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Hills Limited

Interim Financial Report

for the half year ended 31 December 2018

ABN 35 007 573 417

Hills Limited
ASX information
for the half year ended 31 December 2018

ABN 35 007 573 417

Lodged with the ASX under Listing Rule 4.2A.

This information should be read in conjunction with the Annual Report for the year ended 30 June 2018.

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Hills Limited

for the half year ended 31 December 2018

(previous corresponding period: half year ended 31 December 2017)

ABN 35 007 573 417

Results for announcement to the market

	Dec 2017		Change			Dec 2018
Revenue and profit from ordinary activities (A\$'000)						
Revenue from ordinary activities	136,188	down	3,934	2.9%	to	132,254
Profit / (loss) after tax from ordinary activities attributable to owners	(748)	up	990	> 100%	to	242
Earnings per share (cents per share)						
Basic earnings (loss) per share	(0.3)	up	0.4	> 100%	to	0.1

Net tangible assets per share

The Company's net tangible assets per share at 31 December 2018 was \$0.19 (31 December 2017: \$0.20; 30 June 2018: \$0.19).

Dividends

The Company does not propose to pay any interim dividends.

Additional information

This Interim Financial Report is the half year information provided to the Australian Stock Exchange under listing rule 4.2A. The Report also satisfies the half year reporting requirements of the Corporations Act 2001.

Refer attached press release and Directors' report on pages 3 to 5 of this Interim Financial Report for an explanation of the figures reported above.

This Interim Financial Report should be read in conjunction with the Annual Report for the year ended 30 June 2018.

Hills Limited

Directors' report

For the half year ended 31 December 2018

The Directors present their report on the consolidated entity (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 2018, and the independent auditor's report thereon.

Directors

The following persons were Directors of the Company during the half year and up to the date of this report:

Jennifer Helen Hill-Ling
Fiona Rosalyn Vivienne Bennett
Philip Bullock AO
Kenneth James Dwyer
David John Lenz

Principal activities

Hills provides technology solutions and services in the building technology sector across our key vertical markets outlined below:

- Healthcare
- Stadium and Live production
- Transport, infrastructure and utilities
- Retail
- Banking and Finance
- Corporate and Government

Hills business operations fall into three areas:

- Hills Health Solutions
- Security, Surveillance, IT & Communication
- Audio Visual

Hills adds value by delivering high quality expertise through a dedicated and highly experienced team of experts, specialising in sales, technical support, installation services, internal quality and governance. Hills is also a unique provider of managed services, with competencies across the sector that few others can match.

Review of operations

Statutory Result Overview

The Company recorded a net profit after tax attributable to owners of \$0.2 million for the half year ended 31 December 2018 which was an improvement of \$1.0m on H1 FY18. The improved net profit result was supported by the reduction in operating expenses which offset the impact of the 2.9% decline in sales revenue against the prior year. Exchange rate volatility during the period also impacted profitability for the period where increased costs could not be fully passed on to customers.

	Dec 2018 \$'000	Dec 2017 \$'000
Net profit / (loss) after tax, attributable to the owners of the Company	242	(748)

Hills Limited

Directors' report

For the half year ended 31 December 2018

(continued)

Review of operations (continued)

Net Debt and Working Capital

The Group increased its net debt by \$5.5 million in the first half of FY19, from \$16.9 million at 30 June 2018 to \$22.4 million at 31 December 2018 and reflects an additional \$1.1 million of debt funding for the Health Patient Entertainment assets installed during the period, with the remaining \$4.4 million being working capital funding for inventory investments in new brands and for key projects due for delivery in H2 FY19.

Reduced Operating Expenses

Operating expenses¹ in the half year to 31 December 2018 were \$3.1 million less than the prior year comparative period, a reduction of 7.1%.

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 2018.

Dividends

No dividends were paid during the current half year or previous half year. For more information regarding dividends please refer to note 10 of the Interim financial statements.

Significant changes in the state of affairs

Significant changes in the state of affairs of Hills during the half year are set out in the Review of operations section of the Directors' report.

Outlook

In FY19 Hills expect to continue to deliver on the strategies undertaken in FY18 including its digital transformation investments, focus on operating expenses and customer service levels, strong customer and vendor management, and continued strong profitability of the Hills Health Solutions business. Hills expects to deliver an improved trading profit for the full year.

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.

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.

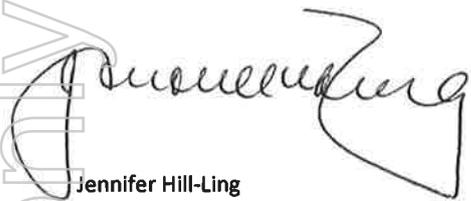
¹ Operating expenses referred to above exclude non operating net income / costs. This is a non-IFRS measure that is not subject to audit or review. This non-IFRS measure is relevant because it is consistent with the measures used internally by management and some in the investment community to assess the operating performance of the business.

Hills Limited

Directors' report

For the half year ended 31 December 2018

(continued)



Jennifer Hill-Ling
Director



David Lenz
CEO and Managing Director

Sydney
25 February 2019

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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 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Paul Cenko
Partner

Adelaide

25 February 2019

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Interim financial statements for the half year ended 31 December 2018

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Hills Limited
 Consolidated statement of profit or loss
 For the half year ended 31 December 2018

	Notes	Dec 2018 \$'000	Dec 2017 \$'000
Continuing operations			
Revenue	2	132,254	136,188
Other income	3	376	643
		132,630	136,831
Expenses excluding net finance expenses			
Cost of goods sold (inventories)	4b	(81,148)	(83,178)
Direct costs of services provided		(9,133)	(9,295)
Labour and related expenses		(25,531)	(28,472)
Operational and equipment expenses		(3,307)	(3,745)
Property expenses		(3,960)	(3,635)
Depreciation and amortisation	4a	(3,323)	(3,306)
Other expenses		(4,470)	(4,749)
		1,758	451
Profit before net finance expense and income tax			
Finance income		68	57
Finance expenses		(1,582)	(1,575)
	4a	(1,514)	(1,518)
Net finance expenses			
Profit / (loss) before income tax		244	(1,067)
Income tax (expense) / benefit from continuing operations	5	(2)	319
Profit / (loss) from continuing operations		242	(748)
Profit / (loss) for the period, attributable to owners of Hills Limited			
		242	(748)
		Cents	Cents
Earnings / (Loss) per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
Basic and diluted earnings / (loss) per share	6	0.1	(0.3)

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

Hills Limited
 Consolidated statement of comprehensive income
 For the half year ended 31 December 2018

	Dec 2018 \$'000	Dec 2017 \$'000
Profit / (Loss) for the half year	242	(748)
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges	(206)	130
Exchange differences on translation of foreign operations	239	(294)
Income tax relating to components of other comprehensive income	-	(39)
Other comprehensive income / (loss) for the half year, net of tax	33	(203)
Total comprehensive profit / (loss) for the half year, attributable to owners of Hills Limited	275	(951)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Hills Limited
 Consolidated statement of financial position
 As at 31 December 2018

	Notes	Dec 2018 \$'000	Jun 2018 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		12,837	15,783
Trade and other receivables		58,517	59,651
Inventories		49,671	44,043
Derivative financial instruments		-	93
Total current assets		121,025	119,570
Non-current assets			
Investments		2	2
Property, plant and equipment		15,367	14,915
Intangible assets		6,980	6,267
Deferred tax assets		11,138	11,122
Total non-current assets		33,487	32,306
Total assets		154,512	151,876
LIABILITIES			
Current liabilities			
Trade and other payables		48,346	47,731
Borrowings	7	9,234	6,357
Provisions	11	5,987	6,206
Derivative financial instruments		114	-
Total current liabilities		63,753	60,294
Non-current liabilities			
Borrowings	7	26,045	26,339
Provisions	11	3,403	3,935
Total non-current liabilities		29,376	30,274
Total liabilities		93,129	90,568
Net assets		61,383	61,308
EQUITY			
Contributed equity	9	278,439	278,439
Reserves		11,086	11,053
Accumulated losses		(228,142)	(228,184)
Total equity		61,383	61,308

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Hills Limited

Consolidated statement of changes in equity

For the half year ended 31 December 2018

	Attributable to owners of Hills Limited			
	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000
Balance at 1 July 2017	278,439	11,035	(228,543)	60,931
Total comprehensive loss for the half year	-	(203)	(748)	(951)
Transactions with owners in their capacity as owners:				
Employee share schemes	-	15	-	15
Balance at 31 December 2017	278,439	10,847	(229,291)	59,995
Balance at 1 July 2018 as previously reported	278,439	11,053	(228,184)	61,308
Adjustment on initial application of AASB 9 (net of tax) (note 17)	-	-	(200)	(200)
Total comprehensive profit for the half year	-	33	242	275
Transactions with owners in their capacity as owners:				
Employee share schemes	-	-	-	-
Balance at 31 December 2018	278,439	11,086	(228,142)	61,383

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Hills Limited
 Consolidated statement of cash flows
 For the half year ended 31 December 2018

	Dec 2018 \$'000	Dec 2017 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	150,361	157,387
Payments to suppliers and employees (inclusive of goods and services tax)	(150,333)	(147,957)
	28	9,430
Net finance costs paid	(1,270)	(1,518)
Net income taxes received / (paid)	-	219
Net cash flows (used in) / from operating activities	(1,242)	8,131
Cash flows from investing activities		
Payments for property, plant and equipment	(1,232)	(1,402)
Payments for intangible assets	(1,768)	(1,702)
Proceeds from sale of property, plant and equipment and intangible assets	20	51
Net cash flows (used in) / from investing activities	(2,980)	(3,053)
Cash flows from financing activities		
Proceeds from borrowings	3,008	1,419
Repayment of borrowings	(1,832)	(6,855)
Net cash flows from / (used in) financing activities	1,176	(5,436)
Net (decrease) / increase in cash and cash equivalents	(3,046)	(358)
Cash and cash equivalents at the beginning of the period	15,783	8,651
Effects of exchange rate changes on cash and cash equivalents	100	(137)
Cash and cash equivalents at end of the period	12,837	8,156

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2018

Section A: About this report

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").

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).

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

The consolidated financial statements were authorised for issue by the Directors on 25 February 2019. The Directors have the power to amend and reissue the consolidated financial statements.

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*;
- have been prepared on the same basis and in accordance with the same accounting policies adopted in the previous financial year and corresponding interim financial reporting period other than adoption of AASB 15 and AASB 9; 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 2018 and any public announcements made by Hills Limited during the interim reporting period.

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 report, 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 report as at and for the year ended 30 June 2018 except for new significant judgements and key sources of estimation uncertainty related to the application of AASB 15 and AASB 9, which are described in Note 17.

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 B: Business performance

This section contains information relevant to understanding the results and performance of the Group during the reporting period:

- 1 Segment information
- 2 Revenue
- 3 Other income
- 4 Expenses
- 5 Income tax
- 6 Earnings per share

1 Segment information

Group operations are integrated into a single segment, reflective of Hills business categories, which have:

- a common customer base, covering building contractors, consultants and system integrators; and
- products and services sold primarily through common channels: building contractors and system integrators.

There have been no changes to Management's assessment of the Group's reportable operating segments during the half year ended 31 December 2018.

(a) Information about reportable segments

	Revenue		EBITDA	
	Dec 2018 \$'000	Dec 2017 \$'000	Dec 2018 \$'000	Dec 2017 \$'000
Reportable segment				
Hills Limited	132,254	136,188	5,081	3,571
Total segment result¹	132,254	136,188	5,081	3,571

(b) Other segment information

Segment revenue

The revenue from external customers reported to the Chief Operating Decision Maker (CODM) is measured in a manner consistent with that in the consolidated income statement. Segment revenue reconciles to total revenue per note 2.

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

¹ Total segment revenue represents revenue from external customers.

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2018

(continued)

1 Segment information (continued)

(b) Other segment information (continued)

Segment EBITDA

The CODM assesses performance based on a measure of EBITDA. This excludes the effects of non-recurring expenditure from the operating segment such as restructuring costs and costs associated with isolated, non-recurring events which, although expensed under IFRS, are considered to otherwise distort the operational view of the business.

Segment EBITDA reconciles to the (loss) / profit before income tax as follows:

	Notes	Dec 2018 \$'000	Dec 2017 \$'000
Segment EBITDA		5,081	3,571
Depreciation and amortisation	4	(3,323)	(3,306)
Net finance expenses	4	(1,514)	(1,518)
Net costs not considered part of segment EBITDA		-	(232)
Other income not considered part of segment EBITDA		-	418
(Loss) / profit before income tax from continuing operations		244	(1,067)

Net costs and other income not considered part of segment EBITDA comprise:

Costs related to proposed demerger of business	-	(121)
Other net costs related to the Company's restructure and transformation program	-	(111)
	-	(232)
Other income relating to recovery of previously written off trade debt (see note 3)	-	418
Total net income / (costs) not considered part of segment EBITDA	-	186

Segment assets and liabilities

The assets and liabilities of the reportable operating segment are as shown in the consolidated statement of financial position.

2 Revenue

	Dec 2018 \$'000	Dec 2017 \$'000
Sales revenue		
Sale of goods	106,541	113,619
Services	25,713	22,569
	132,254	136,188
Total revenue from continuing operations	132,254	136,188

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2018

(continued)

3 Other income

	Dec 2018 \$'000	Dec 2017 \$'000
Net (loss) /income on disposal of non-current assets	(13)	18
Other income	389	625
	376	643

Other income

Other income in the half year to 31 December 2018 includes \$0.120 million relating to the early payout of a contract and \$0.082 million relating to chargeable repair income.

Other income in the prior half year ended 31 December 2017 includes \$0.418 million relating to the recovery of a previously written off trade debt.

4 Expenses

	Dec 2018 \$'000	Dec 2017 \$'000
(a) Profit / (loss) before income tax includes the following specific expenses:		
Depreciation	2,231	2,559
Amortisation		
Software	1,038	715
Development costs	54	32
Total amortisation	1,092	747
Total depreciation and amortisation	3,323	3,306
Finance expenses		
Interest and finance charges paid/payable	1,582	1,575
Finance income		
Interest income	(68)	(57)
Net finance costs expensed	1,514	1,518

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2018

(continued)

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

5 Income tax

Income tax expense is recognised at an amount determined by multiplying the profit/ (loss) 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, excluding the impact of tax losses for which a deferred tax asset has not been recognised. As such, 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 2018 was 1% (31 December 2017: 29.9%).

6 Earnings per share

	Dec 2018 Cents	Dec 2017 Cents
(a) Basic and diluted earnings / (loss) per share		
From earnings / (loss) attributable to the ordinary equity holders of the Company	0.1	(0.3)
	Dec 2018 \$'000	Dec 2017 \$'000
(b) Reconciliation of earnings used in calculating earnings per share		
Earnings / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings / (loss) per share	242	(748)

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2018

(continued)

Section C: Capital and financing

This section provides an update on the Group's capital structure and financing arrangements:

- 7 Borrowings
- 8 Fair value measurements
- 9 Contributed equity
- 10 Dividends

7 Borrowings

The Group has its financing facilities with Recfin Nominees Pty Ltd through a Receivables Purchase Facility, Commonwealth Bank of Australia (CBA) through a Bank Guarantee Facility, and De Lage Landen Pty Limited (DLL) through a Progressive Payment Agreement.

Further details are provided below:

Receivables Purchase Facility	The Recfin Nominees Pty Ltd facility totals \$36 million (denominated in AUD), with funding provided based upon the Group's accounts receivable book. The facility expires on 13 May 2021. The facility is secured on the Group's Accounts Receivable book, with a second mortgage over the other assets of the Group. Interest is charged at prevailing market rates plus a fixed margin. There have been no changes to this facility during the half year ended 31 December 2018.
CBA Facility	The previous facility has been replaced with a Bank Guarantee Facility Agreement with a limit of \$2.572 million. An issuance fee is payable in respect of bank guarantees issued.
DLL Financing	In December 2017, the Group entered into a Progressive Payment Agreement (PPA) with DLL for the provision of finance for equipment purchases in the Hills Health Solutions business. At 31 December 2018, the Group had drawn down \$3.115 million. The PPA is an unsecured, interest only facility, which will be replaced by a set term Chattel Mortgage once the equipment is installed.

At the end of the period, the Group had the following borrowings outstanding:

	Dec 2018			Jun 2018		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Loans	9,234	27,204	36,438	6,357	27,743	34,100
Transaction costs	-	(1,159)	(1,159)	-	(1,404)	(1,404)
Total borrowings	9,234	26,045	35,279	6,357	26,339	32,696

Non-current borrowings include transactions costs directly attributable to the issue of the borrowings. At 31 December 2018, unamortised borrowing costs totalled \$1.159 million (30 June 2018: \$1.404 million).

Net debt

	Dec 2018 \$'000	Jun 2018 \$'000
Total borrowings	35,279	32,696
Less: cash and cash equivalents	(12,837)	(15,783)
Net debt	22,442	16,913

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2018

(continued)

8 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.

(a) Fair value measurements for financial assets and liabilities

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
30 June 2018				
Assets				
Derivative financial instruments	-	93	-	93
Total Assets	-	93	-	93
31 December 2018				
Liabilities				
Derivative financial instruments	-	114	-	114
Total liabilities	-	114	-	114

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. There have been no movements between levels during the half year ended 31 December 2018.

9 Contributed equity

There have been no changes to the capital structure of the Company since 30 June 2018.

10 Dividends

No dividends were paid during the half year ended 31 December 2018 (2017: nil) and no interim dividends have been declared.

Section D: Other disclosures

This section sets out other disclosures required or considered relevant for the interim reporting period, including:

- 11 Provisions
- 12 Property, plant & equipment and intangible assets
- 13 Capital commitments
- 14 Related party transactions
- 15 Contingencies
- 16 Events occurring after the reporting period

11 Provisions

An update on the Group's provisions is provided below:

	Dec 2018			June 2018		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Employee benefits	4,615	478	5,093	5,087	475	5,562
Outstanding claims	725	444	1,169	545	660	1,205
Restructuring costs	203	468	671	118	668	786
Other provisions	444	2,013	2,457	456	2,132	2,588
	5,987	3,403	9,390	6,206	3,935	10,141

Description of provisions and key movements

Employee benefits	Provisions for employee benefits include liabilities for annual leave and long service leave.
Outstanding claims	The provision for claims comprises the amounts set aside for estimated warranty claims. In the prior year, it also included the estimated future liability of the Group's self-insurance arrangements.
Restructuring costs	The restructuring costs provision comprises redundancy costs and other costs of closing and restructuring businesses (including onerous lease and make-good costs related to properties affected by restructure).
Other provisions	Other provisions comprise provisions for environmental monitoring of a site, make good obligations, onerous lease costs and other provisions as required.

12 Property, plant & equipment and intangible assets

Acquisitions and disposals

Acquisitions	During the interim reporting period, the Group acquired plant, equipment and intangible assets costing \$3.0 million (Dec 2017: \$3.1 million).
Disposals	During the interim reporting period, the Group disposed of assets with a net book value of \$0.03 million (Dec 2017: \$0.03 million).

13 Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as a liability is shown below:

	Dec 2018 \$'000	Dec 2017 \$'000
Plant, equipment and software	-	<u>1,988</u>

14 Related party transactions

Arrangements with related parties continue to be in place and are set out in the Group's Annual Report for the year ended 30 June 2018.

15 Contingencies

Contingent liabilities

The Group had contingent liabilities at 31 December 2018 in respect of:

Claims	<p>In consultation with the Environmental Protection Authority, ground water contamination potentially originating from the Company's former Edwardstown site 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. There have been no material changes since 30 June 2018.</p> <p>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.</p> <p>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.</p>
Guarantees	Bank guarantees in favour of customers and suppliers totalling \$2.572 million (30 June 2018: \$2.466 million).

16 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 2018.

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2018

(continued)

17 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 2018 except for the policy for recognising and measuring income taxes in the interim period, which is described in Note 5, and the impact of adoption of the new accounting standards discussed below.

New accounting standards that are relevant to the Group include:

AASB 9 Financial Instruments

The Group has adopted AASB 9 *Financial Instruments* from 1 July 2018 which replaces AASB 139 *Financial Instruments: Recognition and measurement*. AASB 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model for calculating the provision for doubtful debts (now termed the credit loss allowance), and new hedge accounting requirements.

The Group has elected to apply the simplified approach to measuring expected credit losses, using the lifetime expected credit loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been categorised based on the days past due. A provision matrix is then determined based on the historic credit loss rate for each category, adjusted for any material expected changes to the future credit risk for the category. Impairment losses under the expected credit loss model are generally expected to increase and become more volatile. On transition the Group has recognised a \$0.2m decrease in opening retained earnings attributable to an increase in expected credit loss provision calculated under AASB 9. In accordance with the transitional provisions in AASB 9, comparative figures have not been restated.

AASB 15 Revenue from contracts with customers

The Group has adopted AASB 15 *Revenue from contracts with customers* from 1 July 2018, which replaces AASB 118 *Revenue*.

AASB 15 establishes a principles-based approach for revenue recognition whereby revenue is recognised when performance obligations are satisfied and the control of goods or services is transferred. The standard applies a five-step approach to the timing of revenue recognition and is applicable to all contracts with customers, except those in the scope of other standards, replacing the separate models for goods, services and construction contracts under the previous accounting standards. The major sources of the Group's revenue are from the sale of goods and rendering of services, which are each considered below:

Sale of goods

The adoption of AASB 15 has not impacted the timing of revenue recognition on the sale of goods, which continues to be recognised on a point in time basis.

In previous reporting periods, revenue from the sale of goods was recognised when the customer accepted the risks and rewards of ownership, which occurred at the point of sale or when the goods were collected/delivered. In applying AASB 15, revenue associated with the sale of goods is recognised when the performance obligation of the sale has been fulfilled and control of the goods has transferred to the customer, which continues to occur at the point of sale or when the goods are collected / delivered.

Rendering of services

The Group generates revenue from the provision of various services including design and installation of health technology solutions, information technology, audio visual and customer support services.

Under AASB 15, revenue relating to design, installation, IT, and AV services is principally recognised on a point in time basis, which occurs upon completion of the service given the short time period over which the services are provided. Revenue relating to longer term installation services and customer support services is recognised over the period of cover whether the Group retains the responsibility for the performance obligations associated with the services and at point of sale when a third party assumes the responsibility for the performance obligations associated with the services. Amounts collected for services not yet provided are recorded as deferred revenue in the balance sheet. The adoption of AASB 15 has not impacted the timing of revenue recognition for services revenue.

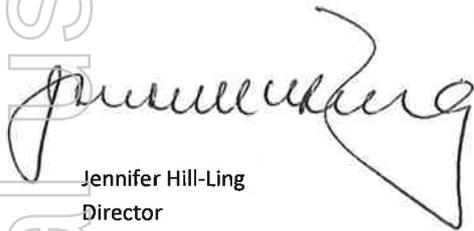
The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 30 June 2019.

Directors' declaration
For the half year ended 31 December 2018

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 22 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 Group's financial position as at 31 December 2018 and of its performance for the six month period ended on that date; and
- (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
Director



David Lenz
CEO and Managing Director

Sydney
25 February 2019



Independent Auditor's Review Report

To the shareholders of Hills Limited

Report on the Interim Financial Report

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 is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the *Group's* financial position as at 31 December 2018 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 2018;
- 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 17 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.

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 is free from material misstatement, whether due to fraud or error.

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Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the Half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Hills Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

Paul Cenko
Partner

Adelaide
25 February 2019

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Executives

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Chris Jacka, *Chief Financial Officer*

Non-Executive Directors

Jennifer Helen Hill-Ling

Fiona Rosalyn Vivienne Bennett

Philip Bullock AO

Kenneth James Dwyer

Company Secretary

David Fox

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