



PRESS RELEASE

PROFIT & DIVIDEND IMPROVEMENT IS GOOD NEWS FOR HILLS SHAREHOLDERS

The Chairman, Mr. Bob Ling, today announced the following record operating results for the 6 months ended 31 December 2003 for the Hills Group.

	6 MONTHS TO 31/12/03 \$'000	6 MONTHS TO 31/12/02 \$'000	% CHANGE
Total Revenue from Ordinary Activities	356,313	341,174	+ 4.4%
Profit from Ordinary Activities before Tax	27,533	24,476	+ 12.5%
Profit from Ordinary Activities attributable to Owners	15,908	13,977	+ 13.8%
Earnings per share	11.6 cents	11.0 cents	+ 5.5%

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

	6 MONTHS TO 31/12/03 \$'000	6 MONTHS TO 31/12/02 \$'000	% CHANGE
Total Revenue	85,538	84,289	+ 1.5%
Operating profit before interest and tax	9,953	7,181	+ 38.6%

- ◆ Security revenues were slightly ahead of the previous corresponding period notwithstanding a major restructure in the Australian and New Zealand security markets. There was no recovery in the "zero cost" domestic alarm market (where alarms are installed at heavily subsidized prices if customers sign long term monitoring contracts).

A decision taken previously to diversify our product range within our security business enabled us to grow revenues during the period.

- ◆ The Antenna & TV Systems business increased its share of the Free To Air antenna market and benefited from increased activity in the PayTV market. The recent announcements by Austar and Foxtel in relation to the offers that they will make following the digitization of the Foxtel network are both positives for the PayTV market.

- ◆ The Hills Home Hub system continued to gain recognition as major builders came to appreciate the value of offering additional features to new home buyers. The structured cabling and associated products involved in the Hills Home Hub system enable new home buyers to achieve enhanced functionality within the home in relation to audio and video distribution, security and related functions.
- ◆ The appreciation of the Australian dollar was a positive for margins within the security business, which had suffered due to the weakness of the Australian dollar in previous periods. The closure of loss making operations in Australia and overseas also contributed to the improved profit performance.
- ◆ Further product diversification is planned in the Electronic segment in the coming six months. There will also be an increased focus on the supply of integrated solutions to developers of multiple dwelling units.

HOME & HARDWARE PRODUCTS

	6 MONTHS TO 31/12/03 \$'000	6 MONTHS TO 31/12/02 \$'000	% CHANGE
Total Revenue	85,636	89,057	- 3.8%
Operating profit before interest and tax	9,030	9,016	+ 0.2%

- ◆ Although sales declined in comparison to the previous corresponding period, the profit performance was pleasing. Revenues for Home & Hardware Products in Australia were below forecast and last year, principally in the Playtime and Trampoline segments. Playtime and Trampoline products compete with other children's toys and from time to time sales can decline due to the dominance of new electronic products or new product fads. We believe we have maintained our market share in these particular segments and therefore see no real cause for alarm.
- ◆ Revenues in the UK were below the previous corresponding period as a result of the new Joint Venture arrangements in that country. Although profits were still not at acceptable levels, a lot of work has gone into the restructuring of the business to improve efficiencies. We are confident of continued improvement in performance in the coming six months.
- ◆ Triton sales were below budget and last year as the appreciation of the Australian dollar impacted on a number of key export opportunities. We have a number of new products to be released within the Triton range over the next 6-12 months and will be implementing strategies to return to growth within this important segment.
- ◆ The rapid appreciation of the Australian dollar over the past 12 months and particularly in the last six months, has brought additional import competition to the Home & Hardware Products business in Australia. There are a number of lower specification imported products attacking our entry point products. We have taken aggressive steps to respond to these threats and believe we can maintain or grow our market share in these key product segments over the next 12 months.

As part of this strategy we will be sourcing additional products from overseas, made to our designs and specifications. Complementing locally manufactured products with imported products is not a new initiative for Hills. The key challenge in the next 6-12 months will be to get the product mix balance right.

BUILDING & INDUSTRIAL PRODUCTS

	6 MONTHS TO 31/12/03 \$'000	6 MONTHS TO 31/12/02 \$'000	% CHANGE
Total Revenue	183,776	164,782	+ 11.5%
Operating profit before interest and tax	12,337	11,402	+ 8.2%

- ◆ The Orrcon Precision and Structural Tube business performed in line with expectation; however, there was a significant increase in the importation of Pipe & Tube during the period. In conjunction with the other Australian Steel Tube manufacturers we have commenced anti-dumping action against a number of overseas companies.
- ◆ We were delighted to achieve American Petroleum Institute (API) accreditation for Gas Pipe at our manufacturing facility at Wollongong. This is a very important step in the development of this "new to Orrcon" business. We are confident that the combination of API accreditation and the most efficient large pipe mill in Australia, will enable us to increase market share as our capabilities become more widely understood.
- ◆ Fielders performed well during the period, above both budget and last year. Recent major project successes with our unique flooring and roofing profiles indicates that our strategy of differentiating ourselves from our competitors in Australia is starting to pay dividends. We will look to compliment our unique product range with further innovations in the next 6-12 months.
- ◆ Korvest Ltd had an excellent result for the six months with the strength of the non-residential and engineering construction markets being the major positive influence.
- ◆ Orrcon and the Korvest Ezy-Strut business have both opened new operations in New Zealand in line with our strategy of diversifying our geographic presence in these two businesses.
- ◆ Overall we anticipate that the appreciation of the Australian dollar will have less impact on Building and Industrial Products compared to other parts of the business. The increased importation of steel pipe and tube is of concern. Chinese steel demand, the strength of the Australian dollar, significant increases in shipping rates and increases in steel making inputs will all influence domestic steel prices in the next 12 months.

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 (31.1% at 31 December 2003).
- ◆ 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 11.0 cents per share. This dividend can be taken as cash, reinvested in Hills shares at a 6% discount or received as bonus shares at a 6% discount or any combination of the above. The dividend will be paid on 29 March 2004. The Record Date is 15 March 2004.

FULL YEAR GUIDANCE

The full impact on the Australian economy of increased interest rates, a modest slow down in the domestic housing cycle and the rapid appreciation of the Australian dollar is difficult to determine. There is no doubt that exporting companies will find it much more difficult given the current level of the Australian dollar and this will have a flow on effect to the economy.

Although we are disappointed that a number of our smaller export initiatives are likely to be abandoned given the strength of the Australian dollar, exports are not a significant issue for Hills. The nature of our businesses provides us with the opportunity to modify and grow our operations notwithstanding prevailing currency changes.

In spite of the uncertainties in a number of our business units, we feel confident of achieving a satisfactory full year result.



R.D.H. LING AO
CHAIRMAN

4 February 2004

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 2003

Results for announcement to the market:

\$A'000

Revenues from ordinary activities	Up	4.4%	to	356,313
Profit (loss) from ordinary activities after tax attributable to members	Up	13.8%	to	15,908
Net profit (loss) for the period attributable to members	Up	13.8%	to	15,908
Dividends	Amount per security		Franked amount per security	
Interim dividend (#)				
- current reporting period	11.0¢		11.0¢	
- previous corresponding period	10.5¢		10.5¢	
# Interim dividend proposed in respect of the current reporting period. The financial effect of the dividend will be recognised in the next reporting period.				
Record date for determining entitlements to the dividend:	15 March 2004			
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 5 of this financial report.				

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

This financial report should be read in conjunction with the 2003 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 2003 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) CPEng
Chairman – Non-Executive Director
Age 70. Joined the Company in 1952. Director since June 1958. Managing Director November 1965 to December 1992. Appointed Chairman in December 1966.

David James Simmons BA(Accountancy) FCPA
Managing Director
Age 50. 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 50. Appointed Director in August 2003.

Roger Baden Flynn BEng(Hons) MBA FIE(Aust)
Independent Non-Executive Director
Age 53. Appointed Director in November 1999.

Geoffrey Guild Hill FCPA FAICD ASIA BEcon(Syd) MBA(NSW)
Independent Non-Executive Director
Age 57. Appointed Director in February 1999.

Jennifer Helen Hill-Ling LLB(Adel)
Non-Executive Director
Age 41. Appointed Director in August 1985.

Peter William Stancliffe BE(Civil) MAICD
Independent Non-Executive Director
Age 56. Appointed Director in August 2003.

Graham Lloyd Twartz BA(Adel) DipAcc(Flinders)
Finance Director
Age 46. 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:

	31/12/03 \$'000	31/12/02 \$'000
Profit from ordinary activities after related income tax expense	19,114	16,779
Net profit attributable to outside equity interests	<u>3,206</u>	<u>2,802</u>
Net profit attributable to members of the Company	<u>15,908</u>	<u>13,977</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:

Electronics

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Hills Industries Limited and its Controlled Entities Directors' Report

Review of Operations (continued)

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

Likely Developments

The full impact on the Australian economy of increased interest rates, a modest slow down in the domestic housing cycle and the rapid appreciation of the Australian dollar is difficult to determine. There is no doubt that exporting companies will find it much more difficult given the current level of the Australian dollar and this will have a flow on effect to the economy.

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Dividends

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Rounding Off

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

Dated at Edwardstown this 4th day of February 2004.

Signed in accordance with a resolution of the directors:



RD Hill-Ling
Director



DJ Simmons
Director

Hills Industries Limited and its Controlled Entities
Statement of Financial Performance for the Half-Year Ended 31 December 2003

		Consolidated	
	Note	31/12/03 \$'000	31/12/02 \$'000
Revenues from ordinary activities	2(a)	356,313	341,174
Expenses from ordinary activities, excluding borrowing costs	2(b)	326,039	314,003
Borrowing costs		<u>2,741</u>	<u>2,695</u>
Profit from ordinary activities before related income tax expense		27,533	24,476
Income tax expense relating to ordinary activities		<u>8,419</u>	<u>7,697</u>
Profit from ordinary activities after related income tax expense		19,114	16,779
Profit from extraordinary items after related income tax expense		<u>-</u>	<u>-</u>
Net profit		19,114	16,779
Net profit attributable to outside equity interests		<u>3,206</u>	<u>2,802</u>
Net profit attributable to members of the Company		15,908	13,977
Non-owner transaction changes in equity:			
- Increase in asset revaluation reserve	6(b)	7,064	888
- Net exchange differences relating to self-sustaining foreign operations		<u>(263)</u>	<u>1,364</u>
Total revenues, expenses and valuation adjustments attributable to members of the Company recognised directly in equity		<u>6,801</u>	<u>2,252</u>
Total changes in equity from non-owner related transactions attributable to members of the Company		<u>22,709</u>	<u>16,229</u>
Basic earnings per share		11.6¢	11.0¢
Diluted earnings per share		11.6¢	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 9 to 22.

Hills Industries Limited and its Controlled Entities
Statement of Financial Position as at 31 December 2003

		Consolidated	
	Note	31/12/03 \$'000	30/06/03 \$'000
Current Assets			
Cash assets		8,825	6,297
Receivables		112,497	109,020
Inventories		<u>91,282</u>	<u>83,613</u>
Total current assets		<u>212,604</u>	<u>198,930</u>
Non-Current Assets			
Receivables		6,653	1,918
Investments		114	14
Property, plant and equipment		157,908	147,279
Intangible assets		16,398	17,539
Deferred tax assets		<u>18,811</u>	<u>16,208</u>
Total non-current assets		<u>199,884</u>	<u>182,958</u>
Total assets		412,488	381,888
Current Liabilities			
Payables		70,236	71,865
Interest-bearing liabilities		11,069	7,959
Current tax liabilities		8,434	8,048
Provisions		<u>24,525</u>	<u>21,600</u>
Total current liabilities		<u>114,264</u>	<u>109,472</u>
Non-Current Liabilities			
Interest-bearing liabilities		67,597	55,742
Deferred tax liabilities		1,914	1,464
Provisions		<u>4,341</u>	<u>9,097</u>
Total non-current liabilities		<u>73,852</u>	<u>66,303</u>
Total liabilities		188,116	175,775
Net assets		<u>224,372</u>	<u>206,113</u>
Equity			
Contributed equity	5	64,367	60,109
Reserves	6	32,809	26,008
Retained profits	7	<u>94,466</u>	<u>89,752</u>
Total Company interest		191,642	175,869
Outside equity interests		<u>32,730</u>	<u>30,244</u>
Total equity	9	<u>224,372</u>	<u>206,113</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 9 to 22.

Hills Industries Limited and its Controlled Entities
Statement of Cash Flows for the Half-Year Ended 31 December 2003

	Consolidated	
Note	31/12/03	31/12/02
	\$'000	\$'000
Cash Flows from Operating Activities		
Cash receipts in the course of operations	386,067	346,825
Cash payments in the course of operations	(357,346)	(324,287)
Interest received	113	458
Dividends received	-	-
Borrowing costs paid	(2,713)	(2,631)
Income taxes paid	<u>(10,152)</u>	<u>(10,119)</u>
Net cash provided by operating activities	15,969	10,246
Cash Flows from Investing Activities		
Proceeds on disposal of property, plant and equipment	612	1,553
Payments for property, plant and equipment	(13,677)	(17,755)
Proceeds on disposal of investments	-	-
Payments for investments	(100)	-
Payments for intangible assets	-	(150)
Proceeds on disposal of businesses	10(b) -	6,242
Payments for businesses (net of cash acquired)	10(a) (3,091)	(15,341)
Loans (paid to) / repaid by other entities	(4,740)	558
Rent received	<u>378</u>	<u>445</u>
Net cash used in investing activities	(20,618)	(24,448)
Cash Flows from Financing Activities		
Proceeds from borrowings	18,166	26,360
Repayment of borrowings	(6,000)	(2,984)
Finance lease payments	(329)	(370)
Proceeds from issue of shares by the Company	4,258	15,359
Dividends paid by the Company	(11,194)	(9,915)
Proceeds from equity contributed by outside equity interests	47	31
Dividends paid to outside equity interests	<u>(1,184)</u>	<u>(1,813)</u>
Net cash provided by financing activities	3,764	26,668
Net increase / (decrease) in cash held	(885)	12,466
Cash at the beginning of the period	6,297	(1,279)
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies	<u>36</u>	<u>56</u>
Cash at the end of the period	<u>5,448</u>	<u>11,243</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 9 to 22.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2003

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Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2003

1 Statement of Significant Accounting Policies

(a) Basis of Preparation of the 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 2003 annual financial report and any public announcements by Hills Industries Limited and its controlled entities during the half-year in accordance with 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 2003 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 2003. For the statements of financial performance and cash flows, the previous corresponding period is the half-year ended 31 December 2002. For the statement of financial position, the previous corresponding date is 30 June 2003.

(c) Future Income Tax Benefits

As at the date of signing this report, the tax consolidated group within the consolidated entity had not formally determined a tax consolidation implementation date. The tax consolidated group continues to apply UIG 39 "Effect of Proposed Tax Consolidation Legislation on Deferred Tax Balances". No adjustments to future income tax benefits were required during the half-year as a result of applying UIG 39.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2003

		Consolidated	
		31/12/03	31/12/02
		\$'000	\$'000
2	Revenues and Expenses from Ordinary Activities		
(a)	Revenues from Ordinary Activities		
	Revenues from operating activities		
	Sales of goods and services	354,728	336,219
	Interest received or receivable	113	453
	Dividends received or receivable	-	-
	Property rentals	378	412
	Revenues from outside operating activities		
	Proceeds on disposal of non-current assets	612	1,553
	Other income	<u>482</u>	<u>2,537</u>
	Total revenues from ordinary activities	<u><u>356,313</u></u>	<u><u>341,174</u></u>
(b)	Expenses from Ordinary Activities		
	Costs of goods sold	227,355	219,854
	Sales and marketing expenses	47,511	46,663
	Distribution expenses	27,290	25,408
	Administration expenses	19,721	17,242
	Occupancy expenses	3,635	3,186
	Other expenses	<u>527</u>	<u>1,650</u>
	Expenses from ordinary activities, excluding borrowing costs	326,039	314,003
	Borrowing costs	<u>2,741</u>	<u>2,695</u>
	Total expenses from ordinary activities	<u><u>328,780</u></u>	<u><u>316,698</u></u>
(c)	Depreciation and Amortisation		
	Depreciation of buildings	314	285
	Depreciation of plant and equipment	<u>9,473</u>	<u>7,168</u>
	Total depreciation of property, plant and equipment	9,787	7,453
	Amortisation of goodwill	332	321
	Amortisation of patents and trademarks	<u>809</u>	<u>563</u>
	Total amortisation of intangible assets	<u>1,141</u>	<u>884</u>
	Total depreciation and amortisation	<u><u>10,928</u></u>	<u><u>8,337</u></u>
	Write down of plant and equipment to recoverable amount	-	135
	Write down of intangible assets to recoverable amount	-	1,465

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2003

		Consolidated	
		31/12/03	30/06/03
		\$'000	\$'000
3	Ratios		
(a)	Net Tangible Asset (NTA) Backing		
	Net tangible assets per ordinary security	\$1.27	\$1.17
	Calculated as net assets less intangible assets less outside equity interests in those assets over the total number of shares on issue		

		Consolidated	
		31/12/03	31/12/02
		\$'000	\$'000
(b)	Other Ratios		
	Profit before tax / revenue		
	Calculated as profit from ordinary activities before related income tax expense as a percentage of total revenues	7.7%	7.2%
	Profit after tax / equity interests	8.3%	8.2%
	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 2003

4 Segment Reporting

Business segments	Electronics \$'000	Home and Hardware \$'000	Building and Industrial \$'000	Eliminations \$'000	Consolidated \$'000
31 December 2003					
Segment revenue					
External segment revenue	85,538	85,636	183,776	0	354,950
Inter-segment revenue	<u>0</u>	<u>0</u>	<u>6,598</u>	<u>(6,598)</u>	<u>0</u>
Total segment revenue	85,538	85,636	190,374	(6,598)	354,950
Unallocated / corporate revenue					<u>1,363</u>
Total revenue					<u>356,313</u>
Segment result					
Segment result (before interest and tax)	9,953	9,030	12,337	0	31,320
Unallocated / corporate result					<u>(1,159)</u>
					<u>30,161</u>
Net interest					<u>2,628</u>
Profit from ordinary activities before income tax					27,533
Income tax expense					<u>8,419</u>
Net profit					<u>19,114</u>
31 December 2002					
Segment revenue					
External segment revenue	84,289	89,057	164,782	0	338,128
Inter-segment revenue	<u>0</u>	<u>0</u>	<u>5,621</u>	<u>(5,621)</u>	<u>0</u>
Total segment revenue	84,289	89,057	170,403	(5,621)	338,128
Unallocated / corporate revenue					<u>3,046</u>
Total revenue					<u>341,174</u>
Segment result					
Segment result (before interest and tax)	7,181	9,016	11,402	0	27,599
Unallocated / corporate result					<u>(881)</u>
					<u>26,718</u>
Net interest					<u>2,242</u>
Profit from ordinary activities before income tax					24,476
Income tax expense					<u>7,697</u>
Net profit					<u>16,779</u>

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2003

		Consolidated	
		31/12/03	30/06/03
		\$'000	\$'000
5	Contributed Equity		
(a)	Issued and Paid-Up Capital		
	137,947,120 (30/06/03: 135,559,528) ordinary shares fully paid	<u>64,367</u>	<u>60,109</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 winding up the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

		Consolidated	
		31/12/03	31/12/02
		\$'000	\$'000
(b)	Movements in Ordinary Shares		
	Balance at the beginning of the period	60,109	39,728
	Shares issued:		
	- under Dividend Investment Plan	4,258	4,385
	- under Share Purchase Plan	<u>-</u>	<u>10,974</u>
		<u>4,258</u>	<u>15,359</u>
	Balance at the end of the period	<u>64,367</u>	<u>55,087</u>

Employee Share Bonus Plan

The Company made one (31/12/02: 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 1,831 (31/12/02: 1,671) 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 2003				
29/09/03	287,983	1,091,456	158	2
31 December 2002				
30/09/02	335,586	1,003,402	200	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 (31/12/02: 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 7.5% (31/12/02: 10%) 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 2003
5 Contributed Equity (continued)

Date of Issue	Plan Issued Under	Total Number of Shares Issued	Issue Price per Share
31 December 2003			
29/09/03	Dividend Investment	1,225,456	\$3.48
29/09/03	Share Investment	874,153	\$3.48
31 December 2002			
30/09/02	Dividend Investment	1,556,415	\$2.82
30/09/02	Share Investment	957,843	\$2.82

Shares issued under the Dividend Investment Plan are recognised in equity at the value of the dividends applied to purchase those shares, which is \$4,258,000 (31/12/02: \$4,385,000). 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 (31/12/02: nil) as the dividends are forgone and substituted for shares issued for no consideration.

Share Purchase Plan

During the previous corresponding period, the Company issued ordinary shares under a Share Investment Plan where eligible participating shareholders were entitled to purchase between 178 and 1,063 ordinary shares at an issue price. The issue price was at a 10% discount on the market price. Details of the issue are as follows:

Date of Issue	Plan Issued Under	Total Number of Shares Issued	Issue Price per Share
31 December 2002			
05/11/02	Share Purchase	3,891,678	\$2.82

Shares issued under the Share Purchase Plan are recognised in equity at the fair value of the consideration received, which is nil (31/12/02: \$10,974,000).

(c) Options
31 December 2003

On 31 December 2003, 195,000 share options became exercisable 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. The financial effect of the exercise of the options will be recognised in the next reporting period.

31 December 2002

On 31 December 2002, 195,000 share options became exercisable as a result of the performance hurdles in respect of those options being satisfied. During January 2003, the options were exercised by certain senior executives of the consolidated entity, including 85,000 being exercised by the two executive directors. The exercise price was \$2.50 per share.

Further details in respect of these options are included in the 2003 annual financial report. No further options have been issued during the current reporting period or since the end of the period up to the date of this report.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2003

		Consolidated	
		31/12/03	30/06/03
		\$'000	\$'000
6	Reserves		
(a)	Asset revaluation reserve	29,088	22,024
	Asset realisation reserve	2,448	2,448
	Foreign currency translation reserve	<u>1,273</u>	<u>1,536</u>
		<u>32,809</u>	<u>26,008</u>

		Consolidated	
		31/12/03	31/12/02
		\$'000	\$'000
(b)	Movements in Reserves		
	Asset revaluation reserve		
	Balance at the beginning of the period	22,024	21,687
	Revaluation increment on freehold land and buildings	7,064	888
	Disposal of revalued land and buildings	<u>-</u>	<u>(551)</u>
	Balance at the end of the period	<u>29,088</u>	<u>22,024</u>

During the period, the consolidated entity obtained independent valuations of all freehold land and buildings. The valuations were carried out by AON Risk Services Australia Limited 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 net surplus on revaluation of the consolidated entity's freehold land (increase of \$8,349,000) and buildings (decrease of \$784,000) are 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).

During the previous corresponding period, freehold land and buildings of Hills Industries Limited (UK), a controlled entity incorporated in the United Kingdom, were revalued by directors to fair value prior to the sale of part of the consolidated entity's interest in Hills Industries Limited (UK). The total revaluation increment for both land and buildings was \$888,000. Refer Note 10(b) for further details regarding the sale of part of the consolidated entity's interest in Hills Industries Limited (UK).

	Asset realisation reserve		
	Balance at the beginning of the period	2,448	1,897
	Disposal of revalued land and buildings	<u>-</u>	<u>551</u>
	Balance at the end of the period	<u>2,448</u>	<u>2,448</u>
	Foreign currency translation reserve		
	Balance at the beginning of the period	1,536	2,092
	Net exchange differences relating to self-sustaining foreign operations	<u>(263)</u>	<u>1,365</u>
	Balance at the end of the period	<u>1,273</u>	<u>3,457</u>

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2003

	Consolidated	
	31/12/03	31/12/02
	\$'000	\$'000
7 Retained Profits		
Balance at the beginning of the period	89,752	70,696
Net profit attributable to members of the Company	15,908	13,977
Net effect on dividends from:		
- initial adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	-	12,600
- dividends recognised during the year – refer Note 8	<u>(11,194)</u>	<u>(9,886)</u>
Total dividends	<u>(11,194)</u>	<u>2,714</u>
Balance at the end of the period	<u>94,466</u>	<u>87,387</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 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>11,194</u>		
31 December 2002				
Final – ordinary	10.0	<u>12,586</u>	Franked	30 September 2002
Final dividend forgone for Share Investment Plan		<u>(2,700)</u>		
Total amount		<u>9,886</u>		

Subsequent events

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

Interim – ordinary	11.0	<u>15,200</u>	Franked	29 March 2004
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The financial effect of this dividend has not been brought to account in the financial report for the half-year ended 31 December 2003. The financial effect of the dividend will be recognised in the next reporting period.

All dividends paid or declared are fully franked at the tax rate of 30% and do not include foreign sourced income. The directors expect 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 2003

8 Dividends (continued)

(b) Dividend and Share Reinvestment 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 6.0% will apply under the rules of the plans.

Last date for receipt of election notice for the dividend plans: 15 March 2004

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

Consolidated

	31/12/03	30/06/03
	\$'000	\$'000

(c) Dividend Franking Account

30% franking credits available to shareholders of the Company for subsequent periods

<u>41,795</u>	<u>39,738</u>
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The 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.

Change in measurement of dividend franking account

In accordance with the New Business Tax System (Imputation) Act 2002, the basis of measurement of the dividend franking account changed on 1 July 2002 from an after-tax profits basis to an income tax paid basis. The change in the basis of measurement does not affect the underlying value of franking credits or tax offsets available to shareholders from the dividend franking account.

The amounts of franking credits available to shareholders disclosed above have been measured under the new legislation and represent income tax paid amounts available to frank distributions. Had the balance of the franking account been measured under the old legislation (existing at 30 June 2002) to represent after-tax profits able to be distributed fully franked at the current tax rate, the amounts would have been as follows:

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

<u>80,961</u>	<u>78,002</u>
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Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2003

	Consolidated	
	31/12/03	31/12/02
	\$'000	\$'000
9 Total Equity Reconciliation		
Balance at the beginning of the period	206,113	155,556
Total changes in Company interest in equity recognised in the statement of financial performance	22,709	16,229
Transactions with owners as owners:		
- contributions of equity	4,258	15,359
- total dividends	(11,194)	2,714
Total changes in outside equity interests	<u>2,486</u>	<u>7,676</u>
Balance at the end of the period	<u><u>224,372</u></u>	<u><u>197,534</u></u>

10 Acquisition and Disposal of Controlled Entities

(a) Acquisition of Controlled Entities and Business Operations

31 December 2003

The consolidated entity did not acquire any controlled entities or significant business operations during the current period. The consolidated entity 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 deferred consideration are set out below. The balance of consideration payable at reporting date is included in the statement of financial position as a current provision.

31 December 2002

During the previous corresponding period, the consolidated entity acquired a 100% interest in the K-Care Group, comprising KDB Engineering Pty Ltd and Kerry Equipment (Aust) Pty Ltd. Details of the acquisition are as follows:

Consideration paid	-	17,886
Cash acquired	<u>-</u>	<u>(2,545)</u>
Outflow of cash	-	15,341
Deferred consideration	-	5,100
Discount on deferred consideration	<u>-</u>	<u>(314)</u>
	<u>-</u>	<u>4,786</u>
Consideration paid or payable	<u><u>-</u></u>	<u><u>20,127</u></u>
Fair value of assets acquired:		
- receivables	-	3,681
- inventories	-	2,069
- plant and equipment	-	4,221
- patents and trademarks	-	8,000
- payables	-	(3,561)
- tax liabilities	-	(206)
- provisions	<u>-</u>	<u>(290)</u>
	-	13,914
Goodwill on acquisition	<u>-</u>	<u>6,213</u>
Consideration paid or payable	<u><u>-</u></u>	<u><u>20,127</u></u>

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2003

10 Acquisition and Disposal of Controlled Entities (continued)

The consolidated entity acquired the K-Care Group on 1 October 2002 and its operating results have been included in the results of the consolidated entity from that date. The business is based in Perth, Western Australia and its main activity is the manufacture and distribution of rehabilitation, aged-care, nursing home and hospital equipment.

The acquisition price for the K-Care Group included a component of deferred consideration, payable only if the Group meets certain performance criteria over a three year period. The directors of the Company are of the opinion that it is probable that the K-Care Group will meet these criteria and, as such, the deferred consideration has been recognised as a provision in the financial report. The amount of the deferred consideration has been discounted to its present value as at the acquisition date using the consolidated entity's incremental pre-tax borrowing rate.

(b) Disposal of Controlled Entities and Business Operations

31 December 2003

The consolidated entity did not dispose of any controlled entities or significant business operations during the current period.

31 December 2002

On 1 July 2002, the consolidated entity entered into a joint venture with Freudenberg, a large diversified industrial company based in Germany, to manufacture and market outdoor and indoor clothes driers. The joint venture was affected by Freudenberg acquiring a 50% interest in Hills Industries Limited, a controlled entity incorporated in the United Kingdom and hereinafter referred to as Hills UK.

The pricing for the sale of 50% of the issued shares in Hills UK was equal to 50% of the net assets of Hills UK as at 1 July 2002. Accordingly, there was no profit impact and the consolidated entity received \$6.242 million cash consideration.

Under the terms of the joint venture agreement, Freudenberg has a put option to sell back to the consolidated entity its interest in Hills UK for 60% of the total amount paid, with economic effect as of 30 June 2005.

The consolidated entity retains control of Hills UK by virtue of effective management of the company and the existence of the put option which results in the consolidated entity being exposed to the majority of the risks and benefits of ownership.

11 Contingent Liabilities and Contingent Assets

There have been no material changes in contingent liabilities or contingent assets since 30 June 2003.

Hills Industries Limited and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2003

12 Events Subsequent to Reporting Date

(a) There has not arisen in the interval between the end of the half-year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity in subsequent financial periods.

(b) International Financial Reporting Standards

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

This financial report has been prepared in accordance with Australian accounting standards and other Australian financial reporting requirements ("Australian GAAP"). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. This summary should not be taken as an exhaustive list of all the differences between Australian GAAP and 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 quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

The regulatory bodies that promulgate IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future.

The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as the actual impacts will depend on the particular circumstances prevailing on adoption in the half-year commencing on 1 July 2005.

The key potential implications of the conversion to IFRS on the consolidated entity 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;
- internally generated intangible assets (except development phase expenditure in certain circumstances) will not be recognised and intangible assets can only be revalued if there is an active market;
- 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 and its Controlled Entities
Notes to the Financial Statements for the Half-Year Ended 31 December 2003

12 Events Subsequent to Reporting Date (continued)

(c) Effect of IFRS on Employee Share Ownership Plans

As set out above, IFRS as currently proposed will require all equity-based compensation to be recognised as an expense when calculating profit and loss. The directors of the Company are concerned that this may result in the cancellation of broad based Employee Share Ownership Plans offered by listed companies in Australia.

The proposed IFRS are no doubt motivated by the desire to encourage companies to exercise financial responsibility in relation to the granting of executive options. On this front, the directors have absolutely no concerns with the proposed changes and believe that they will improve accountability in relation to options. Hopefully the changes will also help moderate what was becoming a growing trend of awarding excessive options and other share-based payments to executives.

On the other hand, the directors believe that, if the proposed changes are adopted, the future of broad based Employee Share Ownership Plans will be placed under real threat. In the case of Hills Industries Limited, it is more likely than not that our plan will be cancelled due to its impact on reported profits.

The directors believe that broad based Employee Share Ownership Plans (and, in particular, those that satisfy the specific rules to qualify for the tax concessions in relation to such plans) should be exempted from the proposed requirements. The Company is undertaking extensive lobbying of the regulatory bodies and the Federal Government in an attempt to find a sensible compromise.


**Hills Industries Limited
Directors' Declaration**

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

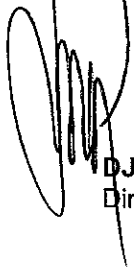
- 1 the financial statements and notes set out on pages 6 to 22, are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2003 and of its performance, as represented by the results of its operations 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 4th day of February 2004.

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 to the financial statements, and the directors' declaration set out on pages 6 to 23 for the Hills Industries Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 December 2003. 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.

Independent Review Report to the Members of Hills Industries Limited

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 2003 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

KPMG



Gary Savage
Partner

Place: Adelaide
Date: 4th February 2004