

Appendix 4D

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

Half-Year Financial Report 31 December 2007

Results for announcement to the market:

\$A'000

Revenues	Up	8.9%	to	555,746
Profit for the period attributable to shareholders	Down	3.5%	to	23,095
Profit for the period attributable to shareholders before unusual items	Up	0.7%	to	24,120
Dividends	Amount per security		Franked amount per security	
Interim dividend (#)				
- current reporting period	13.5¢		13.5¢	
- 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 2008			
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 2007 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 2007 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 45. 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 54. 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 54. Appointed Director in August 2003.

Roger Baden Flynn BEng(Hons) MBA FIE(Aust)
Independent Non-Executive Director
Age 57. Appointed Director in November 1999.

Geoffrey Guild Hill FCPA FAICD ASIA BEcon(Syd) MBA(NSW)
Independent Non-Executive Director
Age 61. Appointed Director in February 1999.

Peter William Stancliffe BE(Civil) FAICD
Independent Non-Executive Director
Age 59. Appointed Director in August 2003.

Graham Lloyd Twartz BA(Adel) DipAcc(Flinders)
Finance Director
Age 50. 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 07	6 months to 31 Dec 06
Profit for the period from ordinary activities	24,120	23,942
Loss for the period from unusual items (Refer Note 8)	(1,025)	-
Profit attributable to minority interest	2,609	2,208
Profit attributable to shareholders of the Company	<u>23,095</u>	<u>23,942</u>

Hills Industries Limited and its Controlled Entities Directors' Report

Review of Operations

As predicted at the AGM the results for the Group for the first six months were flat compared to the previous corresponding period, primarily due to the below budget performance of the Orrcon business.

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 07	6 months to 31 Dec 06	% Change
Total revenues	151,849	140,545	+ 8.0
Operating profit before interest and tax	20,956	16,708	+ 25.4
% to sales	13.8%	11.9%	

The increase in sales and profit for the six months was very pleasing and returned this segment to be the best performer across the Hills Group.

The units within this segment all have very consistent base line businesses which from time to time are supplemented by major projects, particularly in the telecommunications area. In the year to June 2006 we had a number of large projects which contributed to our sales and profitability which were not repeated in the year to June 2007. The quality of the results in this six months is reinforced by the fact that the revenue and profit growth was not project based.

We were very pleased with the performance of Pacific Communications who are the leading supplier of CCTV solutions to the Australian and New Zealand markets. This market segment continues to undergo change as more and more solutions transfer to Internet Protocol (IP) based systems where we believe our offer is second to none.

Direct Alarm Supplies is a leading supplier of domestic and commercial security systems in Australia and New Zealand. We were pleased with the results from this business and expect to see further growth as we introduce new products and access new market segments driven by a new management team.

The Antenna & TV Systems business provides wireless solutions for the reception and transmission of video and data signals. This business also supplies Australia's leading subscription television providers, Foxtel and AUSTAR, with a wide range of equipment for installation in consumer's homes. We were pleased with the results for Antenna & TV Systems, which continues to be a consistent contributor to the Hills Group. The recent announcement of the introduction of High Definition channels on the Foxtel service will support further growth.

Access Television Services in Australia and Signal Master in New Zealand provide subscription television installation services to AUSTAR and Sky TV respectively. We were pleased with the contributions made by both of these businesses in the last six months.

Hills Sound Vision and Lighting business (SVL) are leading providers of professional audio, lighting and control solutions to a wide range of customers in Australia and New Zealand plus a large number of export markets. A very successful roadshow to showcase our extensive range of products was carried out in every State of Australia and New Zealand during the last six months and we also released a major new catalogue. We expect the SVL group to deliver strong results in the second six months as further new products are introduced.

Our 50% owned joint venture Opticomm Co made a small contribution to the results for this six month period. Opticomm Co provides infrastructure and services related to Fibre to the Node and Fibre to the Home developments. We consider this to be a growth area and were pleased to secure a number of contracts with major developers during the period.

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 07	6 months to 31 Dec 06	% Change
Total revenues	111,180	96,693	+ 15.0
Operating profit before interest and tax	8,514	8,835	-3.6
% to sales	7.7%	9.1%	

The Team Poly business, which is involved in the manufacture of water storage tanks and other storage solutions, had a pleasing increase in sales during the period. Unpredictable demand as various State Governments modified their water tank rebate arrangements, made management of the distribution side of the business very difficult. Excessive lead times and urgent customer requirements quickly moved to over stocking positions, particularly in the Queensland market, which caused additional redistribution costs. We believe we are now in a position where supply and demand will be better matched, which should enable the business to increase its profitability accordingly. The initial phase of our regional manufacturing strategy was completed with Toowoomba, Ballarat and Bathurst manufacturing sites now fully operational.

K•Care, Kerry Equipment and Air Comfort Seating Systems are leading manufacturers of rehabilitation, mobility and hospital equipment. During the year we have rebranded this business Hills Healthcare. We were pleased with the results for the first six months which showed an improvement in profit over last year, notwithstanding some weaknesses in one of our major channels to market.

Air Comfort Seating Systems contributed to the results for the first time and we were pleased with the performance of this business. We were also pleased to achieve initial sales of an innovative nursing home bed which has gained ready market acceptance.

Results for our traditional Home and Hardware Products business consisting of Hills Branded Products and the Bailey range of access equipment including ladders and scaffolding were below expectations. Quality problems with our imported range of children's swings and gym sets (which were experienced in the second half of last year) were resolved but not in time for the 2007 season. We took the view that our offer needed to be 100% right before the product was reintroduced to the market. The business is challenged with expanding its product range, substantially reducing its supply chain costs and significantly reducing its inventories to return to a level of acceptable performance.

Building and Industrial Products

<i>In thousands of AUD</i>	6 months to 31 Dec 07	6 months to 31 Dec 06	% Change
Total revenues	292,232	272,530	+ 7.2
Operating profit before interest and tax	120	15,813	-99.2
% to sales	0.0%	5.8%	
Unusual Item: Impairment of Inventory – Orrcon	12,281	-	
Operating Profit before interest, tax and unusual items	12,401	15,813	-21.6%
% to sales	4.2%	5.8%	

After achieving a significant increase in profit for the twelve months to 30th June 2007 we were disappointed with the results for the current six months.

The results for the Orrcon Pipe & Tube business were disappointing. A combination of a high Australian dollar, significant over stocking by importers and aggressive market positioning by the combined Smorgon/OneSteel business all contributed to a significant compression in margins.

Hills Industries Limited and its Controlled Entities Directors' Report

Review of Operations (continued)

When we released our 2007 results in August last year we expressed some concern about the competitive pressures in the Pipe & Tube industry following the acquisition of Smorgon Steel by OneSteel. At that time we expected to be successful in supplying large diameter pipe into a number of major infrastructure projects. Unfortunately the timing of these projects was delayed and although the majority of the expected projects have now been secured they will not be delivered until the third and fourth quarter of this financial year.

The Fielders Rollforming business performed solidly in the period, with the Western Australian market in particular remaining very strong.

The Centenary Carport and Verandah business continues to grow as does the Endurance Sheds business. The Australian rollforming industry is very competitive but we are pleased that we are growing our market share in a controlled and sensible way.

The Woodroffe business, which specialises in stainless steel fabrication and the provision of a wide range of products to the food service industry, performed in line with expectations for the six months. The quality of this business will be significantly enhanced as we absorb the LW Gemmell business effective 1st February. LW Gemmell is a leading Australian importer and wholesaler of specialised plumbing products including flush valves, backflow prevention valves, pressure reducing valves, waterless urinals and hands free tap ware.

The Korvest business, which comprises a market leading range of cable and pipe support systems, a galvanising business and an industrial access business, increased its sales and profit for the period. Some softness in project work was experienced in the first three months but the demand position has improved.

	Consolidated	
	31 Dec 07	31 Dec 06
Net tangible asset (NTA) backing		
Net tangible assets per ordinary share	\$1.30	\$1.26

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

Unusual Items

As announced to the market in December we advised that the results for the six months would include two individually significant items which would largely offset each other. Last year we announced that we had reached agreement to sell the Hills Edwardstown manufacturing site and that a profit above book value would be achieved. We had previously advised the market that a contract we had secured to supply water pipe to a major customer in Queensland had been cancelled due to the quality of pipe received from our overseas supplier. Legal action has been commenced in relation to this matter, however the Directors consider it prudent to write down the value of the pipe (which is in storage at Wollongong) to expected recoverable value. We will aggressively chase a satisfactory resolution to this matter, however in line with our conservative approach we believe the above action is appropriate.

Due to the vagaries of international trading laws we were forced to pay for the stock shipped by the overseas supplier notwithstanding the fact it was obviously not fit for purpose. This impacted on our cash flows for the period.

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

BSA Acquisition

Prior to Christmas we announced that we had made a conditional bid to acquire 50.1% of publicly listed BSA Limited (ASX code BSA). BSA is a leading provider of technical field installation resources to major entertainment and telecommunication providers as well as providing innovative engineered Air Conditioning and Fire Protection solutions to the building and construction industry. Due diligence is proceeding according to the agreed timetable and further announcements are expected towards the end of February. Funds raised under a proposed Share Purchase Plan (details of which will be released in coming months) will assist in the funding of this acquisition.

Hills Industries Limited and its Controlled Entities Directors' Report

Review of Operations (continued)

Dividend Policy

The Company will continue to pay around 100% of its after tax profit to shareholders in interim and final dividends. This policy is subject to the same conditions as previously advised and obviously relies on the support of shareholders in relation to the Dividend Reinvestment schemes.

The Directors announced a fully franked dividend of 13.5 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. The Record Date for the dividend will be 17th March 2008. The dividend will be paid on 31st March 2008.

2008 Guidance

A restructuring of the Orrcon and Home and Hardware businesses is underway. We will deliver on a number of major pipeline projects in the Orrcon business in the six months and we expect strong results from the Electronic Security and Entertainment segment.

Interest rates are starting to impact businesses in Australia so we will continue our major focus on inventory reduction and working capital management. Although Hills is a complex set of businesses, we expect we will achieve an improved profit compared to 2007 notwithstanding a significant increase in our interest bill and consumer uncertainty in the face of volatile share markets and rising interest rates.

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 2007.

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 6th day of February 2008.

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 2007 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

G Savage
Partner

Adelaide, 6 February 2008

Hills Industries Limited and its Controlled Entities
Consolidated Interim Income Statement for the Half-Year Ended 31 December 2007

<i>In thousands of AUD</i>	Note	Consolidated	
		31 Dec 07	31 Dec 06
Revenue	6(a)	555,746	510,159
Other income	6(b)	9,736	914
		<u>565,482</u>	<u>511,073</u>
Expenses excluding net financing costs	6(c)	(527,229)	(469,877)
Results from operating activities		<u>38,253</u>	<u>41,196</u>
Financial income		226	273
Financial expenses		(6,591)	(4,787)
Net financing costs		<u>(6,365)</u>	<u>(4,514)</u>
Profit before income tax expense		31,888	36,682
Income tax expense		(6,184)	(10,532)
Profit for the period	8	<u>25,704</u>	<u>26,150</u>
Attributable to:			
Shareholders of the Company		23,095	23,942
Minority interest		2,609	2,208
Profit for the period		<u>25,704</u>	<u>26,150</u>
Basic earnings per share		13.3¢	14.1¢
Diluted earnings per share		13.2¢	14.1¢
Basic earnings per share before unusual items (See Note 8)		13.9¢	14.1¢

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 2007

<i>In thousands of AUD</i>	Note	Consolidated	
		31 Dec 07	31 Dec 06
Translation of foreign operations - exchange differences taken to equity		(518)	1,132
Net income/(expense) recognised directly in equity		(518)	1,132
Profit for the period		25,704	26,150
Total recognised income and expense for the period	10	25,186	27,282
Attributable to:			
- Shareholders of the Company	10	22,573	25,051
- Minority interest	10	2,613	2,231
Total recognised income and expense for the period	10	25,186	27,282

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 2007

		Consolidated	
<i>In thousands of AUD</i>	Note	31 Dec 07	30 June 07
Current Assets			
Cash and cash equivalents		47,379	27,434
Trade and other receivables		180,680	172,655
Inventories		172,532	175,507
Assets classified as held for sale		-	15,946
Total current assets		400,591	391,542
Non-Current Assets			
Receivables		20,785	-
Investments		2	2
Property, plant and equipment		181,369	173,157
Intangible assets		111,565	111,369
Deferred tax assets		29,043	30,811
Total non-current assets		342,764	315,339
Total assets		743,355	706,881
Current Liabilities			
Bank overdraft		-	511
Trade and other payables		132,631	133,947
Loans and borrowings		-	1,593
Income tax payable		4,388	12,742
Employee benefits		25,984	25,741
Provisions		6,702	7,099
Total current liabilities		169,705	181,633
Non-Current Liabilities			
Loans and borrowings		211,498	171,582
Employee benefits		4,344	4,574
Provisions		313	328
Total non-current liabilities		216,155	176,484
Total liabilities		385,860	358,117
Net assets		357,495	348,764
Equity			
Issued capital	10	183,883	178,031
Reserves	10	25,557	26,077
Retained earnings	10	130,147	127,618
Total equity attributable to equity holders of the parent		339,587	331,726
Minority interest	10	17,908	17,038
Total equity	10	357,495	348,764

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
Consolidate Interim Statement of Cash Flows for the Half-Year Ended 31 December 2007

		Consolidated	
<i>In thousands of AUD</i>	Note	31 Dec 07	31 Dec 06
Cash flows from Operating Activities			
Cash receipts from customers		597,631	564,945
Cash payments paid to suppliers and employees		(564,502)	(523,820)
Net finance costs paid		(7,554)	(5,112)
Income taxes paid		(12,914)	(12,826)
Net cash provided by operating activities		12,661	23,187
Cash flows from Investing Activities			
Proceeds from sale of property, plant and equipment		3,835	423
Proceeds on disposal of controlled entity (net of overdraft disposed)		-	-
Proceeds on disposal of investments		-	-
Acquisition of property, plant and equipment		(18,490)	(18,960)
Acquisition of intangible assets		(268)	-
Acquisition of business operations (net of cash)		-	-
Acquisition of controlled entities (net of cash acquired)		(658)	-
Loans repaid by other entities		843	229
Rent received		485	391
Net cash used in investing activities		(14,253)	(17,917)
Cash flows from Financing Activities			
Proceeds from borrowings		38,922	25,122
Repayment of borrowings		(599)	(509)
Finance lease payments		-	-
Proceeds from issue of shares by the Company		6,009	4,532
Dividends paid to members of the parent entity	11(a)	(20,566)	(18,254)
Dividends paid to minority interest		(1,743)	(1,244)
Net cash (used in) / provided by financing activities		22,023	9,647
Net increase / (decrease) in cash held		20,431	14,917
Cash at the beginning of the period			
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		25	(37)
Cash at the end of the period	13	47,379	27,684

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 2007 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 2007 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 2007 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 2007.

This consolidated interim financial report was approved by the Board of Directors on 6 February 2008.

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 2007.

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 2007.

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 2007.

**Hills Industries Limited and its Controlled Entities – 31 December 2007 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

		Consolidated	
		Note	
		31 Dec 07	31 Dec 06
6.	Revenues and Expenses		
	<i>In thousands of AUD</i>		
(a)	Revenue		
	<i>Sales revenue</i>		
	Sales of goods	530,156	488,705
	Services provided	25,105	21,063
		555,261	509,768
	<i>Other revenue</i>		
	Property rentals	485	391
	Total revenue	555,746	510,159
(b)	Other income		
	Gain on sale of assets held for sale	(8) 7,869	-
	Other income	1,867	914
		9,736	914
(c)	Expenses *		
	Costs of goods and services sold	384,248	340,597
	Sales and marketing expenses	66,529	63,642
	Distribution expenses	39,183	33,486
	Administration expenses	27,943	23,197
	Occupancy expenses	9,292	8,237
	Other expenses	34	718
		527,229	469,877
(d)	Depreciation and amortisation		
	Depreciation of buildings	438	323
	Depreciation of plant and equipment	9,744	8,461
	Total depreciation of property, plant and equipment	10,182	8,784
	Amortisation of patents and trademarks	292	305
	Total amortisation of intangible assets	292	305
	Total depreciation and amortisation	10,474	9,089

* Expenses for the six months to 31 December 2006 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 2007 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

7. Segment Reporting

For the six months ended 31 December 2007

<i>In thousands of AUD</i>	Electronic, Security and Entertainment		Home, Hardware & Eco		Building and Industrial		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Revenue										
Sales to external customers	151,849	140,545	111,180	96,693	292,232	272,530	-	-	555,261	509,768
Inter-segment revenue	-	-	-	-	2,604	4,386	(2,604)	(4,386)	-	-
Total segment revenue	151,849	140,545	111,180	96,693	294,836	276,916	(2,604)	(4,386)	555,261	509,768
Unallocated revenue									485	391
Total revenue									555,746	510,159
Result										
Segment result (before interest and tax)	20,956	16,708	8,514	8,835	120	15,813	-	-	29,590	41,356
Unallocated/corporate result									8,663	(160)
Net interest									38,253	41,196
Profit before income tax									(6,365)	(4,514)
Income tax expense									31,888	36,682
Net profit									(6,184)	(10,532)
									25,704	26,150

8. Profit for the period

For the six months ended 31 December 2007

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

<i>In thousands of AUD</i>	Note	Consolidated	
		31 Dec 07	31 Dec 06
Gains			
Gain on sale of asset held for sale	(a)	7,869	-
Less: Applicable income tax expense		(297)	-
		7,572	-
Expenses			
Impairment of Inventory – Orrcon	(b)	12,281	-
Less: Applicable income tax benefit		(3,684)	-
		8,597	-

(a) Gain on sale of Asset held for sale

During the period a contract was entered into for the sale of the land and building 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 increasing profit for the period by \$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.

(b) Impairment of Inventory - Orrcon

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 has been commenced in relation to this matter, however the Directors consider it prudent to write down the value of the pipe to expected recoverable value. In addition, all other costs that are related to this contract have been expensed. All of these costs are included in the \$12,281,000 impairment charge.

9. Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2007, the consolidated entity acquired assets with a cost of \$18,490,000 (six months ended 31 December 2006: \$18,960,000). Assets with a net book value of \$285,000 were disposed of during the six months ended 31 December 2007 (six months ended 31 December 2006: \$446,000), resulting in a gain on disposal of \$47,000 (six months ended 31 December 2006: loss of \$23,000).

Details of the disposal of the Edwardstown property are set out in Note 8.

Capital commitments

During the six months ended 31 December 2007, the consolidated entity entered into contracts to purchase property, plant and equipment for \$19,068,000 (Six months ended 31 December 2006: \$12,978,000).

**Hills Industries Limited and its Controlled Entities – 31 December 2007 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 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 Share capital	-	-	-	-	-	-	-	-	-
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

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
Other	-	-	-	-	-	-	-	-	-
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

**Hills Industries Limited and its Controlled Entities – 31 December 2007 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 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>		
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>		

Subsequent events

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

Interim – ordinary	13.5	<u>23,567</u>	Franked	31 March 2008
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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 2008

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 2006 Interim Financial Report
Condensed Notes to the Consolidated Interim Financial Report**

12. Acquisition and Disposal of Controlled Entities

(a) Acquisition of controlled entities

31 December 2006

On the 5th of October Hills Industries Limited acquired 50% of the shares in Opticomm Co Pty Ltd, for consideration of \$750,000.

The acquired business contributed revenues of \$639,000 and net profit of \$4,810 for the 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	5
Total Purchase Consideration	<u>755</u>
Fair value of net identifiable assets acquired (refer below)	<u>-</u>
Goodwill	<u>755</u>

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

31 December 2006

The Company did not acquire any entities in the prior reporting period.

(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 period and prior periods no business operations were acquired.

An amount of \$303,000 was paid in the current period stamp duty and legal fees arising from the purchase of the business of Air Comfort Seating Systems. This business was acquired in 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 statement of financial position as follows:

	Consolidated	
	31 Dec 07	31 Dec 06
<i>In thousands of AUD</i>		
Cash	64,034	43,810
Bank overdrafts	(16,655)	(16,126)
	47,379	27,684

14. Contingent Liabilities and Contingent Assets

There have been no material changes in contingent liabilities or contingent assets since June 2007.

15. Events Subsequent to Reporting Date

(a) Issued and paid-up capital

No shares have been issued after 31 December 2007

(b) Dividends

For dividends declared after 31 December 2007 refer Note 11.

16. Related Parties

Arrangements with related party transactions continue to be in place. For details on these arrangements, refer to the 30 June 2007 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 Consolidated Entity as at 31 December 2007 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 6th day of February 2008.

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

G Savage
Partner

Adelaide, 6 February 2008