	-	-	-	-	-	-	-	-	-
Balance at 31 December 2007	183,883	439	(263)	22,556	2,825	130,147	339,587	17,908	357,495
Balance at 1 July 2008	223,091	513	(2,081)	50,112	2,825	133,759	408,219	21,298	429,517
Total recognised income and expense	-	-	771	-	-	15,771	16,542	3,395	19,937
Shares issued under the Employee Share Bonus Plan	150	-	-	-	-	-	150	-	150
Shares issued under the Executive Share Plan	1,022	-	-	-	-	-	1,022	-	1,022
Shares issued under the Dividend Investment Plan	5,664	-	-	-	-	-	5,664	-	5,664
Share issue costs	(36)	-	-	-	-	-	(36)	-	(36)
Dividends to shareholders	-	-	-	-	-	(22,061)	(22,061)	-	(22,061)
Minority interest in dividends paid or payable by controlled entities	-	-	-	-	-	-	-	(616)	(616)
Minority increase in controlled entity	-	-	-	-	-	-	-	-	-
Transfer to / from share capital	-	-	-	-	-	-	-	-	-
Transfer to / from retained earnings	-	-	-	-	-	-	-	-	-
Balance at 31 December 2008	229,891	513	(1,310)	50,112	2,825	127,469	409,500	24,077	433,577

**Hills Industries Limited and its Controlled Entities – 31 December 2008 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

11. Dividends

- (a) Dividends paid or provided for by the Company in the current period and the previous corresponding period are:

	Cents per share	Total amount \$'000	Franked / unfranked	Date of payment
31 December 2008				
Final – ordinary	14.0	26,054	Franked	29 September 2008
Final dividend forgone for Share Investment Plan		(3,993)		
Total amount		<u>22,061</u>		
31 December 2007				
Final – ordinary	14.0	24,345	Franked	24 September 2007
Final dividend forgone for Share Investment Plan		<u>(3,779)</u>		
Total amount		<u>20,566</u>		

Subsequent events

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

Interim – ordinary	8.0	<u>15,107</u>	Franked	7 April 2009
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The financial effect of this dividend has not been brought to account in this financial report. It will be recognised in the next reporting period.

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

(b) Dividend and share investment plans

The Dividend Investment Plan and Share Investment Plan will operate in respect of the proposed interim dividend. Under the Dividend Investment Plan, participating shareholders elect to apply dividends in whole or in part to the purchase of ordinary shares at an issue price. Under the Share Investment Plan, participating shareholders elect to forgo dividends in whole or in part and to substitute shares issued out of the capital account.

A discount of 10.0% will apply under the rules of the plans.

Last date for receipt of election notice for the dividend plans: 17 March 2009

The Company issued ordinary shares under the Dividend and Share Investment Plans during the current period. Refer Note 11(a) for further details.

**Hills Industries Limited and its Controlled Entities – 31 December 2008 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

12. Acquisition and Disposal of Controlled Entities

(a) Acquisition of controlled entities

Six months ended 31 December 2008

During the current period there were no acquisitions of controlled entities.

Six months ended 31 December 2007

On 5 October 2007 Hills Industries Limited acquired 50% of the shares in Opticomm Co Pty Ltd, for consideration of \$756,000.

The acquired business contributed revenues of \$639,000 and net profit of \$4,810 for the prior reporting period from 5 October to 31 December 2007. As Opticomm Co Pty Ltd was not trading prior to acquisition, had the acquisition occurred on 1 July 2007, the profit for the half-year ended 31 December 2007 would have been the same.

Details of the net assets acquired and goodwill are as follows:

<i>In thousands of dollars:</i>	31 Dec 07
Purchase Consideration:	
Cash Paid	350
Deferred Consideration	400
Direct costs relating to the acquisition	6
Total Purchase Consideration	<u>756</u>
Fair value of net identifiable assets acquired (refer below)	<u>-</u>
Goodwill	<u>756</u>

Opticomm Co Pty Ltd was not trading and as such there were no assets acquired as part of the acquisition.

(b) Disposal of controlled entities

No entities were disposed of in the current or prior reporting period.

(c) Acquisition of business operations

During the current and prior reporting periods no business operations were acquired.

During the current reporting period an amount of \$619,000 was paid under a deferred payment arrangement for inventory and stamp duty in relation to the acquisition of the business of Impressive Steel. This business was acquired on 1 May 2007.

Also in the current reporting period an amount of \$18,000 was paid for inventory in relation to the acquisition of the business of LW Gemmell. This business was acquired on 1 March 2008.

During the prior reporting period an amount of \$303,000 was paid for stamp duty and legal fees arising from the purchase of the business of Air Comfort Seating Systems. This business was acquired on 1 May 2007.

13. Reconciliation of Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the period as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	Consolidated	
	31 Dec 08	31 Dec 07
<i>In thousands of AUD</i>		
Cash	30,880	64,034
Bank overdrafts	-	(16,655)
	<u>30,880</u>	<u>47,379</u>

14. Contingent Liabilities and Contingent Assets

There have been no material changes in contingent liabilities or contingent assets since June 2008. No material claims have been made against the Group since June 2008 and there are no significant legal actions presently underway.

15. Events Subsequent to Reporting Date

(a) Issued and paid-up capital

No shares have been issued after 31 December 2008.

(b) Dividends

For dividends declared after 31 December 2008 refer Note 11.

16. Related Parties

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 30 June 2008 Annual Financial Report.

Hills Industries Limited
Directors' Declaration

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

- 1 the financial statements and notes set out on pages 9 to 20, are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position of the Group as at 31 December 2008 and of its performance for the half-year ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- 2 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 4th day of February 2009.

Signed in accordance with a resolution of the directors:

JH Hill-Ling
Director

GL Twartz
Director

Independent auditor's review report to members of Hills Industries Limited

Report on the financial report

We have reviewed the accompanying half year financial report of Hills Industries Limited, which comprises the consolidated interim balance sheet as at 31 December 2008, income statement, statement of recognised income and expense and cash flow statement for the half-year ended on that date, a summary of accounting policies and other explanatory notes 1 to 16 and the directors' declaration set out on pages 9 to 21 of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation on the half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Hills Industries Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent auditor's review report to members of Hills Industries Limited (continued)

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Hills Industries Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

KPMG

G Savage
Partner

Adelaide, 4 February 2009