



PRESS RELEASE

PROFIT & DIVIDEND IMPROVEMENT FOR HILLS SHAREHOLDERS

The Chairman, Mr. Bob Ling, today announced the following record operating results for the 6 months ended 31 December 2004 for the Hills Group.

	6 MONTHS TO 31/12/04 \$'000	6 MONTHS TO 31/12/03 \$'000	% CHANGE
Total Revenue from Ordinary Activities	409,693	356,313	+ 15.0
Profit from Ordinary Activities before Tax	30,472	27,533	+ 10.7
Profit from Ordinary Activities attributable to Owners	17,568	15,908	+ 10.4
Earnings per share	12.4 cents	11.6 cents	+ 6.9
Dividend	12.0 cents	11.0 cents	+ 9.1%

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

ELECTRONICS SECURITY & ENTERTAINMENT

	6 MONTHS TO 31/12/04 \$'000	6 MONTHS TO 31/12/03 \$'000	% CHANGE
Total Revenue	98,169	85,538	+ 14.8
Operating profit before interest and tax	10,983	9,953	+ 10.3

- ◆ Electronics Security revenues finished ahead of the previous corresponding period although sales of domestic alarms remained quite weak. Good progress was made by the Hills Technology Solutions Group (which offers integrated packages covering access control, security, intercom systems and other products to major developers).

The Technology Solutions Group also facilitated the closure of a number of major contracts for corporations replacing existing analog security systems with new digital technology and networking multiple locations using existing IP infrastructure. Further growth in network solutions using IP protocols is expected as the cost advantages over traditional systems are demonstrated.

- ◆ The Antenna & TV Systems business achieved an increase in sales and profit. Strong demand from Foxtel and AUSTAR as they promoted their new digital offerings was a positive for the business. The results were pleasing given the

input cost pressure experienced as a result of rapid increases in steel prices and of more recent times supply restrictions from our major steel supplier.

- ◆ The results for the six months include one month's contribution from Access Television Services, which was acquired effective 1st December 2004. Access Television Services provides installation services to AUSTAR in regional and remote Australia.
- ◆ The latest version of the Hills Home Hub (an affordable smart wiring system for new homes) was released just prior to Christmas. The new version includes a number of additional features including the Hills Home Music module. The Hills Home Hub offers modular solutions to new home builders at very attractive price points.
- ◆ The appreciation of the Australian dollar in the last six months resulted in some improvement in margin in Electronic Security.

HOME & HARDWARE PRODUCTS

	6 MONTHS TO 31/12/04 \$'000	6 MONTHS TO 31/12/03 \$'000	% CHANGE
Total Revenue	89,435	85,636	+ 4.4
Operating profit before interest and tax	6,296	9,030	- 30.3

- ◆ Although revenues increased compared to the previous corresponding period, the profit in the segment was down significantly. A major contributing factor was an inability to pass on steel and plastics price increases in a timely fashion. Lack of reasonable notice in relation to steel price increases and a requirement from our major customers for fixed periods of notice in relation to price changes meant that we were unable to recover all of the increased costs incurred during the last six months. This is somewhat of a phasing issue and we believe that margins will improve as further price increases are implemented over the next six months.
- ◆ We are progressively changing our Home & Hardware Products business model from being primarily an Australian based manufacturer to being a business that designs products in Australia, makes some in Australia but also sources overseas. Some increased costs were incurred during the period as we refined this new model.
- ◆ Profitability in the United Kingdom Joint Venture was in line with expectations with significantly improved factory performance being a major contributor.
- ◆ The Triton profitability was below expectation but a number of new products were introduced towards the end of the year. We have recently introduced the Triton Steel Cutter to the Australian market along with a range of clever bracketry and painted tube sections which we believe will be well accepted by the home handy man who wants to use steel in DIY projects without the complication of welding. This product has been well received. We have also recently introduced an innovative 18V Cordless Plunge Drill with hammer function and are in the process of refining our traditional Workcentre product range.

- ◆ During the period we introduced a number of entry price point products in a number of our major product categories. These products enabled us to increase our sales revenue but were of necessity at lower margin levels. Our policy of having a product offer for all price points in the market will be vigorously pursued over the next 12 months.
- ◆ We were pleased with the performance of the K•Care Group. K•Care supply a wide range of home care, rehabilitation, hospital and nursing home equipment to the Australian and New Zealand markets.
- ◆ The frequent and rapid increases in steel and plastics prices across the world has been well documented. This impacted the results for Home & Hardware Products during the last six months and remains a key management issue going forward. In an environment of significantly increased steel prices we were disappointed that our major steel supplier was unable to satisfy all of our requirements as a result of industrial disputation and a number of other issues. This led to some inefficiencies in our production facilities during the period. We will continue to drive operational improvements and cost reduction programs to offset some of the margin decline caused by steel and plastics price increases.

BUILDING & INDUSTRIAL PRODUCTS

	6 MONTHS TO 31/12/04 \$'000	6 MONTHS TO 31/12/03 \$'000	% CHANGE
Total Revenue	219,888	183,776	+ 19.7
Operating profit before interest and tax	15,498	12,337	+ 25.6

- ◆ We were pleased with the increase in sales and profitability in this segment. Most of the revenue increase came as a result of improvements in market share.
- ◆ The Orrcon business performed well during the period. All key customer segments (Steel and Tube Direct, Fluids and Engineering, Stockists and Distributors) increased their sales over the previous corresponding period. One of the key management issues in the business during the last six months was the need to react quickly to steel cost increases. On balance we believe that we managed this difficult issue quite successfully.
- ◆ The Fielders roll forming business performed well during the period. We have a strong new product introduction planned for the next 12 calendar months which will see us introduce a number of unique products to the Australian market.
- ◆ The Korvest results were very good for the six months with the Ezy-Strut business in particular performing well as a result of the strength of the non-residential and engineering construction markets.
- ◆ Due to industrial action and other issues at our major steel supplier, we faced a situation in the last two months of the year of restricted steel supplies. To protect our market position we have taken steps to import quantities of strip from overseas albeit at premiums to the then existing prices. The rationing of steel supplies caused significant disruption to our business in a period of significant forward momentum for both Orrcon and Fielders.

CAPITAL RAISING

As previously announced a private placement of 10,000,000 shares at \$4-00 was completed in January 2005. Existing shareholders have by now received documents to enable them to participate in a Share Purchase Plan. Under this Plan shareholders can invest up to \$5,000 at a price of \$3-95. The Share Purchase Plan offer closes on 22 February 2005. Shares issued under the plan will rank for the forthcoming interim dividend.

DIVIDEND POLICY

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

- ◆ The Debt to Equity ratio remaining below 45% taking into account the funding required for growth (27.7% at 31 December 2004).
- ◆ No change in the law in connection with the distribution of accumulated franking credits.
- ◆ An acceptable level of profitability.

The Directors announced an increased fully franked interim dividend of 12.0 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 29 March 2005. The Record Date is 15 March 2005.

2005 GUIDANCE

New home starts have reduced however non-residential construction activity remain strong. The volatility of steel prices and the availability of steel remains a major management issue which will present a challenge in the second half. We will continue to concentrate on operational performance and cost reduction and push innovation in relation to new product development.

The fact that we were able to record an increase in sales and profitability in a period where we had a significant decline in our Home & Hardware Products business is testimony to the fact that sensible diversification works. Based on the initiatives that are in place we believe we can complete the current year with a profit ahead of last year's result.

R.D.H. LING AO
CHAIRMAN

8 February 2005

Contact Details:

ROBERT HILL-LING
CHAIRMAN
Mobile: 0412 817 145

DAVID SIMMONS
GROUP MANAGING DIRECTOR
Mobile: 0412 66 22 11

Appendix 4D

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

Half-Year Financial Report 31 December 2004

Results for announcement to the market:

\$A'000

Revenues from ordinary activities	Up	15.0%	to	409,693
Profit (loss) from ordinary activities after tax attributable to members	Up	10.4%	to	17,568
Net profit (loss) for the period attributable to members	Up	10.4%	to	17,568
Dividends	Amount per security		Franked amount per security	
Interim dividend (#)				
- current reporting period	12.0¢		12.0¢	
- previous corresponding period	11.0¢		11.0¢	
# 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	15 March 2005			
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 6 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 2004 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 2004 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:

Robert Donald Hill-Ling AO FIE(Aust) FAICD CPEng
Chairman – Non-Executive Director
Age 71. Joined the Company in 1952. Director since June 1958. Managing Director November 1965 to December 1992. Appointed Chairman in December 1966.

Jennifer Helen Hill-Ling LLB(Adel)
Deputy Chairman – Non-Executive Director
Age 42. Appointed Director in August 1985. Appointed Deputy Chairman in June 2004.

David James Simmons BA(Accountancy) FCPA
Managing Director
Age 51. 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 51. Appointed Director in August 2003.

Roger Baden Flynn BEng(Hons) MBA FIE(Aust)
Independent Non-Executive Director
Age 54. Appointed Director in November 1999.

Geoffrey Guild Hill FCPA FAICD ASIA BEcon(Syd) MBA(NSW)
Independent Non-Executive Director
Age 58. Appointed Director in February 1999.

Peter William Stancliffe BE(Civil) FAICD
Independent Non-Executive Director
Age 57. Appointed Director in August 2003.

Graham Lloyd Twartz BA(Adel) DipAcc(Flinders)
Finance Director
Age 47. Joined the Company in 1993. Appointed Director in July 1993.

Consolidated Result

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

	31/12/04 \$'000	31/12/03 \$'000
Profit from ordinary activities after related income tax expense	21,332	19,114
Net profit attributable to outside equity interests	<u>3,764</u>	<u>3,206</u>
Net profit attributable to members of the Company	<u>17,568</u>	<u>15,908</u>

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

	31/12/04	31/12/03	
	\$'000	\$'000	% change
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Earnings before interest and tax (EBIT)	10,983	9,953	+ 10.3

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Hills Industries Limited and its Controlled Entities Directors' Report

Review of Operations (continued)

- We are progressively changing our Home and Hardware Products business model from being primarily an Australian based manufacturer to being a business that designs products in Australia, makes some in Australia but also sources overseas. Some increased costs were incurred during the period as we refined this new model.
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**Hills Industries Limited and its Controlled Entities
Directors' Report**

Review of Operations (continued)

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Dividends

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

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

The directors announced an increased fully franked interim dividend of 12.0 cents per share. This dividend can be taken as cash, reinvested in Hills shares at a 5.0% discount or received as bonus shares at a 5.0% discount or any combination of the above. The dividend will be paid on 29 March 2005 and the record date is 15 March 2005.

Events Subsequent to Reporting Date

Details of events subsequent to reporting date, including an explanation of how the consolidated entity's transition to Australian equivalents to International Financial Reporting Standards is being managed and a narrative explanation of the key differences in accounting policies that are expected to arise from their adoption are set out in Note 13 to the financial statements.

2005 Guidance

New home starts have reduced however non-residential construction activity remains strong. The volatility of steel prices and the availability of steel remains a major management issue which will present a challenge in the second half. We will continue to concentrate on operational performance and cost reduction and push innovation in relation to new product development.

The fact that we were able to record an increase in sales and profitability in a period where we had a significant decline in our Home and Hardware Products business is testimony to the fact that sensible diversification works. Based on the initiatives that are in place we believe we can complete the current year with a profit ahead of last year's result.

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

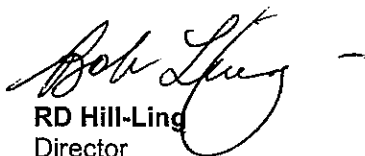
The lead auditor's independence declaration is set out on page 6 and forms part of the directors' report for the half-year ended 31 December 2004.

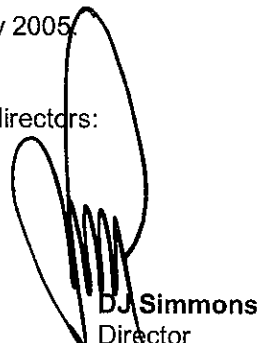
Rounding Off

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 8th day of February 2005.

Signed in accordance with a resolution of the directors:


RD Hill-Ling
Director


DJ Simmons
Director



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

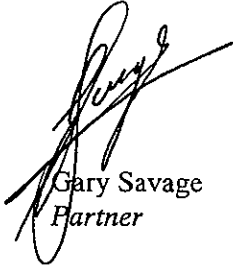
To the directors of Hills Industries Limited

I declare, that to the best of my knowledge and belief in relation to the review for the half year ended 31 December 2004 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

KPMG



Gary Savage
Partner

Adelaide, *gts* February 2005



Hills Industries Limited and its Controlled Entities
Statement of Financial Performance for the Half-Year Ended 31 December 2004

		Consolidated	
	Note	31/12/04 \$'000	31/12/03 \$'000
Revenues from ordinary activities	3(a)	409,693	356,313
Expenses from ordinary activities, excluding borrowing costs	3(b)	376,537	326,039
Borrowing costs		<u>2,684</u>	<u>2,741</u>
Profit from ordinary activities before related income tax expense		30,472	27,533
Income tax expense relating to ordinary activities		<u>9,140</u>	<u>8,419</u>
Profit from ordinary activities after related income tax expense		21,332	19,114
Net profit attributable to outside equity interests		<u>3,764</u>	<u>3,206</u>
Net profit attributable to members of the Company		17,568	15,908
Non-owner transaction changes in equity:			
- Increase in asset revaluation reserve Fair value adjustment	6(b)	-	7,064
- Net exchange difference relating to self-sustaining foreign operations		<u>(492)</u>	<u>(263)</u>
Total revenues, expenses and valuation adjustments attributable to members of the Company recognised directly in equity		<u>(492)</u>	<u>6,801</u>
Total changes in equity from non-owner related transactions attributable to members of the Company		<u>17,076</u>	<u>22,709</u>
Basic earnings per share		12.4¢	11.6¢
Diluted earnings per share		12.4¢	11.6¢
Dividends per share in respect of the current reporting period		12.0¢	11.0¢

The statement of financial performance is to be read in conjunction with the notes to the half-year financial statements set out on pages 10 to 22.

Hills Industries Limited and its Controlled Entities
Statement of Financial Position as at 31 December 2004

		Consolidated	
	Note	31/12/04 \$'000	30/06/04 \$'000
Current Assets			
Cash assets		11,959	21,835
Receivables		128,625	118,884
Inventories		<u>97,109</u>	<u>89,610</u>
Total current assets		<u>237,693</u>	<u>230,329</u>
Non-Current Assets			
Receivables		5,540	6,399
Investments		102	104
Property, plant and equipment		155,484	155,821
Intangible assets		14,026	15,388
Deferred tax assets		<u>20,843</u>	<u>20,042</u>
Total non-current assets		<u>195,995</u>	<u>197,754</u>
Total assets		433,688	428,083
Current Liabilities			
Payables		77,637	69,369
Interest-bearing liabilities		10,394	10,501
Current tax liabilities		3,962	9,286
Provisions		<u>24,499</u>	<u>24,866</u>
Total current liabilities		<u>116,492</u>	<u>114,022</u>
Non-Current Liabilities			
Interest-bearing liabilities		68,956	74,336
Deferred tax liabilities		998	1,002
Provisions		<u>4,196</u>	<u>4,390</u>
Total non-current liabilities		<u>74,150</u>	<u>79,728</u>
Total liabilities		190,642	193,750
Net assets		<u>243,046</u>	<u>234,333</u>
Equity			
Contributed equity	5	71,842	68,300
Reserves	6	33,384	33,876
Retained profits	7	<u>102,259</u>	<u>97,340</u>
Total Company interest		<u>207,485</u>	<u>199,516</u>
Outside equity interests		<u>35,561</u>	<u>34,817</u>
Total equity	9	<u>243,046</u>	<u>234,333</u>

The statement of financial position is to be read in conjunction with the notes to the half-year financial statements set out on pages 10 to 22.

Hills Industries Limited and its Controlled Entities
Statement of Cash Flows for the Half-Year Ended 31 December 2004

	Note	Consolidated	
		31/12/04 \$'000	31/12/03 \$'000
Cash Flows from Operating Activities			
Cash receipts in the course of operations		453,455	386,067
Cash payments in the course of operations		(421,359)	(357,346)
Interest received		690	113
Borrowing costs paid		(2,648)	(2,713)
Income taxes paid		<u>(14,906)</u>	<u>(10,152)</u>
Net cash provided by operating activities		15,232	15,969
Cash Flows from Investing Activities			
Proceeds on disposal of property, plant and equipment		2,318	612
Payments for property, plant and equipment		(11,570)	(13,677)
Payments for investments		-	(100)
Payments for controlled entities (net of cash acquired)	10(a)	(1,112)	(3,091)
Loans repaid by other entities		2,139	491
Loans provided to other entities		-	(5,231)
Rent received		<u>373</u>	<u>378</u>
Net cash used in investing activities		(7,852)	(20,618)
Cash Flows from Financing Activities			
Proceeds from borrowings		-	18,166
Repayment of borrowings		(6,413)	(6,000)
Finance lease payments		(352)	(329)
Proceeds from issue of shares by the Company		3,542	4,258
Proceeds from equity contributed by outside equity interests		-	47
Dividends paid by the Company		(12,649)	(11,194)
Dividends paid to outside equity interests		<u>(2,831)</u>	<u>(1,184)</u>
Net cash (used in) / provided by financing activities		<u>(18,703)</u>	<u>3,764</u>
Net decrease in cash held		(11,323)	(885)
Cash at the beginning of the period		19,282	6,297
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		<u>136</u>	<u>36</u>
Cash at the end of the period	11	<u>8,095</u>	<u>5,448</u>

The statement of cash flows is to be read in conjunction with the notes to the half-year financial statements set out on pages 10 to 22.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2004

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Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2004

1 Statement of Significant Accounting Policies

(a) Basis of preparation of half-year financial report

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board, the Corporations Act 2001 and Appendix 4D to the Australian Stock Exchange listing rules.

The half-year financial report is to be read in conjunction with the 2004 annual financial report and any public announcements made by Hills Industries Limited and its controlled entities during the half-year in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

It has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those applied in the 2004 annual financial report.

The half-year report does not include full note disclosures of the type normally included in an annual financial report.

(b) Details of reporting periods

The current reporting period is the half-year ended 31 December 2004. For the statements of financial performance and cash flows, the previous corresponding period is the half-year ended 31 December 2003. For the statement of financial position, the previous corresponding date is 30 June 2004.

2 Ratios

(a) Net tangible asset (NTA) backing

	Consolidated	
	31/12/04	30/06/04
Net tangible assets per ordinary share	\$1.36	\$1.31

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

(b) Other ratios

	Consolidated	
	31/12/04	31/12/03
Profit before tax / revenue	7.4%	7.7%

Calculated as profit from ordinary activities before related income tax expense as a percentage of total revenues

Profit after tax / equity interests	8.5%	8.3%
-------------------------------------	-------------	-------------

Calculated as net profit attributable to members of the Company as a percentage of equity attributable to members

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2004

	Consolidated	
	31/12/04	31/12/03
	\$'000	\$'000
3 Revenues and Expenses from Ordinary Activities		
(a) Revenues from ordinary activities		
Revenues from operating activities		
Sales of goods	404,392	354,728
Interest received or receivable	727	113
Property rentals	373	378
Other income	<u>1,883</u>	<u>482</u>
	407,375	355,701
Revenues from outside operating activities		
Proceeds on disposal of non-current assets	<u>2,318</u>	<u>612</u>
Total revenues from ordinary activities	<u><u>409,693</u></u>	<u><u>356,313</u></u>
(b) Expenses from ordinary activities		
Costs of goods sold	266,895	227,355
Sales and marketing expenses	50,734	47,511
Distribution expenses	27,518	25,290
Administration expenses	21,350	19,721
Occupancy expenses	6,347	5,635
Other expenses	<u>3,693</u>	<u>527</u>
Expenses from ordinary activities, excluding borrowing costs	376,537	326,039
Borrowing costs	<u>2,684</u>	<u>2,741</u>
Total expenses from ordinary activities	<u><u>379,221</u></u>	<u><u>328,780</u></u>
(c) Depreciation and amortisation		
Depreciation of buildings	321	314
Depreciation of plant and equipment	<u>9,075</u>	<u>9,473</u>
Total depreciation of property, plant and equipment	<u>9,396</u>	<u>9,787</u>
Amortisation of goodwill	176	332
Amortisation of patents and trademarks	<u>819</u>	<u>809</u>
Total amortisation of intangible assets	<u>995</u>	<u>1,141</u>
Total depreciation and amortisation	<u><u>10,391</u></u>	<u><u>10,928</u></u>
Write down of intangible assets to recoverable amount	1,695	-

The write down of intangible assets includes a write off of goodwill on consolidation arising from the acquisition of the UCG Group of \$1,328,000. This write off effectively replaces a prior period (and pre-acquisition) write down of an amount owed by UCG to Hills. On acquisition, the UCG debt was eliminated, the related write down reversed and the goodwill written off. The write off of the goodwill is offset by the write back of the debt. Refer Note 10(a) for further details.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2004

4 Segment Reporting

Business segments	Electronic Security and Entertainment \$'000	Home and Hardware \$'000	Building and Industrial \$'000	Eliminations \$'000	Consolidated \$'000
31 December 2004					
Segment revenue					
External segment revenue	98,169	89,435	219,888	-	407,492
Inter-segment revenue	-	-	6,563	(6,563)	-
Total segment revenue	98,169	89,435	226,451	(6,563)	407,492
Unallocated / corporate revenue					2,201
Total revenue					409,693
Segment result					
Segment result (before interest and tax)	10,983	6,296	15,498	-	32,777
Unallocated / corporate result					(348)
Earnings before interest and tax (EBIT)					32,429
Net interest					1,957
Profit from ordinary activities before tax					30,472
Income tax expense					9,140
Profit from ordinary activities after tax					21,332
31 December 2003					
Segment revenue					
External segment revenue	85,538	85,636	183,776	-	354,950
Inter-segment revenue	-	-	6,598	(6,598)	-
Total segment revenue	85,538	85,636	190,374	(6,598)	354,950
Unallocated / corporate revenue					1,363
Total revenue					356,313
Segment result					
Segment result (before interest and tax)	9,953	9,030	12,337	-	31,320
Unallocated / corporate result					(1,159)
Earnings before interest and tax (EBIT)					30,161
Net interest					2,628
Profit from ordinary activities before tax					27,533
Income tax expense					8,419
Profit from ordinary activities after tax					19,114

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2004

		Consolidated	
		31/12/04 \$'000	30/06/04 \$'000
5	Contributed Equity		
(a)	Issued and paid-up capital		
	142,116,255 (30/06/04: 140,047,007) ordinary shares fully paid	<u>71,842</u>	<u>68,300</u>

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.

		Consolidated	
		31/12/04 \$'000	31/12/03 \$'000
(b)	Movements in ordinary shares		
	Balance at the beginning of the period	68,300	60,109
	Shares issued:		
	- under Dividend Investment Plan	<u>3,542</u>	<u>4,258</u>
	Balance at the end of the period	<u>71,842</u>	<u>64,367</u>

Employee Share Bonus Plan

The Company made one (31/12/03: one) issue of ordinary shares under the Employee Share Bonus Plan during the period. All employees with more than one year of service are eligible to participate in the plan, with 1,891 (31/12/03: 1,831) 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 2004				
27/09/04	276,368	\$1,125,000	148	2
31 December 2003				
29/09/03	287,983	\$1,091,000	158	2

Shares issued to employees under the Employee Share Bonus Plan are recognised in equity at the fair value of the consideration received, which is nil (31/12/03: nil).

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% (31/12/03: 7.5%) discount on the market price. Details of the issue are as follows:

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2004

5 Contributed Equity (continued)

Date of issue	Plan issued under	Total number of shares issued	Issue price per share
31 December 2004			
27/09/04	Dividend Investment	908,119	\$3.91
27/09/04	Share Investment	884,761	\$3.91
31 December 2003			
29/09/03	Dividend Investment	1,225,456	\$3.48
29/09/03	Share Investment	874,153	\$3.48

Shares issued under the Dividend Investment Plan are recognised in equity at the value of the dividends applied to purchase those shares, which was \$3,542,000 (31/12/03: \$4,258,000). 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 (31/12/03: nil) as the dividends are forgone and substituted for shares issued for no consideration.

Subsequent events

Share Placement

On 5 January 2005, the Company completed a Share Placement of 10,000,000 ordinary shares at an issue price of \$4.00 per share, raising an additional \$40,000,000 of share capital. The issue price was at a 5.0% discount on the market price.

Share Purchase Plan

During January 2005, the Company announced an offer of shares to existing shareholders under a Share Purchase Plan. Under the plan, eligible shareholders are offered the opportunity to subscribe for shares up to the value of \$5,000 at an issue price of \$3.95 per share. The issue price is at a 5.0% discount on the market price. The offer ends 22 February 2005 and the number and value of shares to be issued will not be known until after that date.

The financial effect of the Share Placement and Share Purchase Plan will be recognised in the next reporting period. The additional funds will allow the Company to pursue strategic acquisitions.

(c) Options

31 December 2004

On 31 December 2004, 280,000 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 2005, the options were exercised by certain senior executives of the consolidated entity, including 120,000 being exercised by the two executive directors. The exercise price was \$3.23 per share. The financial effect of the exercise of the options will be recognised in the next reporting period.

31 December 2003

On 31 December 2003, 195,000 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 2004, the options were exercised by certain senior executives of the consolidated entity, including 95,000 being exercised by the two executive directors. The exercise price was \$2.90 per share.

Further details in respect of these options are included in the 2004 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
Notes to the Financial Statements for the Half-Year Ended 31 December 2004

		Consolidated	
		31/12/04	30/06/04
		\$'000	\$'000
6	Reserves		
(a)	Asset revaluation reserve	26,413	27,435
	Asset realisation reserve	5,123	4,101
	Foreign currency translation reserve	<u>1,848</u>	<u>2,340</u>
		<u>33,384</u>	<u>33,876</u>

		Consolidated	
		31/12/04	31/12/03
		\$'000	\$'000
(b)	Movements in reserves		
	Asset revaluation reserve		
	Balance at the beginning of the period	27,435	22,024
	Revaluation increment on freehold land *	-	7,054
	Revaluation increment on freehold buildings *	-	10
	Disposal of revalued land and buildings	<u>(1,022)</u>	<u>-</u>
	Balance at the end of the period	<u>26,413</u>	<u>29,088</u>

* Excludes amounts attributable to outside equity interests

During the previous corresponding period, the consolidated entity obtained independent valuations of all freehold land and buildings. The valuation process was managed by AON Risk Services Australia Limited with the individual valuations being performed by various certified valuers during August and September 2003 and dated 15 September 2003. The valuations were determined having regard to the highest and best use of the assets for which market participants would be prepared to pay.

The surplus on revaluation of the consolidated entity's freehold land (increase of \$8,349,000) and buildings (decrease of \$784,000) is recognised in the value of property, plant and equipment in accordance with AASB 1041 "Revaluation of Non-Current Assets". The net surplus on revaluation is recognised in the asset revaluation reserve to the extent that it is attributable to the members of the Company (\$7,064,000) and recognised in outside equity interests to the extent that the revaluation is attributable to those interests (\$501,000).

	Asset realisation reserve		
	Balance at the beginning of the period	4,101	2,448
	Disposal of revalued land and buildings	<u>1,022</u>	<u>-</u>
	Balance at the end of the period	<u>5,123</u>	<u>2,448</u>
	Foreign currency translation reserve		
	Balance at the beginning of the period	2,340	1,536
	Net exchange differences on translation of financial statements of self-sustaining foreign operations	<u>(492)</u>	<u>(263)</u>
	Balance at the end of the period	<u>1,848</u>	<u>1,273</u>

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2004

	Consolidated	
	31/12/04 \$'000	31/12/03 \$'000
7 Retained Profits		
Balance at the beginning of the period	97,340	89,752
Net profit attributable to members of the Company	17,568	15,908
Dividends recognised during the period – refer Note 8	<u>(12,649)</u>	<u>(11,194)</u>
Balance at the end of the period	<u><u>102,259</u></u>	<u><u>94,466</u></u>

8 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 2004				
Final – ordinary	11.5	16,105	Franked	27 September 2004
Final dividend forgone for Share Investment Plan		<u>(3,456)</u>		
Total amount		<u><u>12,649</u></u>		
31 December 2003				
Final – ordinary	10.5	14,234	Franked	29 September 2003
Final dividend forgone for Share Investment Plan		<u>(3,040)</u>		
Total amount		<u><u>11,194</u></u>		

Subsequent events

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

Interim – ordinary	12.0	<u><u>17,000</u></u>	Franked	29 March 2005
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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.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2004

8 Dividends (continued)

(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: 15 March 2005

The Company issued ordinary shares under the Dividend and Share Investment Plans during the current period. Refer Note 5(b) for further details.

	The Company	
	31/12/04	30/06/04
	\$'000	\$'000
(c) Dividend franking account		
30% franking credits available to shareholders of the Company for subsequent periods	<u>32,963</u>	<u>35,248</u>

The above available amounts are based on the balance of the dividend franking account at period end adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability;
- (b) franking debits that will arise from the payment of dividends recognised as a liability;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables; and
- (d) franking credits that the entity may be prevented from distributing in subsequent periods.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

Tax consolidation

The Company and its wholly-owned Australian subsidiaries have adopted tax consolidation legislation requiring a tax-consolidated group to keep a single franking account. The amount of franking credits available to shareholders of the Company (being the head entity in the tax-consolidated group) has been measured in accordance with this legislation as those available from the tax-consolidated group.

The franking credits available to shareholders disclosed above will allow for the following amounts of after-tax profits to be distributed fully franked at the current tax rate after deducting franking credits to be used in the payment of the proposed interim dividend	<u>59,913</u>	<u>66,145</u>
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Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2004

	Consolidated	
	31/12/04	31/12/03
	\$'000	\$'000
9 Total Equity Reconciliation		
Balance at the beginning of the period	234,333	206,113
Total changes in Company interest in equity recognised in the statement of financial performance	17,076	22,709
Transactions with owners as owners:		
- contributions of equity – refer Note 5	3,542	4,258
- dividends – refer Note 8	(12,649)	(11,194)
Total changes in outside equity interests	<u>744</u>	<u>2,486</u>
Balance at the end of the period	<u>243,046</u>	<u>224,372</u>
10 Acquisition and Disposal of Controlled Entities		
(a) Acquisition of controlled entities		
Acquisition of Universal Communications Group	(588)	-
Payment of K-Care Group deferred consideration	<u>1,700</u>	<u>3,091</u>
	<u>1,112</u>	<u>3,091</u>

31 December 2004

Universal Communications Group

During the current period, the Company acquired a 100% interest in the Universal Communications Group ("UCG Group"), comprising Universal Communications Group Pty Ltd, Access Television Services Pty Ltd, Universal Communications Corporation Pty Ltd and Quality Antenna Services Pty Ltd (now ACN 089 140 134 Pty Ltd). Details of the acquisition are as follows:

Consideration	100	-
Cash acquired	<u>(688)</u>	<u>-</u>
Inflow of cash	<u>(588)</u>	<u>-</u>
Fair value of net assets acquired:		
- cash assets	688	-
- receivables	2,273	-
- inventories	629	-
- plant and equipment	180	-
- future income tax benefits	379	-
- payables	(4,038)	-
- borrowings	(1,056)	-
- tax liabilities	(23)	-
- provisions	<u>(260)</u>	<u>-</u>
	<u>(1,228)</u>	<u>-</u>
Goodwill on acquisition	<u>1,328</u>	<u>-</u>
Consideration (cash)	<u>100</u>	<u>-</u>

The Company acquired the UCG Group on 30 November 2004 and its operating results have been included in the results of the consolidated entity since that date. The business is based in the Gold Coast, Queensland and its main activity is the provision of installation services for AUSTAR's subscription television network.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2004

10 Acquisition and Disposal of Controlled Entities (continued)

The goodwill on acquisition of the UCG Group of \$1,328,000 has been fully written off in the current period. This write off effectively replaces a prior period (and pre-acquisition) write down of an amount owed by UCG to Hills. On acquisition, the UCG debt was eliminated, the related write down reversed and the goodwill written off. The write off of the goodwill is offset by the write back of the debt.

K-Care Group deferred consideration

During the current period, the Company paid \$1,700,000 deferred consideration in respect of the acquisition of the K-Care Group, acquired 1 October 2002, being the final instalment of the deferred consideration. Further details in respect of the K-Care Group deferred consideration are set out in the 2004 annual financial report.

31 December 2003

The consolidated entity did not acquire any controlled entities during the previous corresponding period. The Company paid \$3,091,000 deferred consideration in respect of the acquisition of the K-Care Group, acquired 1 October 2002. Further details in respect of the K-Care Group deferred consideration are set out in the 2004 annual financial report.

(b) Disposal of controlled entities

The consolidated entity did not dispose of or otherwise lose control of any of its controlled entities during the current period or the previous corresponding period.

	Consolidated	
	31/12/04	30/06/04
	\$'000	\$'000
11 Reconciliation of Cash		
For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash	11,959	21,835
Bank overdrafts	<u>(3,864)</u>	<u>(2,553)</u>
	<u>8,095</u>	<u>19,282</u>

12 Contingent Liabilities and Contingent Assets

There have been no material changes in contingent liabilities or contingent assets since 30 June 2004.

13 Events Subsequent to Reporting Date

(a) Issued and paid-up capital

For shares issued after 31 December 2004 refer Note 5.

(b) Dividends

For dividends declared after 31 December 2004 refer Note 8.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2004

13 Events Subsequent to Reporting Date (continued)

(c) International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS") as issued by the Australian Accounting Standards Board.

This half-year financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements ("Australian GAAP") applicable for reporting periods ending on 31 December 2004.

Implementation project

The Board has established a formal implementation project, monitored by the Audit and Compliance Committee, to assess the impact of transition to A-IFRS and to achieve compliance with A-IFRS reporting for the financial year commencing 1 July 2005. The implementation project consists of three phases: assessment and planning, design, and implementation.

Assessment and planning phase

The assessment and planning phase aims to produce a high level overview of the impacts of conversion to A-IFRS on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. This phase includes:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting A-IFRS;
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
- evaluation of the implications for staff, for example training requirements; and
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The consolidated entity has commenced the assessment and planning phase and expects to complete it by 31 March 2005.

Design phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to A-IFRS. The design phase incorporates:

- formulating revised accounting policies and procedures for compliance with A-IFRS requirements;
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of A-IFRS;
- developing revised A-IFRS disclosures;
- designing accounting and business processes to support A-IFRS reporting obligations;
- identifying and planning required changes to financial reporting and business systems; and
- developing training programs for staff.

The design phase is expected to be completed by 30 June 2005.

Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the consolidated entity to generate the required disclosures of AASB 1 as it progresses through its transition to A-IFRS.

The consolidated entity expects to commence this phase from 30 June 2005, culminating with the preparation of A-IFRS compliant half-year accounts at 31 December 2005.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2004

13 Events Subsequent to Reporting Date (continued)

Impact of transition to A-IFRS

The differences between Australian GAAP and A-IFRS identified to date as potentially having a significant impact on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all differences between current Australian GAAP and A-IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not completed its project to assess the impact of adoption of A-IFRS and has not quantified the effects of all the differences discussed below. Accordingly, there can be no assurance that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with A-IFRS.

Any assessments made in respect of the transition to A-IFRS may require adjustment before inclusion in the first complete annual / half-year financial report prepared in accordance with A-IFRS due to new or revised standards or interpretations, changes in the operations of the business, or additional guidance on the application of A-IFRS in a particular industry or to a particular transaction.

The key potential implications on the consolidated entity of conversion to A-IFRS, identified to date, are as follows:

- financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value;
- income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity;
- revaluation increments and decrements relating to revalued property, plant and equipment and intangible assets will be recognised on an individual asset basis, not a class of assets basis;
- goodwill and intangible assets with indefinite useful lives will be tested for impairment annually and will not be amortised;
- impairments of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash-generating operations have been impaired;
- equity-based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services; and
- changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

**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 7 to 22, 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 2004 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 1029 "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 8th day of February 2005.

Signed in accordance with a resolution of the directors:



RD Hill-Ling
Director



DJ Simmons
Director

Independent review report to the members of Hills Industries Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes 1 to 13 to the financial statements, and the directors' declaration for the Hills Industries Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 December 2004 set out on pages 7 to 23. The Consolidated Entity comprises Hills Industries Limited ("the Company") and the entities 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 for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- 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.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.



Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Statement

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:

- a) the Corporations Act 2001, including:
 - i. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and
 - ii. complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

KPMG

Gary Savage
Partner

Adelaide,  February 2005

