

Appendix 4D

Hills Limited

ABN 35007 573 417

Results for announcement to market

For the half year ended 31 December 2020

(Previous corresponding period 31 December 2019)

	31/12/2019 Restated		Change			31/12/2020
Revenue	A\$'000		A\$'000	%		A\$'000
Revenue from ordinary activities	126,666	down	(33,507)	(26%)	to	93,159
Net profit / (loss) for the period attributable to members	2,309	down	(8,762)	(379%)	to	(6,453)
Earnings / (loss) per share	cents		cents			cents
Basic earnings / (loss) per share	1.00	down	(3.78)	(378%)	to	(2.78)
Net Tangible Assets	\$ per share		\$ per share			\$ per share
Net tangible assets backing per ordinary security ⁽¹⁾	0.150	down	(0.07)	(49%)	to	0.076

Dividends

No dividend will be paid for the year ended 30 June 2021

1. Net tangible assets represents Net asset less Intangible assets and Deferred tax assets.

A review of the group's operations during the half year ended 31 December 2020 and the results of those operations are included in the Hills Limited 31 December 2020 Directors' report.

Change in ownership of controlled entities

During the financial year there were no changes in ownership of controlled entities.

Dividend reinvestment plans

There are no dividend reinvestment plans in place.

Additional Appendix 4D disclosures can be found in the Directors' report and the 31 December 2020 interim financial statements and accompanying notes.

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Hills Limited
Interim Financial Report
for the half year ended 31 December 2020

ABN 35 007 573 417

Hills Limited

Interim financial report

for the half year ended 31 December 2020

ABN 35 007 573 417

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Directors' report

The Directors of Hills Limited present their report together with the consolidated financial statements of Hills Limited (referred to hereafter as Hills, the Company or the Group) consisting of Hills Limited and the entities it controlled at the end of, or during the half year ended 31 December 2020 and the independent auditor's report thereon.

Directors

The names of the Company's directors in office during the half year ended 31 December 2020 and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Jennifer Helen Hill-Ling

Fiona Rosalyn Vivienne Bennett

Philip Bullock AO – retired from office 6 November 2020

David Chambers – appointed 8 July 2020

Kenneth James Dwyer

David John Lenz

Principal activities

The Group operates in Australia and New Zealand and the principal activities of the Group are as a supplier of technology solutions in the Health market and a value-added distributor of technology products and services in the Security, Surveillance and IT markets.

Hills Health Solutions (HHS) is a market leader and comprises the design, supply and installation of health technology solutions, nurse call and patient entertainment and other related solutions including security, Wi-Fi and telephony, into the health and aged care sectors.

Review of operations

Statutory Result Overview

Summary of Group performance	Total	Total ⁽²⁾	% change
	31-Dec-20 \$million	31/12/2019 Restated \$million	
Sales Revenue	93.2	126.7	(26.5%)
Cost of goods and services sold	(66.1)	(84.9)	(22.2%)
Gross margin	27.1	41.8	(35.2%)
Other operating costs	(20.7)	(32.7)	(36.8%)
Segment EBITDA⁽¹⁾	6.4	9.1	(29.3%)
Statutory net (loss)/profit before tax	(5.3)	2.3	329.9%
Tax (expense) / benefit	(1.1)	-	>100%
Statutory net (loss)/profit after tax	(6.5)	2.3	379.5%
Cash flows from operating activities	0.5	7.6	(93.7%)
Net debt⁽³⁾	(11.3)	(20.6)	45.2%

(1) Hills' Financial Report complies with Australian Accounting Standards and International Financial Reporting Standards. The underlying (non-IFRS) segment EBITDA is unaudited but is derived from the audited accounts by removing the impact of non-operating items from the reported (IFRS) audited profit; including \$4.0 million of write-off of assets relating to exited businesses, write-off of assets relating to exited vendors, aged, slow-moving and demonstration stock write-offs, reassessment of asset lives and property settlements plus foreign exchange losses of (\$1.7 million). Hills believe this reflects a more meaningful measure of the Group's underlying performance.

(2) See note 1.3.

(3) Net debt excludes lease liabilities associated with the introduction of AASB16 Leases.

The Company recorded a net loss after tax (NPAT) attributable to owners of \$6.5 million for the half year ended 31 December 2020 (2019 Restated: net profit of \$2.3 million) which was a decline of \$8.8 million on H1 FY20. The half year earnings have been adversely impacted by non-operating expenses of \$5.7m representing write-off of assets relating to exited businesses, write-off of assets relating to exited vendors, aged, slow-moving and demonstration stock write-offs, reassessment of asset lives and property settlements, losses from foreign exchange adjustments (\$1.7m) and legal costs plus an adjustment to deferred tax assets of \$1.1m. Earnings have also been adversely impacted by COVID-19 and competitive pressures in all of Hills markets and the divestment of businesses in December 2019 (\$1.6m).

Reduced Operating Expenses

Operating expenses¹ including depreciation in the half year to 31 December 2020 were \$12.0 million less than the prior year comparative period, a reduction of 36.8% due to strong cost control, exited businesses and the benefits of the Federal Government's Job Keeper subsidy received in Q1 FY21 (\$2.95m).

Net Debt and Working Capital

Operating cashflow in the first half of \$0.5 million saw the Group increase net debt by \$3.1 million in the first half of FY21, from \$8.2 million at 30 June 2020 to \$11.3 million at 31 December 2020.

Restatement

During the preparation of the consolidated financial statements, the Group identified an overstatement of the carrying value of trade and other receivables and inventory; and an understatement of trade and other payables as at 30 June 2020 and 31 December 2019. As a consequence, the net assets had been overstated by \$1.55m, net profit for the half year ended 31 December 2019 was overstated by \$0.33m (full year ended 30 June 2020: \$0.37m overstated) and the retained profit/loss as at 30 June 2020 was overstated by \$1.18m. This impact has been adjusted by restating each of the affected financial statement line items for prior periods.

Subsequent events

There have been no other events subsequent to balance date that would have a material effect on the Group's Interim financial statements at 31 December 2020.

Outlook

Hills is focused on execution of its FY21 priorities – building and maintaining a market-leading product portfolio, tight cost control and capital management – and remains confident that this will support sustainable earnings growth over the medium to long term.

For the balance of FY21, the Q2 recovery in Health trading is expected to continue into the second half. However, trading conditions remain challenging in the Australian Distribution division as the country begins to recover from the impacts of COVID-related lockdowns and business disruptions.

As with any technology distribution business, Hills is exposed to the risk of potential loss of vendors, potential loss of customers, project timing slippages associated with contracts, supply issues and exposure to foreign exchange rate fluctuations.

¹ Operating expenses referred to above excludes cost of goods sold (inventories), Direct costs of services provided and non-operating net income / costs. This is a non-IFRS measure that is not subject to audit or review. This non-IFRS measure is relevant because it is consistent with the measures used internally by management and some in the investment community to assess the operating performance of the business.

Dividends

No dividend has been proposed or paid during the current half year or previous half year.


Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations ACT 2001 is set out on page [6].

Rounding of amounts

The Company is an entity to which the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* applies. Amounts have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

This report is made in accordance with a resolution of Directors.



Jennifer Hill-Ling
Chairman



David Lenz
CEO and Managing Director

Sydney
24 February 2021



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

To the Directors of Hills Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Hills Limited for the half-year ended 31 December 2020 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.

A handwritten signature in black ink, appearing to read 'Paul Cenko', written over the printed name and title.

Paul Cenko
Partner

Adelaide
24 February 2021

Consolidated Interim financial statements

Hills Limited

ABN 35 007 573 417

Consolidated statement of profit or loss

For the half year ended 31 December 2020

		31 December 2020	31 December 2019 Restated*
	Notes	\$'000	\$'000
Revenue	2.2	93,159	126,666
Cost of sales	2.4	(66,076)	(84,891)
Gross Margin		27,083	41,775
Other income	2.3	39	43
Expenses excluding net finance expenses			
Labour and related expenses		(14,496)	(24,424)
Operational and equipment expenses		(812)	(2,411)
Property expenses		(612)	(757)
Depreciation and amortisation	2.4	(4,572)	(4,560)
Other expenses	2.4	(10,447)	(5,453)
Expenses excluding net finance expenses		(30,939)	(37,605)
Profit/(Loss) before net finance expense and income tax		(3,817)	4,213
Finance income	2.4	9	30
Finance expenses	2.4	(1,499)	(1,934)
Net finance expenses	2.4	(1,490)	(1,904)
Profit before income tax		(5,307)	2,309
Income tax expense	2.5	(1,146)	-
Profit/(Loss) after tax		(6,453)	2,309
Profit/(Loss) for the period, attributable to the members of the Company		(6,453)	2,309
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic and diluted earnings per share		(2.78)	1.00

* see note 1.3

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income

For the half year ended 31 December 2020

	31 December 2020	31 December 2019 Restated*
Notes	\$'000	\$'000
Profit/(Loss) for the period attributable to members of the Company.	(6,453)	2,309
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Foreign operations - foreign currency translation differences	2	187
Cash flow hedges - effective portion of changes in fair value	345	24
Other comprehensive (loss) / income for the half year, net of tax	347	211
Total comprehensive income / (loss) for the half year, attributable to owners of Hills Limited	(6,106)	2,520

* see note 1.3

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 31 December 2020

		31 December 2020	30 June 2020 Restated*
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents		11,745	12,236
Trade and other receivables		34,540	39,575
Inventories		21,977	25,099
Derivative financial instruments	3.2	610	-
Total current assets		68,872	76,910
Non-current assets			
Investments		2	2
Property, plant and equipment	4.2	10,978	12,276
Right-of-use asset		9,701	10,821
Intangible assets		3,769	3,749
Deferred tax assets		15,603	16,744
Total non-current assets		40,053	43,592
Total assets		108,925	120,502
LIABILITIES			
Current liabilities			
Trade and other payables		27,317	30,173
Borrowings	3.1	4,134	6,113
Provisions	4.1	4,806	5,627
Lease liabilities		4,871	4,258
Derivative financial instruments	3.2	1,892	4,578
Total current liabilities		43,020	50,749
Non-current liabilities			
Borrowings	3.1	18,927	14,300
Provisions	4.1	2,594	2,719
Lease liabilities		7,401	9,645
Total non-current liabilities		28,922	26,664
Total liabilities		71,942	77,413
Net assets		36,983	43,089
EQUITY			
Contributed equity	3.3	278,439	278,439
Reserves		10,874	10,527
Accumulated losses		(252,330)	(245,877)
Total equity		36,983	43,089

* see note 1.3

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the half year ended 31 December 2020

	Attributable to owners of Hills Limited			
	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000
Balance at 1 July 2019 Restated	278,439	11,128	(238,387)	51,180
Adjustment on initial application of AASB 16	-	-	(960)	(960)
Total comprehensive profit/(loss) for the half year	-	211	2,309	2,520
Employee share schemes	-	4	-	4
Balance at 31 December 2019 Restated	278,439	11,343	(237,038)	52,744
Balance at 1 July 2020 Restated	278,439	10,527	(245,877)	43,089
Profit/(Loss) for the period attributable to members of the Company.	-	-	(6,453)	(6,453)
Foreign Currency Translation Reserve and others	-	2	-	2
Net change in fair value of hedges	-	345	-	345
Total comprehensive profit/(loss) for the half year	-	347	(6,453)	(6,106)
Employee share schemes	-	-	-	-
Balance at 31 December 2020	278,439	10,874	(252,330)	36,983

The above consolidated statement of changes in equity should be read in conjunction with note 1.3 Restatement.

Consolidated statement of cash flows

For the half year ended 31 December 2020

	Notes	31 December 2020 \$'000	31 December 2019 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		108,482	146,567
Payments to suppliers and employees (inclusive of goods and services tax)		(106,579)	(137,304)
		1,903	9,263
Net finance costs paid		(1,232)	(1,293)
Interest paid lease liabilities		(189)	(367)
Net cash flows from / (used in) operating activities		482	7,603
Cash flows from investing activities			
Payments for property, plant and equipment		(403)	(705)
Payments for intangible assets		(711)	(1,594)
Proceeds from sale of property, plant and equipment and intangible assets		9	6
Proceeds from divestments		-	4,652
Net cash flows from / (used in) investing activities		(1,105)	2,359
Cash flows from financing activities			
Proceeds from borrowings		21,000	697
Repayment of borrowings		(18,426)	(10,317)
Payment of lease liabilities		(2,672)	(2,393)
Net cash flows from / (used in) financing activities		(98)	(12,013)
Net decrease in cash and cash equivalents		(721)	(2,051)
Cash and cash equivalents at the beginning of the period		12,236	10,867
Effects of exchange rate changes on cash and cash equivalents		230	(23)
Cash and cash equivalents at end of the period		11,745	8,793

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

For the half year ended 31 December 2020

Section 1: Basis of preparation

1.1. Reporting entity

These consolidated interim financial statements are for the group consisting of Hills Limited (the "Company" or "parent entity") and its subsidiaries (together referred to as the "Group" or "Consolidated Entity" and individually as "Group Entities") for the half year ended 31 December 2020 and were authorised for issue in accordance with a resolution of the directors on 24 February 2021.

The Group operates in Australia and New Zealand and the Principal activities of the Group are as a supplier of technology solutions in the Health market and a value-added distributor of technology products and services in the Security, Surveillance and IT markets.

Hills Limited is a for profit company limited by shares, incorporated and domiciled in Australia.

The notes to the consolidated financial statements that follow present information relevant to understanding the Group's:

- business performance;
- capital and financing arrangements; and
- unrecognised items at the end of the reporting period (and other relevant disclosures).

1.2. Basis of preparation

These general purpose consolidated interim financial statements:

- are presented in Australian dollars;
- have been prepared in accordance with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*; and
- do not include all the notes normally included in an annual financial report and should be read in conjunction with the Annual Report for the year ended 30 June 2020 and any public announcements made by Hills Limited during the interim reporting period.

1.3. Restatement

During the preparation of the consolidated financial statements, the Group identified an overstatement of the carrying value of trade and other receivables and inventory; and an understatement of trade and other payables as at 30 June 2020. This impact has been adjusted by restating each of the affected financial statement line items for prior periods. The following tables summarises the impacts on the Groups consolidated financial statements for the year ended 30 June 2020.

i. Consolidated statement of financial position

	Trade and other receivables	Inventories	Trade and other payables	Retained earnings/ profit or loss
	\$'000	\$'000	\$'000	\$'000
Balance reported 1 July 2019	59,194	41,636	40,646	(237,210)
Effect on retained earnings	(424)	-	753	(1,177)
Restated balance as at 1 July 2019	58,770	41,636	41,399	(238,387)
Balance as reported 30 June 2020	40,136	25,178	29,262	(244,326)
Effect on opening retained earnings	(424)	-	753	(1,177)
Effect on profit or loss for the year	(137)	(79)	158	(374)
Restated balance as at 30 June 2020	39,575	25,099	30,173	(245,877)

Notes to the consolidated financial statements (continued)

For the half year ended 31 December 2020

ii. Consolidated statement of profit or loss and consolidated statement of comprehensive income

For the year ended 30 June 2020	As previously reported \$'000	Adjustments \$'000	As restated \$'000
Other expenses	(15,964)	(374)	(16,338)
Loss after tax	(6,156)	(374)	(6,530)
Total comprehensive loss for the year	(6,768)	(374)	(7,142)

For the half year ended 31 December 2019	As previously reported \$'000	Adjustments \$'000	As restated \$'000
Other expenses	(5,126)	(327)	(5,453)
Profit for the half year	2,636	(327)	2,309
Total comprehensive profit for the half year	2,847	(327)	2,520

Earnings per share for profit attributable to the ordinary equity holders of the Company

For the year ended 30 June 2020	As previously reported cents	Adjustments cents	As restated cents
Basic and diluted profit/(loss) per share	(2.65)	(0.16)	(2.81)

There is no impact on total operating, investing or financing cash flows for the year ended 30 June 2020 and the half year ended 31 December 2019.

1.4. Key accounting estimates

In preparing these interim financial statements, management are required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. In preparing this consolidated interim financial statements, the judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 30 June 2020. During the six months ended 31 December 2020 management reassessed its estimates in respect of:

- The recoverable amount of inventory. Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. During the six month period, the Group conducted a review of the inventory provisioning model and change in estimate write down of \$0.8m plus current year stock write off of \$0.6m (six months to 31 December 2020) and restated prior period by \$0.3m (six months to 31 December 2019) to their expected net realisable values, based on the following assessments:
 - From 1 July 2020; the Group fully provides for demonstrators and spares on hand for over two years; and applies an increased provisioning percentage to those on hand for over a year to reflect the expected realisable value; and
 - The Group continues to consider the physical state of inventories in assessing their recoverability and it is impractical to estimate any future period impacts.
- The recoverable amount of certain intangible assets. During the six-month period, management reassessed the useful lives of both IT development and software and research and development assets and wrote down those assets by \$0.2m to reflect a change in economic circumstance that impacted the assets.

Notes to the consolidated financial statements (continued)

For the half year ended 31 December 2020

1.5. Rounding

The Company is an entity to which the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* applies. Amounts have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Section 2: Business performance

2.1. Segment information

Description of segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. The operating segments operating results are reviewed regularly by the Chief Operating Decision Maker (CODM) to assess performance of the business and to make decisions about resources to be allocated to the segment.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Group has three reportable segments as summarised below:

Hills Health Solutions	A market leader and comprises the design, supply and installation of health technology solutions, nurse call and patient engagement and other related solutions including security, Wi-Fi and telephony into the health and aged care sectors.
Hills Distribution	The Distribution business provides a diverse range of products and solutions to assist our customers support end users within the Security, Surveillance and IT markets. The AV, Antenna and STEP businesses were divested in December 2019.
Corporate	This includes Group costs not allocated to Health or Distribution.

Segment information

Segment revenue

The revenue from external customers reported to the CODM is measured in a manner consistent with that in the consolidated income statement. There are no sales between segments. Segment revenue reconciles to total revenue per note 2.2.

Major customers

The Group did not derive 10% or more of its revenues from any single external customer

Segment EBITDA

The CODM assesses performance based on a measure of EBITDA. This excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs and goodwill and other intangible asset impairments when the impairment is the result of an isolated, non-recurring event and business combination acquisition transaction costs which, although expensed under IFRS, are considered to otherwise distort the operational view of the business.

Recognition and measurement

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Board of Directors.

Operating segments that exhibit similar long-term economic characteristics, and have similar products, processes, customers, distribution methods and regulatory environments are aggregated.

Notes to the consolidated financial statements (continued)

For the half year ended 31 December 2020

Information about reportable segments

	Distribution		Health		Corporate		Total Continuing operations		Operations divested (the "Disposal group")		Total operations	
	2020	2019 Restated	2020	2019 Restated	2020	2019 Restated	2020	2019 Restated	2020	2019	2020	2019 Restated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sales revenue	76,297	86,385	16,862	18,241	-	-	93,159	104,626	-	22,040	93,159	126,666
Segment EBITDA	1,756	3,684	6,221	5,535	(1,544)	(1,780)	6,433	7,439	-	1,661	6,433	9,100
Depreciation and amortisation	(2,851)	(2,920)	(1,721)	(1,619)	-	-	(4,572)	(4,539)	-	(21)	(4,572)	(4,560)
Write-off of assets relating to exited businesses	(592)	-	-	-	-	-	(592)	-	-	-	(592)	-
Write-off of assets relating to exited vendors	(175)	-	-	-	-	-	(175)	-	-	-	(175)	-
Aged, slow-moving and demonstration stock write-offs	(1,144)	(318)	(256)	-	-	-	(1,400)	(318)	-	-	(1,400)	(318)
Reassessment of asset lives and property settlements	(213)	(9)	(337)	-	-	-	(550)	(9)	-	-	(550)	(9)
Foreign exchange losses	-	-	-	-	(1,705)	-	(1,705)	-	-	-	(1,705)	-
Other income and expense	(744)	-	(551)	-	39	(0)	(1,256)	(0)	-	-	(1,256)	(0)
Net financing expense	-	-	-	-	(1,490)	(1,904)	(1,490)	(1,904)	-	-	(1,490)	(1,904)
Net profit /(loss) before income tax	(3,963)	437	3,356	3,916	(4,700)	(3,684)	(5,307)	669	-	1,640	(5,307)	2,308
Segment assets	52,447	65,191	18,930	25,796	37,548	38,366	108,925	129,353	-	17,082	108,925	146,435

2.2. Revenue

	31 December 2020	31 December 2019
	\$'000	\$'000
Sales revenue		
Sale of goods	69,606	79,404
Services	23,553	25,222
Total revenue from continuing operations	93,159	104,626
Divested Operations	-	22,040
Total revenue	93,159	126,666

2.3. Other income

	31 December 2020	31 December 2019
	\$'000	\$'000
Other income		
Net income / (loss) on disposal of non-current assets	9	7
Other income	30	36
	39	43

Notes to the consolidated financial statements (continued)

For the half year ended 31 December 2020

2.4. Expenses

	31 December 2020	31 December 2019 Restated
	\$'000	\$'000
Cost of Sales		
Cost of goods sold (inventories)	56,424	76,027
Direct cost of services provided	9,652	8,864
Total cost of sales	66,076	84,891
Depreciation		
Plant and equipment	1,761	1,990
Right of use assets	2,162	2,468
Total depreciation	3,923	4,458
Amortisation		
Software	459	77
Development costs	190	25
Total amortisation	649	102
Total depreciation and amortisation	4,572	4,560
Other Expenses		
General and administrative expenses	4,769	4,879
Restructuring expenses	-	-
Loss on disposal of business	-	247
Foreign exchange losses - ineffective portion of changes in fair value	1,705	-
Write off assets relating to exited businesses	592	-
Write off related to exited vendor arrangements	175	-
Aged, slow moving and demonstration stock	1,400	318
Reassessment of asset lives and property settlements	550	9
Other costs	1,256	-
Total Other	10,447	5,453

Information on expenses

Further information on expenses as shown in the Consolidated statement of profit and loss is provided below:

Cost of goods sold (inventories)	Cost of goods sold include expenses relating to the change in inventories of finished goods and work in progress, and raw materials used.
Direct costs of services provided	Direct costs of services provided include subcontractor costs, commissions and subscriptions payable, and other direct costs associated with provision of services by Group entities. This balance does not include internal labour costs related to carrying out services, which are included in labour and related expenses.
Labour and related expenses	Labour and related expenses include employee benefits expenses and other labour and related expenses such as third-party logistics, labour hire, employee training and recruitment. The benefit of Job Keeper (\$2.952 million) offsets current year labour and related expenses.
Operational and equipment expenses	Operational and equipment expenses include costs of freight, consumables, motor vehicle and other equipment expenses, repairs and maintenance.
Property expenses	Property expenses include rent, rates, utilities, cleaning and security expenses related to properties leased by the Group.

Notes to the consolidated financial statements (continued)

For the half year ended 31 December 2020

Other expenses

Other expenses include overhead expenses (such as insurance, advertising and marketing, professional and consulting fees, telecommunications and information technology related expenses).

Other costs include legal fees. In FY20 the net loss on disposal of group assets and liabilities in the Consolidated statement of profit or loss was \$0.25 million.

Finance expenses

	31 December 2020 \$'000	31 December 2019 \$'000
Finance expenses		
Interest and finance charges paid/payable	772	1,567
Finance Costs – lease liability interest	727	367
	1,499	1,934
Finance income		
Interest income	(9)	(30)
Net finance costs expensed	1,490	1,904

Earnings per share

	31 December 2020 \$'000	31 December 2019 Restated \$'000
Earnings used in calculating earnings per share		
Basic and diluted loss - attributable to the ordinary equity holders of the Company	(6,453)	2,309
	31 December 2020 Number	31 December 2019 Restated Number
Weighted average number of shares used as denominator		
Issued ordinary shares	231,985,526	231,985,526
Effect of performance rights on issue	-	-
Weighted average number of ordinary shares used as the denominator	231,985,526	231,985,526
	31 December 2020 Cents	31 December 2019 Restated Cents
Basic and diluted earnings per share		
Attributable to the ordinary equity holders of the Company	(2.78)	1.00

2.5. Income tax

Income tax expense is recognised at an amount determined by multiplying the profit before tax for the interim reporting period by management's best estimate of the annual effective income tax rate expected for the full financial year. The effective tax rate in the interim financial statements may differ from the effective tax rate for the annual financial statements.

The Group's consolidated effective tax rate for the half year ended 31 December 2020 was 0% (31 December 2019: 0%). The expense recognised for the half year ended 31 December 2020 of \$1.1m represented the reversal of timing differences and New Zealand tax losses in the deferred tax assets.

Notes to the consolidated financial statements (continued)

For the half year ended 31 December 2020

Section 3: Capital and financing

3.1. Borrowings

	31 December 2020 \$'000	30 June 2020 \$'000
Current		
Borrowings	4,134	6,113
Total current borrowings	4,134	6,113
Non-current		
Borrowings	19,278	14,725
Less capitalised borrowing costs	(351)	(425)
Total non-current borrowings	18,927	14,300
Total borrowings	23,061	20,413
Reconciliation of movement		
Opening balance	20,413	39,258
Proceeds from loans and borrowings	21,000	2,506
Repayment of borrowings	(18,426)	(21,840)
Write off of borrowing costs	298	-
Amortisation of capitalised borrowing costs	127	489
New finance leases	-	-
Other	(351)	-
Closing balance	23,061	20,413

The Group has its financing facilities with the Commonwealth Bank of Australia through a Secure Revolving Borrowing Base Bilateral Facility and a Bank Guarantee Facility, and De Lage Landen Pty Limited (DLL) through a Progressive Payment Agreement.

Further details are provided below:

Secure Revolving Borrowing Base Bilateral Facility	<p>The Commonwealth Bank of Australia facility totals \$25.0 million (denominated in AUD), with funding provided based upon the Group's accounts receivable and inventory book. The facility expires on 3 December 2023.</p> <p>The facility is secured on the Group's Accounts Receivable and Inventory book, with a second mortgage over the other assets of the Group.</p> <p>Interest is charged at prevailing market rates plus a fixed margin.</p> <p>This facility was entered into on 27 November 2020 and replaced the Recfin Nominees Pty Ltd receivables purchase facility.</p>
CBA Guarantee Facility	<p>The previous facility has been replaced with a Bank Guarantee Facility Agreement with a limit of \$2.6 million. An issuance fee is payable in respect of bank guarantees issued.</p>
DLL Financing	<p>The Group has entered into Chattel Mortgage Agreements with DLL for the provision of finance for the supply and installation of equipment at hospitals in the Hills Health Solutions business. At 31 December 2020, the Group had drawn down \$1.975 million (31 December 2019: \$2.622 million).</p>

Non-current borrowings include transactions costs directly attributable to the issue of the borrowings.

3.2. Fair value measurements

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual report.

Notes to the consolidated financial statements (continued)

For the half year ended 31 December 2020

The fair values of cash and cash equivalents, trade receivables, trade payables and borrowings approximate their carrying amounts due to their short-term nature and the impact of discounting not being significant.

The Group measures and recognises derivative financial assets at fair value on a recurring basis.

AASB 13 requires disclosure of fair value measurements by reference to the following fair value measurement hierarchy:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's financial assets and financial liabilities at fair value are as follows:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31-December-2020				
Assets				
Derivative financial instruments	-	610	-	610
Liabilities				
Derivative financial instruments	-	(1,892)	-	(1,892)
	-	(1,282)	-	(1,282)
30-June-2020				
Liabilities				
Derivative financial instruments	-	(4,578)	-	(4,578)
	-	(4,578)	-	(4,578)

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the half year.

The fair value of financial instruments that are not traded in an active market (for example, derivatives used for hedging) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. All significant inputs required to fair value derivatives used for hedging are observable, and hence the instruments are included in level 2. The derivative financial instrument asset represents options arrangements entered into during the half year ended 31 December 2020 to protect the Group from exchange losses on open derivative financial instruments recorded in current liabilities. These two amounts are recorded separately in according with Australian Accounting Standards.

3.3. Contributed equity

There have been no changes to the capital structure of the Company since 30 June 2020.

3.4. Dividends

No dividends were paid during the half year ended 31 December 2020 (2019: nil) and no interim dividends have been declared.

Notes to the consolidated financial statements (continued)

For the half year ended 31 December 2020

Section 4: Other disclosures

4.1. Provisions

	31 December 2020 \$'000	30 June 2020 \$'000
Current		
Employee benefits	3,718	3,779
Warranty claims	543	436
Restructuring	176	1,194
Environmental and other	369	218
Total provisions - current	4,806	5,627
Non-current		
Employee benefits	496	569
Warranty claims	142	142
Restructuring	-	44
Environmental and other	1,956	1,964
Total provisions - non-current	2,594	2,719
Total provisions	7,400	8,346

Description of provisions and key movements

Employee benefits	Provisions for employee benefits include liabilities for annual leave and long service leave.
Warranty claims	The provision for claims comprises the amounts set aside for estimated warranty claims.
Restructuring costs	The restructuring costs provision comprises redundancy costs and other costs of closing and restructuring businesses.
Environment and other provisions	Other provisions comprise provisions for environmental monitoring of two sites, make good obligations, and other provisions as required.

4.2. Property, plant and equipment

	31 December 2020 \$'000	30 June 2020 \$'000
Property, plant and equipment - at cost	55,096	54,740
Less accumulated depreciation	(44,118)	(42,464)
Total property, plant and equipment	10,978	12,276
Reconciliation of movement		
Opening balance	12,276	15,281
Additions	467	1,202
Depreciation	(1,761)	(3,830)
Disposals	(4)	(104)
Exchange differences	-	31
Impairment & Other	-	(304)
Closing balance	10,978	12,276

Notes to the consolidated financial statements (continued)

For the half year ended 31 December 2020

4.3. Capital commitments

There are nil capital commitments as at 31 December 2020 (31 December 2019: Nil)

4.4. Contingencies

The Group had contingent liabilities at 31 December 2020 in respect of:

Claims

The Group has various commercial legal claims common to businesses of its type that constitute contingent liabilities, none of which are deemed material to the Group's financial position.

Three claims are the subject of legal expenses and these form part of Other costs as disclosed in note 2.4 to these financial statements. One claim relates to a dispute concerning a third-party contract. The other two claims are employee related. In all cases liability is denied and the Group is defending the claims.

Based on legal advice, the Directors are of the opinion that provisions are not required in respect of these matters as it is not probable that a future outflow of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

In consultation with the Environmental Protection Authority, ground water contamination potentially originating from two of the Company's former South Australian sites continues to be monitored by the Company. It is anticipated that ongoing monitoring will be required to be undertaken by Hills. The Company has provided for the anticipated costs of ongoing assessments until 2029 in accordance with our environmental monitoring plan.

Guarantees

Bank guarantees in favour of customers and suppliers totalling \$2.017 million (30 June 2020: \$2.062 million).

4.5. Business transactions

Period ended 31 December 2020

There were no significant business transactions during the period ended 31 December 2020.

Period ended 31 December 2019

During the period the Group disposed of three businesses within the Hills Distribution segment, comprising the Antenna, Audio Visual and STEP Electronics businesses (collectively Disposal Group). The divestment comprised sales of specific assets and liabilities of the disposed group with Hills retaining the trade debtor and trade creditor balances at the disposal date.

The transactions resulted in a net loss on disposal of \$0.25 million during the period with no losses expected in future periods for these transactions. Financial results of the transactions are outlined below.

4.6. Events occurring after the reporting period

There have been no events subsequent to the balance date that would have a material effect on the Group's interim financial statements at 31 December 2020.

4.7. Changes in significant accounting policies

The accounting policies applied in these interim financial statements are consistent with those adopted and disclosed in the Group's annual financial report for the financial year ended 30 June 2020.

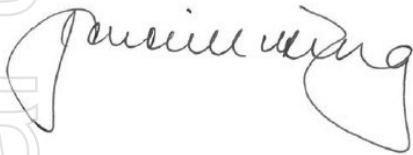
Directors' declaration

For the half year ended 31 December 2020

In the opinion of the Directors of Hills Limited (the Company):

- (a) the consolidated interim financial statements and notes set out on pages 7 to 21 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the six-month period ended on that date;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



Jennifer Hill-Ling
Chairman



David Lenz
CEO and Managing Director

Sydney
24 February 2021

Independent Auditor's Review Report

To the shareholders of Hills Limited

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Hills Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Hills Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2020 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2020;
- Consolidated statement of profit or loss, Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date;
- Notes 1 to 4.7 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The **Group** comprises Hills Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Interim Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.



Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the Half-Year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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



A handwritten signature in black ink, appearing to read 'Paul Cenko', written in a cursive style.

Paul Cenko

Partner

Adelaide

24 February 2021

Corporate directory

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Executives

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Peter Steel, *Interim Chief Financial Officer*

Non-Executive Directors

Jennifer Helen Hill-Ling

Fiona Rosalyn Vivienne Bennett

Kenneth James Dwyer

David Chambers

Company Secretary

David Fox

Share registry

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