

Appendix 4D

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

Half-Year Financial Report 31 December 2006

Results for announcement to the market:

\$A'000

Revenues	Up	8.2%	to	511,073
Profit for the period attributable to shareholders	Up	12.0%	to	23,942
Dividends		Amount per security		Franked amount per security
Interim dividend (#)				
- current reporting period		13.5¢		13.5¢
- previous corresponding period		13.0¢		13.0¢
# 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	13 March 2007			
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 2006 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 2006 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 44. Appointed Director in August 1985. Appointed Deputy Chairman in June 2004. Appointed Chairman 28 October 2005.

David James Simmons BA(Accountancy) FCPA
Managing Director
Age 53. Joined the Company in 1984. Appointed Finance Director in July 1987. Appointed Managing Director in December 1992.

Ian Elliot GAICD
Independent Non-Executive Director
Age 53. Appointed Director in August 2003.

Roger Baden Flynn BEng(Hons) MBA FIE(Aust)
Independent Non-Executive Director
Age 56. Appointed Director in November 1999.

Geoffrey Guild Hill FCPA FAICD ASIA BEcon(Syd) MBA(NSW)
Independent Non-Executive Director
Age 60. Appointed Director in February 1999.

Peter William Stancliffe BE(Civil) FAICD
Independent Non-Executive Director
Age 58. Appointed Director in August 2003.

Graham Lloyd Twartz BA(Adel) DipAcc(Flinders)
Finance Director
Age 49. Joined the Company in 1993. Appointed Director in July 1993.

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 06	6 months to 31 Dec 05
Profit for the period	26,150	24,101
Profit attributable to minority interest	2,208	2,727
Profit attributable to shareholders of the Company	23,942	21,374

Hills Industries Limited and its Controlled Entities Directors' Report

Review of Operations

The improvement in operating profit after tax attributable to members of the Company was very pleasing.

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 06	6 months to 31 Dec 05	% Change
Total revenues	140,545	132,315	+ 6.2
Operating profit before interest and tax	16,708	15,528	+ 7.6
% to sales	11.9%	11.7%	

In the last two financial years this segment recorded an increase in operating profit before interest and tax of 26.5% (2005) and 44.5% (2006). Although the rate of profit improvement slowed in the last six months, we were pleased with the overall results.

In the six months to December 2005 businesses within this segment completed a number of major projects which contributed to the strong profit growth. To record an increase in revenue in the absence of these major projects this year was a good result.

The Hills Sound Vision & Lighting business consisting of Audio Telex, Crestron Control Solutions and Australian Audio Supplies had a strong six months. These businesses are the leading providers of professional audio and control solutions to a wide range of customers in Australia and New Zealand.

Plans are well advanced to launch a new lighting business which will trade as Lighthouse Distribution in Australia in the first quarter of calendar 2007. This is an exciting development for the Hills Sound Vision & Lighting group which we are consolidating onto a major new site in Sydney featuring a custom built demonstration facility. This will be the first of its type in Australia.

Pacific Communications are a leading supplier of CCTV solutions to the Australian and New Zealand markets. We were pleased with the performance of this business notwithstanding the absence of some major contracts which dominated the results last year. The Hills Transmission Solutions business is challenged with identifying emerging technologies in the CCTV space and a number of new and exciting products will soon be released on to the market which will enhance our overall product range. The move from analog CCTV systems to Internet Protocol (IP) based systems continues to gain momentum.

Direct Alarm Supplies is a leading supplier of domestic and commercial security systems in Australia and New Zealand. The results from this business were steady and our focus on further expanding our product range is expected to underwrite future growth.

The Antenna & TV Systems business provides wireless solutions for the reception and transmission of video and data signals. Last year this business delivered a major project to upgrade the communications networks at regional airports around Australia. Although we did not secure any projects of that size in the current financial year, we were pleased with the consistent growth of our underlying business.

This business also supplies Australia's leading subscription television providers Foxtel and AUSTAR with a wide range of equipment for installation in consumers' homes. Consumer demand in the subscription television segment continues to be strong.

Access Television Services in Australia and Signalmaster in New Zealand provide subscription television installation services to AUSTAR and Sky TV respectively. These businesses operate in a highly competitive environment and are both meeting the performance targets of their major customers. We were pleased with the progress made by both of these businesses over the last six months.

All businesses within this segment will continue to pursue major project work whilst actively working on broadening their existing product ranges.

Hills Industries Limited and its Controlled Entities Directors' Report

Review of Operations (continued)

Home, Hardware & Eco Products

<i>In thousands of AUD</i>	6 months to 31 Dec 06	6 months to 31 Dec 05	% Change
Total revenues	96,693	89,877	+ 7.6
Operating profit before interest and tax	8,835	6,779	+ 30.3
% to sales	9.1%	7.5%	

Although the revenue growth in this segment was modest at 7.6% the improvement in earnings before interest and tax of 30.3% was very pleasing. Part of the reshaping of this business segment is to focus on products related to building sustainability which is now gaining real momentum in Australia.

The Team Poly business which is involved in the manufacture of water storage tanks and other storage solutions performed very well in the six months. The heightened awareness around Australia of the need to conserve water combined with various Government incentives has significantly increased the demand for Team Poly's water storage solutions.

A new satellite manufacturing facility has been established at Bathurst so that we can better service both the rural market plus the increasingly important Sydney market. We have completely re-designed our domestic water tank offer to improve the aesthetics. We were pleased to achieve Planet Ark endorsement for this new range which will be released to the market in the second quarter of calendar 2007.

Our commitment to provide products into sustainable housing developments is very much consistent with the thrust of a number of the Planet Ark activities. To this end we were pleased that Planet Ark have also agreed to endorse our Endless Solar hot water product range and the original solar dryer, the Hills Hoist. We hope to grow our association with Planet Ark as we add additional products to our offer.

We have invested in a state of the art powder compounding and grinding facility at Team Poly, which is consistent with our commitment to vertically integrate our major manufacturing businesses. This plant is now fully operational and delivering excellent results. Further geographic expansion is planned in the coming 12 months with the development of additional satellite manufacturing facilities in key growth areas.

K•Care and Kerry Equipment are leading manufacturers of rehabilitation, mobility and hospital equipment and both performed well during the period. We have increased our range with the development and release of a number of innovative products and are currently looking at a number of small bolt on acquisitions.

The restructuring of the Consumer Products business was finalised during the period. The majority of our Hills Branded consumer products are now sourced from China and other Asian manufacturing centers.

We have a number of exciting new products which have or are about to be released. The New Generation Hills Hoist will be available to the public in the second quarter of calendar 2007. We have a commitment to continually innovate our outdoor drying solutions particularly focusing on aesthetics and functionality. The release of the New Generation Hills Hoist will be followed by new and exciting innovations across the balance of our range in the course of the next 12 months.

Bailey is the leading supplier of access equipment including ladders and scaffolding to the Australian and New Zealand hardware and building construction industries. Given the change in Occupational Health & Safety laws around Australia more and more of the Bailey business is becoming one of supplying access solutions rather than simply products. We will focus on broadening our offer in this area by adding Fall Arrest Systems and Edge Protection to our extensive range.

Our traditional Home & Hardware Products business remains very competitive; however, we are slowly reshaping this total segment to increase the focus on building sustainability and eco solutions.

Hills Industries Limited and its Controlled Entities Directors' Report

Review of Operations (continued)

Home, Hardware & Eco Products (continued)

An example of our change in emphasis is the strategic alliance that we have entered into with Delfin Lend Lease for the deployment of Hills Eco and Hills Electronic Security & Entertainment products to the planned Yarrabilba development between Brisbane and the Gold Coast.

Yarrabilba will be a large-scale residential and commercial development and will be a reference site for sustainable cities of the future. It is intended that Yarrabilba will demonstrate world's best practice for a community of its size with many environmental features for sustainable living. We believe that developments of this type will become the norm in the future and we are determined to position ourselves to supply the widest range of products possible.

The groundwork on the Yarrabilba project was handled by the Hills Technology Solutions group. We are very pleased with the progress of this group who are challenged to work with architects, developers and others to ensure that as far as possible the wide range of Hills products is understood and where appropriate specified in major projects.

Building and Industrial Products

<i>In thousands of AUD</i>	6 months to 31 Dec 06	6 months to 31 Dec 05	% Change
Total revenues	272,530	246,483	+ 10.6
Operating profit before interest and tax	15,813	14,591	+ 8.4
% to sales	5.8%	5.9%	

For the 12 months to June 2006 we recorded a 13.7% decline in operating profit in this segment. In the last six months we have managed to arrest this decline and were pleased to report an improvement in profit of just over 8%.

The Orrcon Pipe & Tube business had an improved result in the six months although market conditions remain very competitive. The dumping action initiated by all pipe and tube manufacturers in Australia against a large number of overseas manufacturers was concluded during the period. As a result dumping duties will now be payable by importers sourcing tube from a number of factories in China.

Margin management in the face of imports and fluctuating global steel prices remains one of the key challenges going forward.

The capital expenditure program to improve the efficiency of our large diameter Tube Mill installed in Unanderra in New South Wales has progressed very well. The major part of this upgrade has been completed and production recommenced during January. The expenditure was necessary to improve the efficiency of the plant and also to enable us to significantly expand our capability in terms of the sizes and wall thicknesses of the tubes that we can manufacture. As a result of this expenditure our ability to win major Oil, Gas and Water projects in the future is significantly enhanced.

We recently announced that Orrcon has secured a major contract to supply water pipe to the South East Queensland Water Grid project. The initial order for pipe is around 13,000 tonnes with a value of approximately AUD50 million. Supply of this pipe will commence this financial year. We expect approximately half of this order to be supplied this year with the balance next year.

Orrcon has also been successful in securing a project to supply pipeline in PNG. This project is valued at around AUD15 million with the majority to be invoiced this financial year.

The Fielders Rollforming business performed solidly in the period. The acquisition of Brisbane Sheet Metal in December 2005 completed our national network and gave us access to the very important Queensland market. The introduction of a number of unique products into the Brisbane market in the next six months should enable us to achieve the growth required.

Hills Industries Limited and its Controlled Entities Directors' Report

Review of Operations (continued)

Building and Industrial Products (continued)

The Western Australian market remains very strong and our business there is performing well. South Australia, Victoria and New South Wales are somewhat slower so it is important that we maximise our opportunities in the growth markets of Queensland and Western Australia.

The Centenary Carport and Verandah business continues to grow, as does our Endurance Sheds business. Having proven the models in South Australia we will now seek to expand these two important business segments into interstate markets.

The Korvest results were excellent for the six months. The performance of the EzyStrut business was particularly pleasing. Also pleasing was the fact that our investment in new technology in the galvanising plant delivered the improvement in performance that we expected. As with the Fielders business, the Queensland and Western Australian markets are very important to Korvest and we are recruiting additional resources to ensure that we capitalise on all available opportunities.

We have now launched the new Pipe Support range in the Australian market and expect to achieve good results from this initiative.

The Woodroffe business which specialises in stainless steel fabrication and the provision of a wide range of products to the food service industry performed below expectation for the first three months of the year but has now returned to consistent profitability. The quality of this business is improving as we slowly change it from being a sub-contractor manufacturer to a business that has equity in its own products and brands.

On the 26 June 2006 OneSteel and Smorgon announced that an agreement had been reached to merge their businesses. Orrcon competes with both OneSteel and Smorgon and we continue to monitor this position closely, particularly in relation to ACCC approvals.

	Consolidated	
	31 Dec 06	31 Dec 05
Net tangible asset (NTA) backing		
Net tangible assets per ordinary share	\$1.26	\$1.24

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

Dividends

The company will continue to pay around 100% of its after tax profits to shareholders as interim and final dividends. This policy is subject to the same conditions as previously advised.

The Directors announced an increased fully franked dividend of 13.5 cents per share. This dividend can be taken as cash, reinvested in Hills shares at a 5% discount or received as bonus shares at a 5% discount or any combination of the above. The dividend will be paid on 26 March 2007. The Record Date is 13 March 2007.

2007 Guidance

We have growth and profit improvement initiatives underway across all business units and we fully expect to achieve satisfactory results for the 12 months to June 2007.

Events Subsequent to Reporting Date

Events subsequent to the reporting date are included in note 16 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 2006.

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 7th day of February 2007.

Signed in accordance with a resolution of the directors:

JH Hill-Ling
Director

DJ Simmons
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 financial period ended 31 December 2006 there has 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

A Santin
Partner

Adelaide, 7 February 2007

Hills Industries Limited and its Controlled Entities
Consolidated Interim Income Statement for the Half-Year Ended 31 December 2006

		Consolidated	
<i>In thousands of AUD</i>	Note	31 Dec 06	31 Dec 05
Revenue	6(a)	510,159	469,939
Other income	6(b)	914	2,333
		511,073	472,272
Expenses excluding net financing costs	6(c)	(469,877)	(435,649)
Results from operating activities		41,196	36,623
Financial income		273	381
Financial expenses		(4,787)	(3,003)
Net financing costs		(4,514)	(2,622)
Profit before income tax expense		36,682	34,001
Income tax expense		(10,532)	(9,900)
Profit for the period		26,150	24,101
Attributable to:			
Shareholders of the Company		23,942	21,374
Minority interest		2,208	2,727
Profit for the period		26,150	24,101
Basic earnings per share		14.1¢	12.9¢
Diluted earnings per share		14.1¢	12.9¢

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 23.

Hills Industries Limited and its Controlled Entities
Consolidated Interim Statement of Recognised Income and Expense for the Half-Year Ended 31 December 2006

		Consolidated	
<i>In thousands of AUD</i>	Note	31 Dec 06	31 Dec 05
Translation of foreign operations - exchange differences taken to equity		1,132	294
Net income/(expense) recognised directly in equity		1,132	294
Profit for the period		26,150	24,101
Total recognised income and expense for the period	10	27,282	24,395
Attributable to:			
- Shareholders of the Company	10	25,051	21,668
- Minority interest	10	2,231	2,727
Total recognised income and expense for the period	10	27,282	24,395

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 23.

Hills Industries Limited and its Controlled Entities
Consolidated Interim Balance Sheet as at 31 December 2006

		Consolidated	
<i>In thousands of AUD</i>	Note	31 Dec 06	30 June 06
Current Assets			Restated
Cash and cash equivalents		27,684	20,223
Trade and other receivables		161,228	160,716
Inventories		153,873	135,853
Total current assets		342,785	316,792
Non-Current Assets			
Investments		2	2
Property, plant and equipment		181,904	172,047
Intangible assets		103,076	103,379
Deferred tax assets		27,628	28,002
Total non-current assets		312,610	303,430
Total assets		655,395	620,222
Current Liabilities			
Bank overdraft		-	7,419
Trade and other payables		120,328	113,882
Interest-bearing loans and borrowings		13,380	10,370
Income tax payable		1,723	4,357
Employee benefits		25,867	23,949
Provisions		7,786	7,574
Total current liabilities		169,084	167,551
Non-Current Liabilities			
Interest-bearing loans and borrowings		142,609	121,539
Employee benefits		6,399	6,361
Provisions		356	360
Total non-current liabilities		149,364	128,260
Total liabilities		318,448	295,811
Net assets		336,947	324,411
Equity			
Issued capital	10	172,257	167,525
Reserves	10	26,322	24,911
Retained earnings	10	122,870	117,516
Total equity attributable to equity holders of the parent		321,449	309,952
Minority interest	10	15,498	14,459
Total equity	10	336,947	324,411

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 23.

Hills Industries Limited and its Controlled Entities
Consolidate Interim Statement of Cash Flows for the Half-Year Ended 31 December 2006

		Consolidated	
<i>In thousands of AUD</i>		31 Dec 06	31 Dec 05
	Note		
Cash flows from Operating Activities			
Cash receipts from customers		564,945	530,875
Cash payments paid to suppliers and employees		(523,820)	(481,980)
Net finance costs paid		(5,112)	(2,669)
Income taxes paid		(12,826)	(17,909)
Net cash provided by operating activities		23,187	28,317
Cash flows from Investing Activities			
Proceeds from sale of property, plant and equipment		423	509
Proceeds on disposal of controlled entity (net of overdraft disposed)	13(b)	-	609
Proceeds on disposal of investments		-	482
Acquisition of property, plant and equipment		(18,960)	(14,139)
Acquisition of business operations (net of cash)	13(c)	-	(14,841)
Acquisition of controlled entities (net of cash acquired)	13(a)	-	(2,500)
Loans repaid by other entities		229	244
Rent received		391	340
Net cash used in investing activities		(17,917)	(29,296)
Cash flows from Financing Activities			
Proceeds from borrowings		25,122	13,394
Repayment of borrowings		(509)	(991)
Finance lease payments		-	(5)
Proceeds from issue of shares by the Company	11(b)	4,532	5,191
Dividends paid to members of the parent entity	12(a)	(18,254)	(16,677)
Dividends paid to minority interest		(1,244)	(1,010)
Net cash (used in) / provided by financing activities		9,647	(98)
Net increase / (decrease) in cash held		14,917	(1,077)
Cash at the beginning of the period		12,804	13,997
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(37)	28
Cash at the end of the period		27,684	12,948
	14		

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 23.

Hills Industries Limited and its Controlled Entities – 31 December 2006 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 2006 comprises the Company and its subsidiaries (together referred to as the “consolidated entity”).

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006 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 consolidated entity as at and for the year ended 30 June 2006.

This consolidated interim financial report was approved by the Board of Directors on 7 February 2007.

The consolidated entity 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 consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2006.

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 consolidated entity’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 2006.

5. Financial risk management

The consolidated entity’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 2006.

**Hills Industries Limited and its Controlled Entities – 31 December 2006 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

		Consolidated	
		31 Dec 06	31 Dec 05
6.	Revenues and Expenses		
	<i>In thousands of AUD</i>		
(a)	Revenue		
	<i>Sales revenue</i>		
	Sales of goods	488,705	453,906
	Services provided	21,063	15,648
		509,768	469,554
	<i>Other revenue</i>		
	Property rentals	391	385
	Total revenue	510,159	469,939
(b)	Other income		
	Net gain on disposal of investments	-	382
	Other income	914	1,951
		914	2,333
(c)	Expenses *		
	Costs of goods and services sold	329,471	309,543
	Sales and marketing expenses	60,690	54,172
	Distribution expenses	33,523	29,410
	Administration expenses	36,924	34,348
	Occupancy expenses	8,551	7,097
	Other expenses	718	1,079
		469,877	435,649
(d)	Depreciation and amortisation		
	Depreciation of buildings	323	306
	Depreciation of plant and equipment	8,461	7,510
	Total depreciation of property, plant and equipment	8,784	7,816
	Amortisation of patents and trademarks	305	426
	Total amortisation of intangible assets	305	426
	Total depreciation and amortisation	9,089	8,242

* Expenses for the six months to 31 December 2005 have been reclassified in line with current management reporting. The total expense amount has not changed.

**Hills Industries Limited and its Controlled Entities – 31 December 2006 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

7. Segment Reporting

For the six months ended 31 December 2006

<i>In thousands of AUD</i>	Electronic, Security and Entertainment		Home, Hardware & Eco		Building and Industrial		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue										
Sales to external customers	140,545	132,315	96,693	89,877	272,530	246,483	-	-	509,768	468,675
Inter-segment revenue	-	-	-	-	4,386	4,721	(4,386)	(4,721)	-	-
Total segment revenue	140,545	132,315	96,693	89,877	276,916	251,204	(4,386)	(4,721)	509,768	468,675
Unallocated revenue									391	1,264
Total revenue									510,159	469,939
Result										
Segment result (before interest and tax)	16,708	15,528	8,835	6,779	15,813	14,591	-	-	41,356	36,898
Unallocated/corporate result									(160)	(274)
Net interest									41,196	36,624
Profit before income tax									(4,514)	(2,623)
Income tax expense									36,682	34,001
Net profit									(10,532)	(9,900)
									26,150	24,101

**Hills Industries Limited and its Controlled Entities – 31 December 2006 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

8. Restatement of prior year goodwill on consolidation, income tax payable and deferred tax assets

Prior period goodwill on consolidation, income tax payable and deferred tax assets have been restated. Goodwill has been decreased by \$6,399,000, income tax payable decreased by \$1,500,000 and deferred tax assets increased by \$4,899,000 owing to the recognition of a deferred tax asset arising from the acquisition of the Orrcon Group on 1 March 2005. The nature of the adjustment was known at the time of the acquisition, however the amount was not determinable until the current period. In accordance with AASB 3, adjustments in respect of business combinations cannot be made after 12 months of the acquisition and therefore the adjustment is now recognised as an error. In accordance with AASB 108 prior period goodwill and tax balances are accordingly restated. There is no effect on net profit, net assets or earnings per share.

9. Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2006, the consolidated entity acquired assets with a cost of \$18,960,000 (six months ended 31 December 2005: \$17,709,000, including assets acquired through business combinations (see note 13(c)) of \$3,570,000). Assets with a net book value of \$446,000 were disposed of during the six months ended 31 December 2006 (six months ended 31 December 2005: \$549,000), resulting in a loss on disposal of \$23,000 (six months ended 31 December 2005: loss of \$40,000).

Capital commitments

During the six months ended 31 December 2006, the consolidated entity entered into contracts to purchase property, plant and equipment for \$12,978,000. (Six months ended 31 December 2005: \$20,216,000)

**Hills Industries Limited and its Controlled Entities – 31 December 2006 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

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

Consolidated

<i>In thousands of AUD</i>	Share capital	Equity compensation reserve	Translation reserve	Asset revaluation reserve	Asset realisation reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 July 2005	157,214	162	1,837	24,556	3,371	105,388	292,528	15,959	308,487
Total recognised income and expense	-	-	294	-	-	21,374	21,668	2,727	24,395
Shares issued under the Employee Share Bonus Plan	376	-	-	-	-	-	376	-	376
Shares issued under the Dividend Investment Plan	5,191	-	-	-	-	-	5,191	-	5,191
Dividends to shareholders	-	-	-	-	-	(16,678)	(16,678)	-	(16,678)
Disposal of entities	-	-	(1,555)	(1,600)	(546)	3,897	196	-	196
Balance at 31 December 2005	162,781	162	576	22,956	2,825	113,981	303,281	18,686	321,967

Balance at 1 July 2006	167,525	313	(1,183)	22,956	2,825	117,516	309,952	14,459	324,411
Total recognised income and expense	-	-	1,109	-	-	23,942	25,051	2,231	27,282
Shares issued under the Employee Share Bonus Plan	200	-	-	-	-	-	200	-	200
Shares issued under the Executive Share Plan	-	100	-	-	-	-	100	-	100
Shares issued under the Dividend Investment Plan	4,532	-	-	-	-	-	4,532	-	4,532
Other	-	-	-	-	-	(132)	(132)	-	(132)
Dividends to shareholders	-	-	-	-	-	(18,254)	(18,254)	-	(18,254)
Minority interest in dividends paid or payable by controlled entities	-	-	-	-	-	-	-	(1,244)	(1,244)
Minority increase in controlled entity	-	-	-	-	-	-	-	52	52
Transfer to / from retained earnings	-	-	-	202	-	(202)	-	-	-
Balance at 31 December 2006	172,257	413	(74)	23,158	2,825	122,870	321,449	15,498	336,947

**Hills Industries Limited and its Controlled Entities – 31 December 2006 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

Consolidated

	31 Dec 06	30 June 06
11. Share Capital		
<i>In thousands of AUD</i>		
(a) Issued and paid-up capital		
170,759,852 (30/06/06: 168,692,271) ordinary shares fully paid	172,257	167,525

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 the winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

	31 Dec 06	31 Dec 05
(b) Movements in ordinary shares		
<i>In thousands of AUD</i>		
Balance at the beginning of the period	167,525	157,214
Shares issued:		
- under Employee Share Bonus Plan	200	376
- under Dividend Investment Plan	4,532	5,191
Balance at the end of the period	172,257	162,781

Employee Share Bonus Plan

The Company made one (31 December 2005: one) issue of ordinary shares under the Employee Share Bonus Plan during the period. All employees who commenced on or before 1 March 2004 are eligible to participate in the plan, with 1,487 (31 December 2005: 1,827) employees being eligible for this issue. The shares are issued at market value for no consideration. Details of the issue are as follows:

Date of issue	Total number of shares issued	Market value of shares issued	Shares issued per participating employee	Number of participating executive directors
31 December 2006				
27/09/06	195,200	\$895,968	131	2
31 December 2005				
26/09/05	239,217	\$1,110,000	130	2

Shares issued to employees under the Employee Share Bonus Plan are recognised in equity at the fair value of the shares issued.

Dividend and Share Investment Plans

The Company issued ordinary shares under a Dividend Investment Plan and Share Investment Plan during the period. Under the Dividend Investment Plan, participating shareholders elected to apply dividends in whole or in part to the purchase of ordinary shares at an issue price. Under the Share Investment Plan, participating shareholders elected to forgo dividends in whole or in part and to substitute shares issued out of the capital account. The issue price for both plans was at a 5.0% (31 December 2005: 5.0%) discount on the market price. Details of the issue are as follows:

**Hills Industries Limited and its Controlled Entities – 31 December 2006 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

11. Share Capital (continued)

Date of issue	Plan issued under	Total number of shares issued	Issue price per share
31 December 2006			
27/09/06	Dividend Investment	1,018,851	\$4.46
27/09/06	Share Investment	853,530	\$4.46
31 December 2005			
26/09/05	Dividend Investment	1,177,010	\$4.41
26/09/05	Share Investment	712,426	\$4.41

Shares issued under the Dividend Investment Plan are recognised in equity at the value of the dividends applied to purchase those shares, which was \$4,532,000 (31 December 2005: \$5,191,000). The value of shares issued slightly exceeds the value of dividends applied due to the rounding up of shares issued to the nearest whole share.

Shares issued under the Share Investment Plan are recognised in equity at nil (31 December 2005: nil) as the dividends are forgone and substituted for shares issued for no consideration.

(c) Options

31 December 2006

On 31 December 2006, 430,000 share options became exercisable under the Executive Share Plan as a result of the performance hurdles in respect of those options being satisfied. During January 2007, the options were exercised by certain senior executives of the consolidated entity, including 140,000 being exercised by the two executive directors. The exercise price was \$4.16 per share.

31 December 2005

On 31 December 2005, 360,000 share options became exercisable under the Executive Share Plan as a result of the performance hurdles in respect of those options being satisfied. During January 2006, the options were exercised by certain senior executives of the consolidated entity, including 140,000 being exercised by the two executive directors. The exercise price was \$3.66 per share.

Further details in respect of these options are included in the 2006 annual financial report. No further options have been issued during or since the end of the current reporting period.

**Hills Industries Limited and its Controlled Entities – 31 December 2006 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

12. 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 2006				
Final – ordinary	13.0	22,057	Franked	27 September 2006
Final dividend forgone for Share Investment Plan		<u>(3,803)</u>		
Total amount		<u>18,254</u>		
31 December 2005				
Final – ordinary	12.0	19,824	Franked	26 September 2005
Final dividend forgone for Share Investment Plan		<u>(3,147)</u>		
Total amount		<u>16,677</u>		

Subsequent events

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

Interim – ordinary	13.5	<u>23,185</u>	Franked	27 March 2007
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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 5.0% will apply under the rules of the plans.

Last date for receipt of election notice for the dividend plans: 13 March 2007

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

**Hills Industries Limited and its Controlled Entities – 31 December 2006 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

		Consolidated	
		31 Dec 06	31 Dec 05
13. Acquisition and Disposal of Controlled Entities			
(a) Acquisition of controlled entities			
	<i>In thousands of AUD</i>		
	Payment of Audio Telex Group deferred consideration	-	2,500

31 December 2006

The Company has not acquired any entities in the current reporting period.

31 December 2005

The Company acquired the Audio Telex Group on 1 June 2005 and its operating results have been included in the results of the consolidated entity since that date. The main activity of the business is as a distributor of professional audio and domestic and commercial control systems. Further details of the acquisition of the Audio Telex Group are available in the June 2006 and 2005 Annual Reports.

(b) Disposal of controlled entities

No entities were disposed of in the current reporting period. During the prior reporting period ending 31 December 2005 the Consolidated Entity disposed of the subsidiaries Hills Industries Limited (UK) and the Pacom SE Asia Group including Pacom SE Asia Pte Ltd and Pacific Communications Services Snd Bhd. Details of the disposals are as follows:

Hills Industries Limited (UK)

In thousands of AUD

		Consolidated	
		31 Dec 06	31 Dec 05
	Cash/(overdraft)	-	(2,773)
	Inventories	-	3,526
	Trade and other receivables	-	3,762
	Property, plant and equipment	-	3,831
	Deferred tax assets	-	346
	Trade and other payables	-	(1,764)
	Current interest bearing liabilities	-	(5,885)
	Provisions	-	(361)
	Fair value of assets and liabilities disposed	-	682
	Less minority interest therein	-	(2,502)
	Add overdraft of Hills Industries Limited (UK)	-	2,773
	Loss on disposal	-	(344)
	Cash flow on disposal net of overdraft disposed	-	609

Hills Industries Limited (UK) was disposed of on 1 July 2005.

Results of operations since that date have been excluded from the results of the Consolidated Entity.

**Hills Industries Limited and its Controlled Entities – 31 December 2006 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

13. Acquisition and Disposal of Controlled Entities (continued)

(b) Disposal of controlled entities (continued)

Pacom SE Asia Group

During the prior period the Pacom SE Asia Group was liquidated, as it was no longer an operating entity. Details of the liquidation are as follows:

	Consolidated	
	31 Dec 06	31 Dec 05
<i>In thousands of AUD</i>		
Share capital	-	1,200
Loss on disposal	-	(1,200)
Cash flow on disposal net of cash disposed	-	-

The Pacom SE Asia Group was disposed of on 1 July 2005.

(c) Acquisition of business operations

During the current period no business operations were acquired. During the prior period the Consolidated entity acquired the Brisbane Sheet Metal business. The main activity of the business is that of a steel roll-forming operation and has sites in Brisbane and Coolum. The business was acquired on 1 December 2005. Results for the business since that date have been included in the consolidated results. Details of the acquisition are as follows:

	Consolidated	
	31 Dec 06	31 Dec 05
<i>In thousands of AUD</i>		
Cash	-	212
Inventories	-	1,650
Trade and other receivables	-	3,165
Property, plant and equipment	-	3,570
Goodwill purchased	-	8,429
Employee benefits	-	(198)
Trade and other payables	-	(1,775)
Fair value of assets and liabilities acquired	-	15,053
Less cash of Brisbane Sheet Metal	-	(212)
Cash flow on acquisition net of cash acquired	-	14,841

It was not practicable to estimate the effect on the income statement had the business been acquired at the beginning of the 31 December 2005 reporting period as the business was expected to undergo a number of changes as a result of the ownership by Hills, including new product initiatives.

**Hills Industries Limited and its Controlled Entities – 31 December 2006 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

14. 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 statement of financial position as follows:

<i>In thousands of AUD</i>	31 Dec 06	31 Dec 05
Cash	27,684	15,234
Bank overdrafts	-	(2,286)
	<u>27,684</u>	<u>12,948</u>

15. Contingent Liabilities and Contingent Assets

There have been no material changes in contingent liabilities or contingent assets since June 2006.

16. Events Subsequent to Reporting Date

(a) Issued and paid-up capital

For shares issued after 31 December 2006 refer Note 11.

(b) Dividends

For dividends declared after 31 December 2006 refer Note 12.

17. Related Parties

Arrangements with related party transactions continue to be in place. For details on these arrangements, refer to the 30 June 2006 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 23, are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position of the Consolidated Entity as at 31 December 2006 and of its performance, as represented by the results of its operations and cash flows, 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 7th day of February 2007.

Signed in accordance with a resolution of the directors:

JH Hill-Ling
Director

DJ Simmons
Director

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

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, statement of recognised income and expense, balance sheet, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration set out on pages 9 to 24 of the Consolidated Entity comprising Hills Industries Limited (the "Company") and the subsidiaries it controlled during that half year.

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

Review approach

We conducted an independent review in order to express an opinion to the members of the Company based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE2410 *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 the interim financial report is not in accordance with the *Corporations Act 2001* including; giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2006, 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.

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

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

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

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 Consolidated Entity's financial position as at 31 December 2006 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

A Santin
Partner

Adelaide, 7 February 2007